Reconsidering a car parts manufacturer’s aftermarket distribution network

Thesis Report

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Preface

This document is the result of my graduation research at Koni B.V. situated in Oud-Beijerland. The research was undertaken to finalize the master program Management of Technology at the TU Delft. The report serves the purpose to document and illustrate the research and its findings, while at the same time allowing for evaluation of the research by the research committee.

The intended readers of this document are all people who are directly or indirectly involved in the project, in a coaching, helping or judging role. Furthermore, it might benefit employees of Koni and assist them in making marketing and distribution channel choices in the future.

I would like to take this opportunity to thank everyone that contributed to the research result, including the people that were kind enough to provide information and reserve time for interviews. A special word of thanks goes out to Ricardo van Snek, for his support during the thesis period, and for facilitating my stay at Koni in the first place. Also, I would like to thank Jafar Rezaei, Lorant Tavasszy and Roland Ortt, for their advice, comments and guidance throughout the graduation period. Last, but certainly not least, I am very grateful for the continuous and non-diminishing support of my family and friends.
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Abstract

It is important for a manufacturing company to have the right position in its business environment. Forming and maintaining appropriate business relationships is an important step in this process, which also determines how the products find their way to the market. Companies can experience the problem that they are looking to increase sales, but are not sure what is the most suitable layout of the distribution network to attain this goal. The main effect of the problem is that companies might be performing sub-optimally, not fully exploiting their business opportunities. Assessing a manufacturing company’s position in its business environment and strategically evaluating how it could be improved can be convenient steps towards enhanced business performance. This process involves the question with whom business relationships should exist and how these relationships should be managed, to maximize the company’s sales and profit. The research objective is to identify what is the most appropriate strategy to bring the company’s products to the market, by evaluating its business environment and comparing the distribution alternatives available. The research objective translates into the main research question.

MRQ: What distribution network configuration is most appropriate for a manufacturer of car parts to bring its products to market, regarding its supply chain requirements?

The main research question is subdivided into a number of sub-questions that investigate what alternative distribution channels are available between a manufacturer of car parts and its consumers (RQ1), what criteria are relevant for comparing the alternative channels in the distribution network of a producer of car parts (RQ2), what method is appropriate to judge the performance of the distribution alternatives on the criteria identified (RQ3), how the different distribution channels are performing in view of the set of assessment criteria (RQ4) and what can be concluded from the analysis of the distribution channels in order to identify opportunities for improvement of the distribution network (RQ5).

To answer the research questions, a single case study is completed at Koni B.V., a Dutch-based producer of high-quality, high-performance shock absorbers, supplying an international market. The research focus is on aftermarket sales in the segment "car". The research approaches the issue of distribution network configuration on two different levels. On the one hand the subject is approached on a strategic level, focusing on the design of the network and the respective channels in general. On the other hand the present situation at Koni is evaluated empirically, focusing on a more practical level. In other words, both the appropriateness of the current layout of the distribution system and its practical performance are evaluated.

To build the theoretical framework, several areas in literature are taken into account. On a network design level, literature is consulted on distribution channels in general, supplemented with specifics on the automotive industry and theory on serving aftermarkets. On a more practical level, attention is given to
relationships in the distribution channels, including the power balance, and to market segmentation.

It was found that, for both The Netherlands and France, three different distribution scenarios can be identified, which show strong similarity. In the first Dutch distribution scenario, there are two intermediary layers between Koni and the end consumer. These intermediary layers are the distributor, who in turn supplies the local dealers. These can be for example repair garages, parts shops or small webshops. The second distribution scenario in The Netherlands makes use of three instead of two intermediary layers between the manufacturer and the end consumer. In this case the distributor supplies a wholesaler. These wholesalers usually have one or more central warehouses, from where a larger number of locally oriented wholesale outlets are supplied. In addition to the two distribution channels described before, there is another channel in place in The Netherlands, with only one intermediary between Koni and its consumers. That is, the Dutch distributor operates a webshop. Roughly 65% of the yearly sales flows through independent sales outlets. Around 35% is sold via wholesalers. A negligible amount is sold through the distributor’s own webshop.

In the first French distribution scenario, there also are two intermediary layers between Koni and the end consumer. The first intermediary layer is the distributor. The second layer exists of several types of independent specialist automotive companies. This can for example be tuning shops, tire shops, 4x4 specialists, old timer centers or repair shops specializing on a certain car brand or model. The French wholesaler distribution channel is comparable to that in The Netherlands. This scenario also makes use of three intermediary layers between the manufacturer and the end consumer. A third channel that is in place in France consists of two intermediary layers, which are the distributor and specialized online resellers. These specialized online resellers are fully dedicated to sales via the internet. Around 15% of annual sales is realized via independent specialists. Roughly 25% is sold via wholesalers. About 60% of sales is realized via large online resellers.

When considering the results of the research, several conclusions can be drawn, which in turn can be used to identify action points. A first finding is that the distributor is an important player in the distribution network, whose individual performance largely influences the performance of the network as a whole. It was also found that the company tries to increase sales by increasing availability of products. However, another evident way of realizing a higher sales volume is to generate higher demand. To realize higher demand, clear and transparent marketing would be an effective instrument, which is completely lacking at present. To be able to efficiently target the correct consumers in marketing communication, a company should have an adequate view of the end-users of their products, and their corresponding needs and benefits. At present, Koni doesn’t have a well-elaborated view on the consumers and their characteristics.

As an important step to improve the current situation, Koni should reconsider the roles their distributors fulfill in the global distribution network. When distributors are found that fail to perform, these can be replaced. Another option
is to develop a modular pricing system, whereby distributors are only compensated for the value they add in the distribution network. A third possibility is for Koni to assist their distributors in improving their performance. A possible long-term initiative would be to bypass distributors, and perform this function in-house. Also, a clear marketing strategy has to be adopted, with equal pricing for all distributors. In this regard, Koni should take its responsibility as a strategy developer. Market presence should be increased, for example by sponsoring or brand advertising activities. Thereby, point-of-sales promotional materials can play an important role in increasing brand recognition. It was noted on several occasions that there is a need for such promotion materials at channel members, but that they are not available. Another essential asset for companies in today's market is a clear, representative and informative online presence in the form of a company website.
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1. Introduction

1.1 Introduction to the research topic
It is important for a manufacturing company to have the right position in its business environment. Forming and maintaining appropriate business relationships is an important step in this process, which also determines how the products find their way to the market. Expanding a company’s distribution network with online sales possibilities can help to better seize market opportunities and improve a company’s competitive position. However, this is not necessarily the most suitable approach.

Assessing a manufacturing company's position in its business environment and strategically evaluating how it could be improved can be convenient steps towards enhanced business performance. This process involves the question with whom business relationships should exist and how these relationships should be managed, to maximize the company’s sales and profit. In case an appropriate supply chain relationship already exists, it is necessary to investigate the performance of this relationship, and to identify opportunities for improvement when needed. The process of evaluating and comparing different channels in a manufacturer’s distribution network and finding the most appropriate way to get the products to the market is the subject of this research.

1.2 Introduction to Koni B.V.
While existing already in 1857, active in a different industry, Koni B.V. has been in the automotive shock absorber business since 1940. Since then, the company developed into a multinational, selling in more than 90 countries worldwide. Koni has subsidiaries in Germany, France and the U.S.A., but its headquarter is situated in Oud-Beijerland, The Netherlands. The company’s core activities focus on development and production of high-performance shock absorbers and shock absorber parts, for (racing) cars, buses, trucks, trailers and railway vehicles. While the company also sells directly to for example car manufacturers, the research focus will be on aftermarket sales in the “car” segment.

Koni is a subsidiary of ITT Corporation, by which it was acquired in 1972. ITT is an engineering and manufacturing company, which is active in high-tech markets. It was founded in 1920, and has its headquarters in White Plains, New York. The corporation is active in four markets. These are “Industrial Process”, “Motion Technologies”, “Interconnect Solutions” and “Control Technologies”. Koni is a member of the “Motion Technologies” division. This division focuses on producing parts and materials for the automotive and railway markets.

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1 http://www.koni.com (accessed: July 2013)
2 http://www.itt.com (accessed: July 2013)
1.3 Problem analysis

1.3.1 The problem in general
Companies can experience the problem that they are looking to increase sales, but are not sure what is the most suitable layout of the distribution network to attain this goal. The absence of this knowledge also makes it difficult to determine which kinds of relationships are appropriate between different members of the distribution network. One of the possibilities to increase sales is engaging in online business, but it might be not clear how this relates to and influences other distribution alternatives, like a traditional network of distributors.

As stated by Lambert (2006, p. 167), engaging in a partnership can be a way to achieve sustainable competitive advantage in an environment characterized by scarce resources, increased competition, higher customer expectations and faster rates of change. However, before focusing on building or renewing a partnership with for example a reseller, the company should find out which strategic position in the supply chain would be appropriate for them. This might even result in abandoning the reseller and considering other alternatives to get the product to market. A following step could then be to determine how to attain the desired strategic position and how to configure the accompanying interfirm relationships.

The main effect of the problem is that companies might be performing sub-optimally, not fully exploiting their business opportunities. Solving the problem could lead to an increase in sales volume and equivalently in revenue, among other benefits. Along the way, the goal is to determine the right combination of distribution channels and to develop appropriate linkages in the market, so the company is able to effectively do business.

1.3.2 The case of Koni B.V.
An occurrence of the problem, which is used as an empirical case during the research, is the case of Koni B.V., a Dutch-based producer of high-quality, high-performance shock absorbers, supplying an international market. It is active in the sectors “car”, “railway” and “bus, truck and trailer”. As mentioned before, the research focus is on aftermarket sales in the sector “car”. Currently, the sentiment at Koni B.V. is that the company has been performing sub-optimally, especially in the French market, thereby leaving considerable sales possibilities unused.

The background of the problem is that since approximately five years ago, Koni’s subsidiary Koni France, which fulfills the distributor role for Koni’s products on the French market, has not been able to maintain a successful relationship with the company Oscaro, which is a major online reseller of automotive parts in the French market in terms of website visits, orders placed and customer awareness. This relationship experienced a severe downturn earlier on, because of difficulties with satisfying Oscaro’s demands regarding availability (which should be at least 95%) and delivery times (that should be lower than 24 hours).
Traditionally, a subsidiary organization named Koni France has been responsible for the sales in the French market. This organization operated more or less autonomously and managed their own local warehouses, which were stocked from the production facility in Oud-Beijerland, resulting in high availability and service levels. In 2008 however, it was decided by Koni’s parent company ITT to reduce stock and to keep all inventory at the production location in Oud-Beijerland, The Netherlands, as a measure to cut costs. The warehouses in France were closed. In the process, the activities of Koni France were reduced to sales- and service-related activities. These changes increased delivery times to and reduced availability in the French market. Back then, it was decided that a delivery time to the customer’s address of one day in most cases, and two days occasionally, was acceptable, but Oscaro’s demands also sharpened over time. In retrospect, Koni found out that shutting down the local warehousing capacity in France, as imposed by ITT, had a detrimental effect on their logistics performance and therefore their sales. It also caused friction in the relationship with Oscaro. Therefore it was decided to open a warehouse in France again, to be able to rebuild and increase performance regarding availability and delivery times. This decision was made and realized during the thesis period.

The consequence of the problems is that yearly sales via Oscaro diminished from approximately 7000 dampers a year to approximately 1500 pieces. In a response to this, Koni is looking to regain lost sales. If friction from the past can be overcome, rebuilding the relationship between Koni France and Oscaro and returning to the original situation seems an obvious approach, now the company is capable of meeting Oscaro’s higher logistics requirements. This option is especially appealing because a trend towards more sales via the internet is recognized in the car parts aftermarket. This is particularly the case in the car-tuning segment. However, it is not sure that rebuilding this relationship has been the most appropriate alternative to get the products to the market or that Oscaro is the right partner to do so with.

1.4 Research objective
The research objective is to identify what is the most appropriate strategy to bring the company’s products to the market, by evaluating its business environment and comparing the distribution alternatives available. Based on this analysis, it can then be decided in which areas improvements are necessary and what steps can be taken to attain the goal of operating an efficient distribution network in the future.

The research mainly focuses on diagnosis, the second of the five steps of the “intervention cycle” as described by Verschuren & Doorewaard (2010), which is elaborated on in paragraph 1.6. This is because the roots of the problem that is experienced have to be found, before adequate suggestions for improvement can be made.

The research objective is attained by creating a framework, suitable for evaluating and comparing distribution channels in the distribution network, which is based on a solid literature review. Also, an advice regarding the
configuration of the relationships between Koni and other actors in its distribution network is an intended deliverable, together with and based on an analysis of the existing situation, using the framework.

1.5 Research questions
As mentioned in the preceding part, the main research objective is to identify what is the most appropriate strategy to bring the company’s products to the market, by evaluating its business environment and comparing the distribution alternatives available. The research objective translates into the main research question, which indicates the information to be gathered and the intended line of action:

MRQ: What distribution network configuration is most appropriate for a manufacturer of car parts to bring its products to market, regarding its supply chain requirements?

The main research question is divided in a number of sub-questions to better represent the scope and approach of the research project, by splitting it up in steps. The first steps assist in constructing the theoretical framework for the research, which is the model required for assessing the different distribution alternatives. In the final steps the model will be applied to evaluate the distribution network and generate recommendations. In this research, the case of Koni B.V. will be considered.

RQ1: What alternative distribution channels are available between a manufacturer of car parts and its consumers?

RQ2: What criteria are relevant for comparing the alternative channels in the distribution network of a producer of car parts?

RQ3: What method is appropriate to judge the performance of the distribution alternatives on the criteria identified?

RQ4: How are the different distribution channels performing in view of the set of assessment criteria?

RQ5: What can be concluded from the analysis of the distribution channels in order to identify opportunities for improvement of the distribution network?

After answering the sub-questions, one should be able to answer the main research question and to identify what steps Koni could take regarding the relationships with the actors in the distribution network.

1.6 Approach
Verschuren & Doorewaard (2010, pp. 47-48) identified an intervention cycle, consisting of predefined steps to reach a solution for an operational problem. The intervention cycle consists of five steps, which are (1) problem analysis, (2)
diagnosis, (3) design, (4) intervention/change and (5) evaluation. As mentioned before, the research will specifically focus on the second of the five steps of the intervention cycle, which is diagnosis. The first step, problem analysis and agenda setting, is not necessary as the company is aware that there might be room for improvement regarding the issue. Also, they have a perception of what the problem is, why it is a problem and whom it affects. Therefore, a first view on the problem and its foundation is largely sourced from the company, after which it is further investigated and reframed to suit a research project. The later steps of design, intervention and evaluation will not be dealt with during the thesis period, because otherwise the scope would grow out of bound given the time available. Implementation in any form of suggested improvements, or preparation of this process, is explicitly out of the scope of the research. The research unequivocally concentrates on a strategic level.

The project can be split up in three activity phases, which are addressed by the five research questions. These activity phases are represented in the research framework presented in Figure 1. In the first phase, represented by the first three sub-questions, the focus is on thoroughly reviewing relevant literature, in order to build the framework for evaluating different distribution channel alternatives. The second activity phase, for which the fourth sub-question is relevant, focuses on descriptively evaluating the distribution channels using the framework developed in the first step, for which the case of Koni is used. This will require performing interviews with people on all levels in the distribution channel and reviewing company documents. The third activity phase, represented by the fifth sub-question, is where the performance of the distribution channel alternatives is judged along the dimensions described in the framework and where the different alternatives are compared, using the observations from the previous step. This allows suggestions to be made regarding opportunities for improvement. An overview of the activities to be conducted and their order is given in Figure 2.
1.7 Research strategy and data collection

The research will be executed in the form of a single case study. A case study “investigates a contemporary phenomenon within its real-life context” whereby “there will be many more variables of interest than data points” (Yin, 2003, p. 13). Therefore a case study “relies on multiple sources of evidence” and “benefits from the prior development of theories to guide data collection and analysis” (Yin, 2003, p. 14). According to Yin (2003) this method is appropriate when the research serves to answer “how” or “why” questions regarding a currently existing real-life phenomenon, on which the researcher has little or no influence. This matches the research on all aspects, as a company’s existing distribution channel is investigated, which cannot be experimentally changed by the researcher. The case study method will be used to describe and illustrate the present situation at Koni.
Six sources of evidence can be identified that are useful in case studies, which are documentation, archival records, interviews, direct observations, participant observation and physical artifacts (Yin, 2003). Each source of evidence has its own characteristics. A strong benefit of the case study approach is the opportunity to combine multiple data sources, which is called triangulation (Yin, 2003). Triangulation is pursued in the research by using multiple data types and sources where possible. Furthermore, the case study approach allows for the use of qualitative data, in contrast to other research methods. Qualitative data can address meaning and causality, and it can serve to provide explanations for observed phenomena. A combination of qualitative and quantitative data can yield insights that cannot be obtained otherwise (Miles & Huberman, 1994).

The information used to answer the first three research questions, regarding the different distribution channels possible, and relevant criteria to evaluate those channels is obtained from the databases of Scopus and Google Scholar. The information necessary for empirical analysis of the distribution channels in The Netherlands is obtained by conducting interviews with several people within Koni, with the Dutch distributor of car products, with wholesalers which are members of a large, centrally managed chain, and with several Koni sales points. To analyze the French part of the distribution network, interviews were conducted with several employees of Koni France. The contact with other actors in the French distribution network, being online retailers, wholesalers and sales points, was mainly managed in writing, via e-mail conversations, or indirectly, via telephone interviews conducted by French-speaking employees. This was done in order to overcome language barriers, as communication in English is virtually impossible with a large percentage of French people, and because the experiences in the Dutch market learned that the value added in physically visiting actors on lower levels of the distribution network is negligible, while being very time-consuming. In addition, spontaneous talks with Koni employees on all levels helped in understanding the present situation at the company.

1.8 Scientific and managerial significance
The research is relevant to the management of manufacturing companies, who serve aftermarkets for discrete goods, looking to increase their sales volume, as the research steps can be replicated in comparable cases. In other words, the single case design is representative for other cases. This causes it to be an appropriate research design (Yin, 2003). It is most relevant for companies interested in how an online sales channel compares to traditional distribution alternatives, and how engaging in online sales influences the rest of the distribution network. Companies could benefit from the outcomes of the research, as they might assist in reconsidering and developing a company’s own distribution network, which in turn might enhance business performance.

The academic contribution of the research is that it provides a test case for the application of existing theory, in a specific situation where a manufacturer directly supplies a web-based retailer in addition to its traditional distributor network, and where cooperation between the companies existed previously. This way, the applicability of existing theories to such a specific situation can be
verified. The goal of the research is to gain a better understanding of the influence of distribution network choices on business performance, and of buyer-supplier relationships and their implementation in business.

1.9 Report structure
The chart in Figure 3 indicates how the rest of the report is structured. In the second chapter, the current situation at Koni is described, to get a general view of the company and its environment. In the third chapter, a theoretical framework is constructed, based on literature review, which will guide evaluation of the firm’s distribution network. In Chapter 4 the layout of the different distribution channels available in the Dutch and the French market is described, including their functioning. Chapter 5 evaluates and compares the different channels, using the theoretical framework described in Chapter 3. In Chapter 6, Koni’s product assortment is evaluated, in combination with their consumers. Conclusions are drawn in Chapter 7, which translate into recommendations for improvement.
2. Present situation at the company

As a first step in the research, it is convenient to gain a better view on the company and the circumstances under which it operates. Therefore, attention is given to the firm’s business environment and its position therein, its activities, its customers, company performance and company strategy. To do this in an efficient and organized way Porter’s five forces model (2008, 1980) and value chain model (1985) are briefly explained and applied to Koni’s situation. Furthermore, the product-market strategies specified by Ansoff (1957) are used to evaluate the company’s sales approach. It should be noted that these theories are not part of the main theoretical framework of the research, which is described in chapter three.

2.1 Position in the business environment

Evaluating Koni’s competitive environment provides a view on the market situation and allows identification of market entities that deserve attention. A framework that can assist in this process is the five forces model by Porter (2008; 1980). This model identifies five competitive forces that characterize competition in an industry, which are the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitutes and the level of rivalry among current competitors. The competitive forces model is represented in Figure 4. During the research, only the downstream part of Koni’s supply chain is studied, as the research focus is on evaluating and comparing different distribution channels to bring the product to market. Although the upstream part of the supply chain can certainly affect the downstream part in several ways, the bargaining power of suppliers is not evaluated. The products are homogeneous, regardless of the distribution channel through which they reach the end consumer. Therefore suppliers have little effect on which distribution network configuration best matches the company, its products and the end-users. Detailed information about the suppliers is not necessary to make adequate distribution channel choices.
2.1.1 Threat of entry

According to Porter (2008), the threat of entry is dependent on the height of entry barriers, as well as on the expected reaction from incumbents upon entry. Seven barriers are identified, being:

- Supply-side economies of scale;
- Demand-side benefits of scale;
- Customer switching costs;
- Capital requirements;
- Incumbency advantages independent of size;
- Unequal access to distribution channels;
- Restrictive government policy.

Of those barriers, demand-side benefits of scale, capital requirements, incumbency advantages and unequal access to distribution channels are most relevant. Demand-side benefits of scale exist when customers are willing to pay more for a product when it has a higher user-base. This is relevant for Koni as over the years they built customer trust and have a brand image of delivering superior products. Therefore, customers are less likely to be willing to buy from a newcomer. This effect also reduces the prices newcomers can command.

Another relevant entry barrier is formed by the capital required to enter the industry. Of course, a newcomer has to invest in for example a production facility.

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Figure 4 Five forces model

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and inventories. However, the most important capital requirements are caused by R&D spending and upfront advertising. R&D spending is necessary to be able to compete with incumbents, as the company produces a high-tech product. Upfront advertising is necessary to inform potential customers about the product, as otherwise they will buy at one of the well-known competitors. Also, Koni has considerable incumbency advantages with regard to new entrants. They have proprietary technology, a strong established brand identity and long experience in the production of shock absorbers. Finally, there is some unequal access to distribution channels in favor of Koni. A large part of Koni’s sales is managed by distributors. Those distributors are not supposed to sell a competitor’s products. Therefore, a newcomer should find its own channel to bring the product to market, in another way than the existing producers. Another factor reducing the threat of new entrants is posed by expected retaliation upon entry. However, at the moment this is less relevant in the case of Koni, as at the moment company performance is not on a level that facilitates intensive competition battles. Normally, retaliation in case of new entrants might be advisable, as Koni is operating in a specific market segment, which is high-performance dampers, and not in a mass market. Therefore entry of a new entity to the market is likely to directly affect the company’s sales. It should be noted that a more threatening case develops when a producer of shock absorbers in the regular segment diversifies into the high-end segment. When that happens the entry barriers mentioned are much less applicable.

2.1.2 Power of buyers
In general, the power of buyers in the high-end shock absorbers aftermarket is limited. This is partly because Koni reduced their channel power by establishing exclusive arrangements with particular distributors. Also, there are not many alternatives for the company’s products as they are differentiated in terms of performance. This causes the customers to be more concerned with the specifics of the product than with the price. However, the situation is different in the relationship with Oscaro. In contrast with the exclusive distributors, they try to exercise power over Koni by setting requirements regarding their performance. This happens for example with regard to availability of products and delivery times. Also, Oscaro doesn’t have its own warehouses but requires Koni to take care of all logistics issues. In contrast, LD Motors performs a similar function as Oscaro, but without the accompanying heavy service demands. Despite this situation Koni is eager to do business with Oscaro, as they claim they are able to provide a link with a large market. Oscaro has a successful and well known website, which is visited frequently. They also have market knowledge, a dedicated sales force with technical knowledge, and their website is expected by Koni to give an opportunity to inform customers about the products and why they are worth a higher price. Porter (2008) also acknowledges that intermediate customers such as resellers gain considerable power when they can influence downstream customers’ purchasing decisions. Oscaro can do this by influencing representation and prominence of a manufacturer’s products on their website.
2.1.3 Threat of substitutes
There are not a lot of direct substitutes for Koni's product. Indirect substitutes might be present, but they are not a serious threat for the company, as there is no alternative product available that performs exactly the same function. The most plausible alternative is not installing performance shock absorbers but using regular ones.

2.1.4 Rivalry among existing competitors
In the market for high-performance shock absorbers, Koni has only two direct competitors, which are Bilstein and KW. Those are the only companies whose product lines partially overlap with that of Koni, as they too have products in the high-end car suspension segment. Koni only produces dampers in the higher segment, while Bilstein is mainly active in the lower range and has only one product line that interferes with Koni’s assortment. Koni quite recently issued a somewhat cheaper product line, Koni STR.T, but these products are still more expensive than their competitors'. KW only produces performance coil-over shock absorbers. The choice for the specific market segment differentiates Koni from most other manufacturers. There are several companies active in the market for regular replacement shock absorbers, examples of which are Monroe, Sachs and KYB, but they are not considered a relevant threat. This limited number of competitors has a weakening effect on the rivalry in the industry. However, Bilstein is likely to be committed to their business, as it has been active in this business for decades, like Koni itself. This most likely causes them to be attached to their specific market. KW is a relatively new player in the market, but their market entry went hand in hand with very large marketing expenditures, so they too are likely to be very committed to the shock absorber industry. Contrastingly, industry growth is negligible, which should have a neutralizing effect on rivalry among competitors.

2.2 The value chain
Another model that can be used to characterize a company is the value chain model by Porter (1985). In this model, a firm is considered as a collection of activities that create value for customers. If a firm’s value creation, through its value activities, is larger than its incurred costs, this results in a net margin. The firm’s value activities can be divided into primary activities and support activities. The primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service. The support activities are procurement, technology development, human resource management and firm infrastructure. A visual representation of the value chain model can be found in Figure 5. It is argued that all primary activities will be present to some extent in any firm. The primary and support activities can be subdivided into several categories, and how these are carried out characterizes a firm's industry and strategy. This research is focused on the intersection of outbound logistics and marketing and sales, as it deals with topics such as physical distribution, channel selection and channel relations.
Within Koni, the inbound logistics function is fulfilled by the “Planning and Procurement” department. Based on the orders placed they decide what materials are necessary at what time, and assure they are present when needed. The physical transport and delivery of raw materials is done by third-party transporters. The "Planning and Procurement" department also takes care of planning and scheduling the production of the shock absorbers. All operations, the activities required to get a finished, ready-to-sell product, are performed in the factory. The “Billing & Shipping” department and the warehouse jointly take care of arranging shipping by third-party transportation companies, and handing over the goods to them. The primary activity “Marketing and Sales” is performed by Koni’s “Sales” department. However, the company’s current marketing efforts are limited. The sales department is mainly occupied with managing the relations with distributors. Together with these distributors a short- and long-term strategy is determined that fits the companies and the market environment. The “Service” function is fulfilled by the “Customer Service” department. This department takes client orders and assures they will be produced in time, by communication with “Planning and Procurement”. Furthermore, they are responsible for example for handling warranty claims or customer questions. Koni has a separate department for the support activity “Human Resource Management”, and also for the “Technology Development” function, which is taken care of by the “Research and Development” department. The “Procurement” function is also managed by a dedicated department, which focuses on for example price negotiations for products that are purchased in large quantities. The “Firm Infrastructure” activities, such as finance, accounting and quality management, are performed by Koni’s general management.

2.3 Company performance
While both Koni and mother-organization ITT are still making profit, Koni’s sales performance in the car aftermarket has diminished over the years. This effect is

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thought to be partially caused by improved quality and durability of the standard shock absorbers mounted by car manufacturers. It is interesting to note that two to three decades ago the quality and performance of standard car dampers was considerably lower than it is now, causing the demand for high-quality replacement shock absorbers to be high. In this period, no extraordinary efforts were needed to sell Koni’s product. Another cause of diminishing sales seems to be that car tuning is becoming less popular among young people in areas where the brand name is well established, while they spend more on consumer electronics. In addition, the company’s investments in product development and marketing regarding the car segment have been very limited over the last decade. Koni wants to counter the consequences of these effects and increase sales.

In literature, several key performance indicators (KPI’s) are specified for distribution channels (e.g. Chopra, 2003; Gunasekaran, Patel & Tirtiroglu, 2001). In addition to having attention for customer service components such as response time and availability, Koni identifies three key performance indicators as being most important regarding distribution. These are:

• The sales volume in the network (products have a fixed market price);
• The presence of marketing initiatives and promotion materials in the sales channels;
• The level of inventory of fast-movers at distributors.

2.4 Company strategy
To sell more products, four alternative product-market strategies are available. These are market penetration, market development, product development and diversification (Ansoff, 1957). When following a market penetration strategy, a company attempts to sell more of its current product line, either to its existing customers or to new customers in the same market segment. Market development is about finding a new type of customer for the existing product, generally supported by some adjustments to the existing product, allowing it to perform a slightly different function. A product development strategy means that a new product is developed to better fulfill the needs of the existing customers. Finally, a diversification strategy targets a new customer group with a new product. Hereby a product line refers to a set of products with comparable physical appearance and performance. A market then refers to the specific function or functions a product fulfills for the client. A graphical representation of these strategies can be found in Figure 6. It is not uncommon for companies to pursue more than one of those strategies at the same time.
Koni has several product categories, each focused on a specific customer segment. The segments identified are “Sport & Tuning”, “Performance”, “Offroad” and “Racing”. The “Sport & Tuning” products are aimed at customers that want a more sportive driving experience or look for their vehicles. This segment covers the Sport, STR.T and Coil-Over product lines. The “Performance” category covers the product lines FSD and Classic. Those products are aimed at improving driving comfort and handling, without a focus on sports applications. The “Offroad” category, covering the product lines Heavy Track and Raid, is aimed at 4WD and SUV owners that want to use their vehicles in rough terrain. Products in the “Racing” category, existing of eight product lines, are focused on high-performance motorsport and track use. With these products, Koni is serving a wide range of product-market combinations. However, the need is identified to sell more dampers and utilize excess production capacity. This would allow a better spread of fixed costs and increase the profit margin per damper. As one initiative to attain this goal the company wants to focus on developing regions such as Eastern Europe and Asia. In addition, they want to become a main player in the niches for the product lines Classic and Coil-Over. These initiatives can be considered market penetration strategies, as they focus on selling more of the existing products, fulfilling the current function. Another initiative is to focus on sales via the internet, as this market is growing considerably, especially for car tuning products. This can be considered a market development initiative, as a new type of customer is addressed. The products and respective customers are elaborated on in chapter 6.

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3. Theory

The research approaches the issue of distribution network configuration on two different levels. On the one hand the subject is approached on a strategic level, focusing on the design of the network and the respective channels in general. On the other hand the present situation at Koni is evaluated empirically, focusing on a more practical level. In other words, both the appropriateness of the current layout of the distribution system and its practical performance are evaluated. Therefore several different areas in literature are taken into account. On a network design level, literature is consulted on distribution channels in general, supplemented with specifics on the automotive industry and theory on serving aftermarkets. The latter two topics are added to make the research more relevant to the case of Koni. On a more practical level, attention is given to relationships in the distribution channels, including the power balance, and to market segmentation. Figure 7 represents how the different theory sections interrelate, and in which paragraphs they are treated.

![Figure 7 Structure of literature review](image)

The selected literature sections are not chosen randomly. According to Mallen (1996), aside from costs, channel control and channel goodwill are important in distribution channel selection. In the research, the topic of channel control is given attention by investigating the power balance in the channels. To examine goodwill in the distribution channels, the supply chain relationships between different layers in the distribution channels are studied in the research. In addition, according to Webb (2002), when making distribution channel decisions, one should ask the question: “What do customers in each channel value, and are the current channels meeting the needs and expectations?” (Webb, 2002, p. 98). This is an argument for segmentation of consumers regarding their distribution requirements and investigating the relation between these
requirements and channel-choice. The three themes mentioned are evaluated for all distribution channel types present in both countries, allowing for comparison. In this chapter a literature review is performed on the topics selected.

3.1 Distribution network selection

3.1.1 Distribution channels
An important paradigm shift in business management has been that companies are no longer seen as operating individually, but merely as members of supply chains. Hereby a supply chain is a network of businesses, connected by interfirm relationships. Companies in those supply chains are dependent on each other and need to integrate processes in order to be successful in business (Lambert, 2006). A manufacturer’s distribution network is the downstream part of its supply chain, which links a supplier to its various customer segments (Rangan et al., 1986). Distribution is an important driver of a firm’s profitability, as it influences both supply chain costs and customer experience, which can be used to achieve a multitude of objectives, including low cost and high responsiveness (Chopra, 2003). A distribution network can exist of multiple channels.

3.1.1.1 Distribution network design
In deciding on an appropriate distribution network, it is important to strategically evaluate what are a company’s specific requirements and how they can best be met.

According to Chopra (2003), the performance of a company’s distribution network should be evaluated along two dimensions. These are the extent to which customer needs are met, and the cost involved in meeting customer needs. Six customer service components are defined that are directly influenced by the structure of the distribution network. These are:
• Response time, the time between order placement and delivery;
• Product variety, the number of products or product variations available to customers;
• Product availability, the probability of having a product in stock at the order moment;
• Customer experience, how easy the customer experiences placing and receiving an order;
• Order visibility, to which extent the customer is able to track orders;
• Returnability, how easy a customer can return an order and how well the network can handle returns.

In addition, four sources of supply chain cost are identified. These are:
• Inventory costs;
• Transportation costs;
• Facility and handling costs;
• Information costs.

Mallen (1996) however, holds a slightly different view. He sees the selection of distribution channels as a multi-stage process, in which decisions have to be
made in five areas regarding configuration of the distribution system, called
decision areas. These areas are:

• Directness, the number of intermediary layers between manufacturer and
customer;
• Selectivity, the number of middlemen at each level in the channel per
geographic area;
• Types of middlemen, the distribution system functions performed by a
  specific intermediary (for example wholesalers and retailers);
• Quantity of channels, the number of ways in which a product can reach the
customer, which is different from the selectivity of a channel;
• Choice of middlemen, it is important to select middlemen in line with the
  company's strategy. Especially when a selective distribution strategy is
  chosen, with a restricted amount of outlets, it is important that they fit well
  with company goals, regarding for example service capabilities and contact
  with a specific part of the market.

According to the article, these decisions have to be made while taking into
account product and market characteristics, company resources, the company's
environment and the marketing mix, because those elements shape customer
needs and restrict network choice freedom. While configuring the distribution
channel, four basic company objectives should be taken into account, which can
at times be conflicting. These are to:

• Maximize sales;
• Minimize costs;
• Maximize channel goodwill;
• Maximize channel control.

When both approaches are compared, it can be concluded that they can
complement each other. While Mallen (1996) places more emphasis on the
choices a decision maker has regarding the design aspect of the distribution
network (directness, selectiveness, etc.), and has more attention for the
company's own goals instead of solely those of the customer, both authors
acknowledge that the needs and requirements of the customer determine the
design specifications for the distribution channel. Chopra (2003) implicitly
assumes that a company has the objective to maximize sales, by taking the extent
to which customer needs are met as an evaluation criterion. In addition, the costs
involved are identified as an evaluation dimension in the article. Mallen (1996)
includes two additional objectives: maximizing channel goodwill and maximizing
control over the distribution channel.

Another perspective, described by Fisher (1997) is that a distinction can be
made between primarily functional and primarily innovative products, according
to the nature of their demand pattern. Hereby, functional products satisfy basic
needs, have a stable, predictable demand, long life cycles and generally lower
profit margins. In contrast, innovative products have unpredictable demand,
short life cycles, greater variety and high profit margins. Subsequently, two
archetypes of supply chains are distinguished. These are efficient and responsive
supply chains. The characteristics of an efficient supply chain are low costs and
high efficiency, while longer lead times are acceptable. In a responsive supply
chain cost is less relevant, and reducing lead times and increasing inventory
support the goals of assuring product availability and preventing obsolete inventory. It is argued that a functional product matches best with an efficient supply chain, and that a responsive supply chain is more appropriate for an innovative product. Hereby a mismatch between product and supply chain leads to ineffectiveness and lower company performance. This view is in accordance with, and can be used in addition to the two perceptions mentioned before. In effect the customer needs regarding distribution are determined by the product type and the associated market. Whether an efficient or a responsive supply chain is appropriate in turn affects the decision areas formulated by Mallen (1996), and consequently the channel design.

3.1.1.2 Determinants of channel choice
An important dimension determining the character of a distribution channel is its level of directness. Firms distribute directly when they want to closely control selling, servicing and pricing, or when they have a limited number of known customers (Anderson et al., 1997). Direct channels are also more appropriate as the investments needed in specialized assets to service the customer are higher (Anderson et al., 1997; Rangan et al., 1992). Direct channels with exclusive distribution tend to maximize sales. This involves higher costs than indirect distribution, but channel goodwill and channel control tend to be maximized. With greater market density, which is the number of customers per geographic area, it is more likely to have a direct and selective channel (Mallen, 1996). Also, as the total size of the market is larger, the more direct and intensive can distribution be (Mallen, 1996; Rangan et al., 1992). Mallen (1996) states that direct and selective channels are more appropriate when more technical knowledge is required for sale, installation, maintenance or repair service. However, according to Rangan et al. (1992) customers usually turn to indirect channels for after-sales service such as maintenance and warranty. They also state that customers prefer a direct channel when information requirements in the buying process are high, when product customization requirements are high, and when purchase of the product is a relatively large financial expenditure for a customer.

When a variety of related goods is needed in smaller quantities, intermediaries in the distribution network are convenient, as they can achieve wide coverage, have experience in the field and are specialized regarding a certain industry (Anderson et al., 1997). Therefore, when customers require one-stop-shopping with a broad product range, they seek indirect channels (Rangan et al., 1992). Intermediaries add value when there are many smaller customers, requiring limited amounts of the product. This value increases when distributors carry products from a larger number of manufacturers (Chopra, 2003). Goods with a high replacement rate generally require indirect distribution. The opposite holds true for low replacement rate goods (Mallen, 1996). When product availability needs are high, for example in the case of service products, customers tend to seek indirect channels (Rangan et al., 1992).

A general trend of disintermediation can be spotted, meaning that indirect channels become shorter, with fewer intermediaries. As a result of this, in many
industries the role of distributors is threatened, unless manufacturers lack capability to keep stock, have limited geographic reach or are unable to fulfill small orders (Anderson et al., 1997). The quality and number of middlemen available and willing to sell the product is determined by the company’s margin policy, as middlemen should be able to make a profit, and should be compensated for their services (Mallen, 1996). Lower channel compensation should be given when channel members don’t fulfill all functions, they should only be compensated for the functions they perform (Anderson et al., 1997). Furthermore, if a manufacturer wants to pass along some of the required storage function to channel members, this influences the channel selection decision. Using full-service middlemen minimizes costs and maximizes channel goodwill, but channel control is sacrificed (Mallen, 1996).

Intensive distribution with a large number of middlemen and wide accessibility, as opposed to exclusive distribution, maximizes sales (Porter, 2008; Mallen, 1996), but is relatively expensive (Mallen, 1996). Also, intensive distribution generally doesn’t result in high levels of channel goodwill and control. When the product is considered a specialty good, or when the target group prefers to shop at specialty stores, selective or exclusive distribution at a restricted number of outlets is more appropriate. A brand with consumer loyalty or sold in stores with consumer loyalty requires fewer outlets than a similar product without loyal customers. Generally a higher level of cooperation in the distribution channel is beneficial for the number of sales, channel goodwill and channel control. However, high levels of cooperation are costly (Mallen, 1996).

3.1.1.3 Online sales
With the recent developments regarding the internet, the option arose for companies to add an online sales channel to the distribution network. Doing this provides companies several opportunities, like reducing costs, accessing new market segments or providing information to customers worldwide. However, there are also challenges involved, of which the most important concern might be managing channel conflict, as e-commerce threatens traditional distribution channels. Possible causes of conflict are competition over scarce resources, a drive for autonomy of actors combined with goal incompatibility between them and differing perceptions of reality (Webb, 2002). When a manufacturer starts selling via an online channel, this generally goes hand in hand with disintermediation, the cutting out of intermediaries. However, intermediaries add value to a distribution channel by providing services, and removing them can result in a value gap in the channel. In addition, companies reliant on established distribution channels can experience pressure from channel members to not engage in online sales (Gallaugher, 2002). However, Webb (2002) identifies several proactive strategies to reduce or avoid channel conflict when a manufacturer engages in e-commerce, which are addressed below. E-commerce can also be used to support the existing distribution network, instead of replace it. A lot of services performed by channel partners cannot be fulfilled by an electronic sales channel (Webb, 2002). It should be noted that an important part of e-commerce is delivery, while this function cannot be fulfilled by the digital channel. However, if a customer’s expectations are not met on this
aspect, this will severely reduce the chance of a customer ordering again (Koster, 2003). Therefore an elaborated physical distribution network should support the digital sales channel.

As mentioned before, Webb (2002) suggests a number of strategies to proactively reduce or avoid channel conflict. Price is the issue resulting in the most channel conflict. This can be countered by keeping the price level in the electronic channel at least as high as in the traditional channel. This prevents price erosion on the internet. Second, an internet sales channel is perfectly able to exchange information with customers and handle orders, but it cannot perform a physical function. Diverting physical fulfillment to channel partners solves this issue, while reinforcing channel relationships. This way channel conflict and cannibalization effects are avoided. This effect can even be strengthened by promoting channel partners on the manufacturer’s website, or by stimulating them to advertise on the website. A third option is to selectively choose the product range available through an online channel. This way traditional channel partners remain significant links in the chain for the rest of the product range. An example suggested in the article is to only offer products in the beginning of their demand life cycle online, as cannibalizing the other channels is less likely in that phase. Another example is to limit the product offering on the website to products likely to be purchased by online shoppers. In accordance with this, Agatz et al. (2008) argue slow movers to be more suitable for distribution through an online channel. In addition, it is important for a manufacturer to communicate their online strategy to their channel partners. This way, intermediaries don’t feel bypassed and unnecessary channel conflict is avoided (Webb, 2002).

3.1.1.4 Multiple distribution channels
It is not uncommon for a distribution network to exist of more than one channel. Often, a multi-channel approach is the only way to assure sufficient market coverage, considering accelerating product life cycles, proliferation of products and fragmentation of customer segments (Anderson et al., 1997). A distribution network with multiple channels is more appropriate with increasing market size (Mallen, 1996). In general, only niche companies end up using a single distribution network, and most companies are best served by a combination of distribution channels (Chopra, 2003). The purpose of operating multiple sales channels is to maximize sales by reaching more market segments (Mallen, 1996). However, a single channel strategy tends to involve lower costs and higher levels of channel control and channel goodwill. In contrast, operating multiple channels of distribution involves higher costs, and is detrimental to channel goodwill and channel control. Nevertheless, having multiple sales-channels is more profitable when it facilitates price segmentation (Mallen, 1996). A multichannel distribution strategy allows companies to adapt to changing customer needs and shopping patterns. Another argument is that for companies with a broad product line it is unlikely that one channel is suitable for all products. Additional outlets can also help when there is excess production capacity and the current outlets are saturated with supply. Another benefit of using multiple channels is that specific markets can be targeted more precisely, which is beneficial for
competitiveness. However, different channels might compete for company resources and compete for the same customers (Webb, 2002).

When multiple channels are in place, each channel concentrates on a specific buying pattern. Customers will seek distribution channels that best fit their needs. When higher price reflects higher service, a multi-channel approach can be successful. However, if service is unnecessary or can be obtained cheaper, customers will end up using the low-price channel (Anderson et al., 1997). An important determinant in deciding which distribution channels to choose, perhaps the most important one, is where the customer expects to find the product, or where the target customer is likely to shop (Mallen, 1996). When a company has managed to adequately segment customers based on needs and willingness to pay, it can be determined which channel matches with a specific segment (Webb, 2002). Hereby a brandable product is found to be more suitable for distribution using multiple channels (Mallen, 1996).

3.1.1.5 Distribution arrangements

When considering distribution network choices between a manufacturer and an end consumer, or between any two intermediary stages, generally two decisions have to be made. First, it has to be decided whether the product will be delivered to the customer, or that the customer needs to pick it up. Second, it has to be decided whether or not the product will flow through an intermediary or intermediary location (Chopra, 2003). Based on these choices, six basic distribution channel layouts are identified by the author. These are:

- Manufacturer storage with direct shipping;
- Manufacturer storage with direct shipping and in-transit merge;
- Distributor storage with package carrier delivery;
- Distributor storage with last mile delivery;
- Manufacturer/distributor storage with customer pickup;
- Retail storage with customer pickup.

A visual representation of these distribution arrangements can be found in the Appendix.

Manufacturer storage with direct shipping has the main advantage that inventories can be centralized at the manufacturer. Because the manufacturer can aggregate demand, higher levels of availability can be achieved with lower levels of inventory than for example retailers. The centralization benefits are highest for products with high value and low, unpredictable demand. This distribution approach involves high transport costs, but supply chains can economize on the fixed cost of intermediate storage facilities. However, a good information structure is needed to communicate availability and order information, and response times tend to be large in the case of drop shipping. An important benefit of this channel design is that a high level of product variety can be presented to the customer.

The second alternative, manufacturer storage with direct shipping and in-transit merge, in most aspects is comparable to the first one. A difference is that distribution costs are somewhat lower because the order is put together earlier.
in the distribution process. As a consequence handling and information costs are somewhat higher, but the customer experience is better if articles from more than one manufacturer are combined, as the customer doesn’t receive partial shipments.

The third option, where products are stored at distributors requires a higher level of inventory in the supply chain, because demand uncertainty is aggregated on a lower level. On the other hand, this improves response times because distributors generally are closer to the customers. Transportation costs are lower compared to the former alternatives. This alternative is best suited for medium to fast moving products. Distributor storage with last mile delivery, the fourth option, is largely the same as the third option. However, as this alternative is not considered relevant for this research, it is not further elaborated on.

When manufacturer or distributor storage with customer pickup is used, inventory costs can be kept low, depending on the number of facilities used. Transportation costs can also be kept low because the customer fulfills this function. Facility costs can be curbed as well, provided that existing facilities can be used. Information system requirements are higher, because the customer needs to know when the order is available for pickup. The service factors are comparable to other options with manufacturer or distributor storage, except for the customer experience, as an effort from their side is required.

Local storage at retailers or consumer pickup sites in fact is the opposite of drop shipping. Inventory requirements and facility costs are higher than for all other alternatives. Transportation costs are lower than for all other options. Response time is practically immediate, but the product selection carried by retailers generally is restricted. This type of channel is most appropriate for fast moving items, or when customers value a short response time.

A detailed overview of the performance of all channels on the six customer service elements and the four cost sources, and how they compare to each other can be found in the Appendix. More than one of the channel arrangements mentioned can be combined in a company’s distribution network. Also, a digital sales channel can be integrated into the system.

### 3.1.2 The automotive components industry

In Germany, France, Great Britain, Spain and Poland, the aggregated market volume in the car parts aftermarket for 2012 was 115 billion euros. In all of those countries except Poland the market volume has been constant over the last few years, while in Poland it has been growing with around 4% annually (The Boston Consulting Group, 2012). According to Bijl et al. (2000), the car parts distribution networks in Northern-European countries are much more oriented on car manufacturers than those in Southern Europe. In Germany for example, there is a very well developed network of manufacturer outlets, due to the strong presence of car manufacturers in that country, while the independent network is underdeveloped compared to other countries (Bijl et al., 2000; The Boston Consulting Group, 2012). Over 60% of the spare parts in Germany are sold
through the manufacturers’ networks. In contrast, the Spanish spare parts market is heavily focused on independent dealers. The French market is evenly balanced between manufacturer-related and independent outlets (Bijl et al., 2000). A general representation of the distribution network for car parts can be found in Figure 8. Only a small amount of consumers specify the brand of parts they want to be used for service and repairs. Therefore most of the time installers can be considered the end customers, as they make the buying decision (Harland, 1993; Harland, 1996).

![Figure 8 Distribution network for car parts](image-url)

In the independent repair aftermarket, the increased technological complexity of cars causes independent garages, the “do it yourself” sector and retail outlets to decline in number, while fast fitters and car-centers increase their market share. In the present day, the last two require delivery of spares to their outlets within two to three hours after ordering (Hammant et al., 1999). Also, retailers, distributors and wholesalers have striven to increase efficiency of supply chains by reducing inventory costs. This increased the importance of high availability and low cycle times in the distribution system (Hammant et al, 1999). It should be noted that service and costs are interconnected. Reducing cost directly affects quality, order cycle time and service level. For example, keeping less inventory can result in lower availability, which in turn leads to lost sales (Hammant et al., 1999). Although, this might not be worthwhile, as in the repair parts market consumers are not extremely price-conscious, since labor expenses usually make up the larger part of a service or repair bill (Harland, 1997).

It is suggested that inventory can be reduced, and customer service improved, by handling inventory and orders Europe-wide, although, this requires a slight

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increase of international transportation costs (Hammant et al., 1999). Despite this suggestion, companies should be cautious in making policies for large geographical areas, as different regions have specific needs (Harland, 1997). For example, different geographical regions can have different demand patterns for certain car parts (Harland, 1993). Also, the methods of doing business can vary significantly between countries. As an example, actors in the Spanish distribution channels appear to value interpersonal relationships much more than their UK colleagues. UK customers prefer a more distant and efficient way of doing business, and care less about relational elements (Harland, 1997; Harland, Williams & Fitzgerald, 1993; Harland, 1996). However, while the approach towards doing business differs significantly between the countries, customer satisfaction and the performance of the distribution network are comparable (Harland, 1996).

3.1.3 Serving the aftermarket
Although literature on the automotive sector in general is plentiful, there has been much less attention for the design and functioning of its aftermarket distribution channels (Hammant, 1999). Therefore general theory on aftermarket is consulted. In addition to general distribution channel principles, there are some specifics to be taken into account when considering distribution in aftermarket. In literature, providing aftermarket support is generally considered an activity original equipment manufacturers perform to serve their original customers (Cohen, Agrawal & Agrawal, 2006). For example, car component manufacturers typically supply both vehicle manufacturers and the aftermarket with parts, whereby aftermarket supply is mainly focused on providing repair parts (Harland, 1997). However, this is not necessarily the case, as companies can specifically target the aftermarket without considerable presence in the first-montage segment.

For a lot of original equipment manufacturing (OEM) companies that are active in industries such as automobiles and industrial machinery, their aftermarket have grown considerably larger than their original equipment markets. This is because service parts have to be provided for the current products and for previous models at the same time. Despite their potential, aftermarket generally receive little attention by OEMs, as they are difficult to manage, and providing aftermarket service efficiently is necessary for it to be profitable (Cohen, Agrawal & Agrawal, 2006). This is a missed opportunity, as aftermarket allow higher margins than OEM production (Harland, 1997). Aftermarkets are harder to serve than OEM markets because they require higher service levels, as stockouts might have financial consequences (Huiskonen, 2001), and because the demand for parts is unpredictable, as it is not related to the production flow but to unexpected breakdowns or needs (Cohen, Agrawal & Agrawal, 2006; Huiskonen, 2001). When these characteristics are not kept in mind, this will result in poor service to customers (Cohen, Agrawal & Agrawal, 2006). Despite this situation, in practice, spare parts inventories are often still managed using general inventory management paradigms (Huiskonen, 2001).
Cohen, Agrawal & Agrawal (2006) specify both a product hierarchy and a geographical hierarchy, related to aftermarket service. From high to low, the levels specified in the product hierarchy are: end products, modules, sub-modules and piece parts. Regarding the geographical hierarchy, the levels are (from high to low): central warehouses, regional distribution centers, field distribution centers or repair facilities and on-site stocks with consumers. The higher the hierarchical level of the product, the higher the inventory costs and the lower the response time are. The higher the geographical hierarchical level, the longer the response time is, as the product is kept further away from the customer. At the same time, costs are lower in this case as inventory can be aggregated at a higher level. This principle can be used to offer different service levels for different products or customer groups, at corresponding prices.

Huiskonen (2001) specifies three relevant dimensions along which spare parts can be characterized. These are criticality, demand pattern and value. A product’s criticality indicates how fast it needs to be available after ordering. Very high criticality leaves no other option than keeping local safety stocks. A lot of spare parts are characterized by unpredictable demand. Keeping central instead of local stock can help to aggregate demand and reduce total inventory in the channel, at the expense of longer delivery times. The value of a product directly influences the cost of inventory of that product. Therefore high value products are preferably kept more centrally in the distribution channel, to reduce costs. Assessing these dimensions and acting accordingly can assist in developing an appropriate spare parts distribution strategy.

3.2 Distribution network evaluation
3.2.1 Supply chain relationships
When a company possesses advanced supply chain management capabilities, this can provide various benefits throughout a wide range of business processes, such as efficiencies and cost savings (Horvath, 2001). Supply chain management is the integration of key business processes between members of the supply chain (Lambert, 2006). To realize those benefits a high level of information sharing and collaboration is necessary between all members, whereby collaboration is the most important aspect (Horvath, 2001). An important paradigm shift has been that companies are no longer seen as competing individually, but as members of competing supply chains (Lambert, 2006; Horvath, 2001), whereby success is determined by the ability to integrate with one’s business relations by means of establishing the appropriate interfirm linkages (Lambert, 2006). To build effective relationships, a combination of interpersonal and organizational factors is required (McQuiston, 2001).

Traditionally, marketing research has considered business transactions as discrete events. Hereby a simple exchange of a good for money, without any relational element, is considered a discrete transaction. Relational exchange differs from discrete exchange on several dimensions, of which the ongoing and repetitive character is most distinctive (Dwyer, Schurr & Oh, 1987). Relational exchange in its turn can be subdivided into arm's length relationships, where multiple transactions take place without integration between the parties
involved, and partnerships (Lambert, 2006). Thereby partnerships have higher levels of dedicated resources and involve more joint activities and communication than traditional business relationships. Partnerships are enduring connections, spanning a longer time period than traditional arm’s length relationships, with more sharing of information, risks and rewards (Duffy, 2008). In conclusion, “A partnership is a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that results in business performance greater than would be achieved by the two firms working together in the absence of partnership” (Lambert, 2006, p. 169).

Tuten & Urban (2001) acknowledge that a lot of partnerships are developed mainly because of the potential for cost savings and the ability to improve logistics efficiency between both parties. In addition, research suggests that partnerships can result in increased prestige, more stability in volatile markets, improved profitability, technical cooperation and learning effects (Lambert, 2006). Kim, Kumar & Kumar (2010) recognize that developing and managing supply chain partnerships enhances a supply chain’s competitiveness and effectiveness. Establishing interfirm partnerships is a way to attain sustainable competitive advantage (Mentzer, Min & Zacharia, 2000; Lambert, 2006), and strengthens integration in the supply chain (Lambert, 2006). Hereby the value of the competitive advantage companies derive from a partnership is higher when the resource combination acquired is more sustainable (Weber, 2001). According to Morgan & Hunt (1999) the sustainability of resources is determined by how hard they are to imitate, the availability of close substitutes, their scarcity or uniqueness, their mobility and their effectiveness (as mentioned in Weber, 2001). Tuten & Urban (2001) argue that firms generally develop partnerships when they expect this will result in:

- Lower costs, by reducing for example inefficiency and double effort;
- Increased customer service, like enhanced convenience or better meeting customer needs;
- Enhanced competitive advantage, such as technological leadership;
- Better performance, regarding dimensions such as sales and market share;
- Higher quality of products and/or service;
- Relational advantages, like having a trustworthy partner or a reliable source of supply.

Comparably, Lambert (2006, pp. 176-177) identifies four drivers that are incentives for companies to build partnerships. These are expectations of:

- Cost reduction and/or asset efficiencies;
- Improved customer service;
- Marketing advantage;
- Increased profit stability and/or profit growth.

### 3.2.1.1 Relationship formation

Dwyer, Schurr & Oh (1987) identify a five-phase process in which relationships are formed. These phases are respectively awareness, exploration, expansion, commitment and dissolution. In the awareness phase, two parties realize that the other one might be a feasible business partner, whereby closeness or approachability is a determining factor. However, no form of coordination or
interaction exists at this point, as that would indicate the beginning of the next phase. In phase two, exploration, both companies investigate costs and benefits of the potential relationship, to determine if relational exchange would be beneficial. Some test transactions might take place between the firms to become acquainted with each other. The second phase is further subdivided in attraction, communication and bargaining, power and justice, norm development and expectations development. When the second phase is completed, the companies move into the expansion phase, which means the interdependence between both parties increases, and they reap continually growing benefits. When companies reach the fourth phase, commitment, the mutual satisfaction of doing business together causes companies to acknowledge the development of a satisfying business relationship between them, which practically excludes other parties that might be quite as suitable. Increased commitment can be recognized when the association proves to be durable over time, when both parties provide relatively high levels of inputs to the relationship, and when they do so consistently over time, in order to maintain the relationship. As the fifth and last phase, dissolution is mentioned. However, relationships can end or stop developing at or after any of the phases defined.

Kim, Kumar & Kumar (2010) identify four stages in the lifecycle of a supply chain partnership. They argue that identification of a firm’s strategic needs is the first stage of the process. When it is clear what these strategic needs are, one can proceed to the next stage of finding potential partners, evaluating their performance and characteristics and then selecting the best fitting party. In the third phase the actual partnership is implemented in the day-to-day activities of both partners, and cooperation between them grows. Generally, the longer a partnership lasts, the greater the level of interfirm cooperation achieved. Finally, once a partnership is established, it will have to be reassessed and reshaped over time. When the business environment changes, the partnership should be adapted accordingly, and when a partnership no longer provides benefits it should be dissolved.

Both partnership formation models are very similar, though a slight difference in approach can be spotted. Dwyer, Schurr & Oh (1987) focus on the relational aspects of a partnership and how it develops, while Kim, Kumar & Kumar (2010) appear to show more attention for the technical aspects of a partnership and its function, primarily from the viewpoint of the single firm. Consequently, Dwyer, Schurr & Oh (1987) describe partnership formation as a mostly spontaneous process, which starts by convenience, while Kim, Kumar & Kumar (2010) take the approach that one party consciously starts searching for a partner to complement their own capabilities.

### 3.2.1.2 Relationship types

According to Duffy (2008), only discriminating between discrete market transactions and relational exchange is a superficial approach, as various relational forms lie in between, with intermediate levels of coordination. Therefore, vertical relationships are suggested to lie on a continuum ranging from market transactions to vertical integration, as represented in Figure 9.
Furthermore, an interfirm relationship can be divided into an internal economy on the one hand, which concerns coordination in the relationship and the amount of integration of the processes linking the partners, and an internal polity on the other, which concerns symmetry of power and dependence in the relationship. These aspects together influence the relationship climate, and consequently the relationship performance, as reflected by perceived costs and benefits. The three relational variables trust, frequency and scope of communication and information sharing and interdependence are found to discriminate most effectively between partnerships and other types of cooperative or coordinated relationships.

A comparable classification is provided by Lambert (2006). Again a continuum is suggested, ranging from arm’s length relationships to vertical integration, as represented in Figure 10. This continuum shows large similarity with the continuum suggested by Hines (2004, as cited in Rezaei & Davoodi, 2012). However, the three intermediate types of relationships are all classified as partnerships. Furthermore, joint ventures are mentioned on the continuum, while these are excluded by Duffy (2008), as this generally is a horizontal relationship form. The partnership types are argued to vary regarding duration, scope, level of integration and closeness. Hereby a Type 1 partnership has a short-term focus and involves limited coordination and joint planning. In contrary, no end date is determined for a Type III partnership, and both parties are so highly integrated that they perceive each other as an extension of their own firm. A difference with the classification by Duffy (2008) is that no attention is given to power symmetry and dependence in the relationships.

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Figure 9 Relationship continuum Duffy7

Figure 10 Relationship continuum Lambert8

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7 Figure reproduced from “Towards a better understanding of partnership attributes: An exploratory analysis of relationship type classification” by R.S. Duffy, 2008, Industrial Marketing Management, 37, p. 229. Copyright 2007 by Elsevier Inc.
Mentzer, Min & Zacharia (2000) identify a relationship classification range with operational partnerships on the one end, and strategic partnerships on the other. Hereby strategic partnerships have a long-term character, and are implemented to attain strategic goals, such as increasing profitability or providing greater market value. Operational partnerships are more short-term oriented and allow companies to reach competitive parity with their competitors. The amount to which any type of partnership develops depends on the members’ attitude towards the business relationship, and the presence and level of partnership attributes, such as interdependence and trust. Partnership attributes will be dealt with in more detail in paragraphs 3.2.1.3 and 3.2.1.5. The classification paradigm proposed is in line with the approaches of Duffy (2008) and Lambert (2006).

According to Dwyer, Schurr & Oh (1987), the nature of interfirm relationships is determined by the motivational investment of the parties involved, which is determined by the benefits they expect to gain from the business relationship. For example, when the buyer is strongly motivated in having a relationship with a seller, but the seller is less interested, this is likely to result in a buyer-maintained relationship. In contrast, when both parties are motivated to engage in a relationship, they will both make an effort to maintain the association. When one of the two parties is eager to have a business relationship with the other, but the potential partner is not very interested, the latter will consequently be in a more favorable power position. This principle is visually represented in Figure 11.

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The concept of considering relationships as lying on a continuum and the idea that the nature of an interfirm relationship is determined by the motivational investment of the parties complement each other. In fact, Lambert (2006) acknowledges that the party likely to gain the least from the partnership determines the outcome, as their commitment will be lower. It should also be noted that the goal is not to build highly integrated partnerships with all business relations, as this involves considerable costs (Mentzer, Min & Zacharia, 2000). There is not one type of relationship that is appropriate in all situations. A type of relationship should be chosen that appropriately fits the specific circumstances (Lambert, 2006).

### 3.2.1.3 Relationship models
According to Weber (2001), a wide selection of resources can be shared and exchanged between suppliers and resellers to attain a competitive advantage. Thereby, the sustainability of the resource combination largely determines the

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value of the competitive advantage. Less sustainable resources are financial, spacial and human resources. Financial resources can be easily acquired by healthy companies in the form of debt or equity, a firm’s location is less important in today’s market environment and skilled personnel can be bought away from competitors. More sustainable are relational resources and organizational resources, such as operational linkages. This is because interfirm relationships and organizational resources develop over time, and cannot easily be duplicated or transferred between companies. Information sharing is argued to be the most sustainable source of competitive advantage, as integrated information systems are complex and expensive to replicate. Relational resources, such as cooperation and loyalty, are likely to be present in supply chain partnerships.

A considerable amount of research has been devoted to partnerships, their development and their characteristics. Several partnership models have been developed, that serve to organize the factors related with partnership (Tuten & Urban, 2001). A comprehensive partnership model is presented by Lambert (2006). The author argues that partnership drivers and facilitators exist, that together determine whether or not a partnership should be formed, and if so, which level of integration is appropriate. Drivers are the reasons that trigger parties to engage in a partnership, which are potential for increased efficiencies in costs or asset use, the ability to provide higher customer service, possible marketing advantages or realizing increased stability or growth regarding profits. Facilitators are supporting characteristics of the companies involved that determine to which extent developing a partnership is viable. Of these, most important are the compatibility of values between the companies, the managerial philosophy and techniques used, the mutuality between companies and the extent to which companies are symmetric in for example size, market share and technological sophistication. The levels of drivers and facilitators present determine the extent to which activities and processes, which are called partnership components, should be integrated between partners. The levels of partnership components determine the outcomes of the relationship, which are evaluated against the drivers to partner. A visual representation of the partnership model can be found in Figure 12. The partnership components defined in the model are joint planning, joint operating controls, communication, sharing of risks and rewards, trust and commitment, the contract style, the scope of cooperation and the amount of financial investment in the relationship.
Mentzer, Min & Zacharia (2000) take a slightly different approach. They argue that environmental circumstances urge companies to build partnerships, as otherwise they would fail to remain competitive. This external pressure drives the development of partnerships, while the level of partnering antecedents present is claimed to determine the partnering orientation that will result. In addition, complementarities between companies are mentioned as a premise for successful partnering. High levels of the antecedents interdependence, trust, commitment, organizational compatibility and top management’s belief in partnering, combined with low levels of conflict, is likely to yield a strategic partnership. In contrast, low levels of the antecedents and higher conflict will result in operational partnerships. Strategic and operational partnerships are appropriate in different situations. A firm’s partnering orientation will cause it to implement a partnership with one or more business relations, for example by sharing information or by jointly establishing performance measures. The way in which a partnership is implemented in turn determines the competitive position a company will attain, lying somewhere between competitive advantage and competitive disadvantage. Generally, a higher level of competitive attainment will result in better business performance, which is indicated by economic performance, customer satisfaction and loyalty and by relationship effectiveness. The principle is represented graphically in Figure 13.

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Both models assist in understanding the concept of partnerships, including antecedents, attributes and results. However, the model by Lambert (2006) explicitly assumes that firms can determine to which extent they want to implement a partnership, thereby determining what relationship type they realize. This is emphasized by the fact that a method is suggested to assess drivers and facilitators, in order to determine the appropriate type of relationship, after which guidelines are provided on how to practically implement the desired connection. In contrast, Mentzer, Min & Zacharia (2000) take a more deterministic approach, where the type of partnership that will develop is suggested to depend on the companies and their environment. In addition, the model by Lambert (2006) pays more attention to evaluation of the partnership once it is established, and adaptation when performance is different than expected. In addition, Tuten & Urban (2001) argue that the expected outcomes should be evaluated prior to partnership formation, and that expected outcomes and actual outcomes should be compared afterwards. If expected outcomes are negative the partnership should not be formed to begin with. When actual outcomes do not meet expected outcomes to a sufficient extent, the partnership should be dissolved.

3.2.1.4 Value in relationships
Simpson, Siguaw & Baker (2001) place supply chain relationships in a broader perspective. According to them, the quality of the relationship between a supplier and a reseller is a function of the value provided by the supplier. Hereby value is defined as “the sum total of benefits derived from a channel partnership, 

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less the costs associated with the partnership, as determined by the customer partner” (Simpson, Siguaw & Baker, 2011, p. 121). The more valuable a reseller perceives the relationship to be, the higher its commitment, cooperation and satisfaction will be. On the other side, providing more reseller value allows suppliers to attract good resellers, to improve the knowledge base, to increase influence over their resellers and to increase financial performance. An overview of their model can be found in Figure 14. A supplier is said to be market oriented when it concentrates on profitably providing value to their customers and actively gathers and employs market information. A firm’s market orientation is reflected by its market oriented behaviors, such as actively acquiring information about market actors, sharing market information throughout the firm, interpreting the information and taking adequate action based on the information. Market oriented behaviors translate into value-oriented activities and behaviors on the side of the supplier. These are managing customer relationships that facilitate relational exchange, supplying a total product bundle that is perceived as unique and valuable, realizing high-quality physical distribution and providing value-adding service. These value-oriented activities and behaviors in turn result in decreased reseller costs, increased reseller financial performance and increased reseller-perceived value. Reseller-perceived value increases both directly and indirectly, as indicated by the arrows in Figure 14. Finally, providing higher reseller-perceived value is suggested to increase commitment, cooperation and satisfaction of the reseller.

Figure 14 Value creation model

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### 3.2.1.5 Relationship evaluation

When assessing partnerships, two main areas are relevant, which should be evaluated together to get a balanced view on the relationship. These are the attributes of the relationship, together with its performance (Kim, Kumar & Kumar, 2010). In other words, one should investigate the partnership itself, but also to which extent desired outcomes are attained. To this extent, a lot of alternative approaches and models are available in literature (e.g. Parsons, 2002; Mentzer, Min & Zacharia, 2000; Lambert, 2006; McQuiston, 2001; Tuten & Urban, 2001), but they generally show strong similarities. On the one hand, performance dimensions found are related to increased economic performance. On the other hand, customer satisfaction and loyalty are important (Mentzer, Min & Zacharia, 2000). Increased economic performance can be achieved by lowering costs and by increasing output (Kim, Kumar & Kumar, 2010; Lambert, 2006; Tuten & Urban, 2001). Customer satisfaction and loyalty can be achieved by increased customer service (Lambert, 2006; Kim, Kumar & Kumar, 2010; Tuten & Urban, 2001). Kim, Kumar & Kumar (2010) distilled the relationship attributes leadership (from a company's senior management), commitment, coordination, trust, communication, conflict resolution techniques and investment of resources from literature, which is a comprehensive selection of the most important relationship dimensions found in literature. The accompanying performance assessment dimensions specified are cost efficiency, output and flexibility. Their complete relationship assessment framework is represented in Figure 15.

![Figure 15 Relationship assessment framework](image)

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3.2.2 Power balance

Power is the ability of a firm to affect decision-making and behavior of other actors to a certain degree, regardless of the source of this ability (Wilkinson, 1996; Butaney & Wortzel, 1988; Gaski, 1984). Equivalently, power can be formulated as the ability of a distribution channel member to control the marketing strategy decisions of another channel member at a different level of distribution (El-Ansary & Stern, 1972). Ramsay (1996) makes a distinction between potential power and actual power. Hereby, potential power consists of two elements. First, the potential capacity to cause intended changes in another actor's behavior, that not only create a closer match between desired and actual product specifications, but also increase the other party's costs. Second, the potential capacity to resist such influence attempts from others. Actual power is the result of successful conversion of potential power into intended, cost-increasing changes at the other party.

An actor's power is determined by the degree of dependence experienced by others (El-Ansary & Stern, 1972; Ramsay, 1996). More specifically, the power of one actor or organization over another is determined by the extent to which a party is dependent on the other for particular resources. Thereby, the level of such dependency is determined by the relative utility and relative scarcity of those resources (Cox et al., 2001). The power is larger the more attractive one's resources are, and the harder they are for the transaction partner to obtain elsewhere (Ramsay, 1996). In addition, a channel member's power is determined by the sources of power this actor holds (El-Ansary & Stern, 1972). Finding alternative ways to reach customers can be a way to neutralize powerful distribution channels (Porter, 2008).

After agreeing on a business transaction, parties are in a state of interdependence, where they can influence the satisfaction of resource needs and wants of the other (Ramsay, 1996). As a distribution channel consists of multiple interdependent organizations, channel conflict can arise, because of incompatible goals, differing ideas and differing perceptions of reality between channel members. Therefore, some degree of cooperation and coordination of activities is needed between members of the distribution channel. The existence and use of power by channel members serves as a mechanism to organize the channel and to preserve orderly behavior (Wilkinson, 1996). Power limits the range of variability in channel behavior, and functions as a measure of predictability and dependability (Kasulis & Spekman, 1980).

3.2.2.1 Power types

In literature, different categories of power are identified. Wilkinson (1996) distinguishes between reward power, based on positive sanctions, and punishment power, based on negative sanctions. An evident way of rewarding is the use of financial incentives, when for example a distributor complies with a manufacturer's wishes. However, rewards can also be nonfinancial. In fact, any resource the influencee values can be used for this type of positive stimulation. Rewards can also be indirect. The influencer can reward the influencee by providing information or training, which allows the influencee to increase
performance and increase revenue accordingly. Complying with the wishes of a party that an influencee respects and admires is also described as a reward, as it allows identification. Potential punishments also include more than just economic penalties. For example the loss of prestige or disapproval are considered threats for a company. There are also indirect negative sanctions possible, in the form of withholding information or intentionally providing wrong or misleading information that deteriorates the receiver company’s performance. The authors describe legitimate power as a form of power based on negative sanctions, as for example a legal penalty can be involved. In addition, one source of power is identified that not easily fits into the two categories defined. This is when a company influences another firm’s environment without direct interactions. This means that one company can influence the other’s information supply, without the direct transmission of information between the two. This effect is also acknowledged by Gaski (1984), who calls it “manipulative power”.

A more detailed typography of power bases is provided by French & Raven (1959). Though originating from social science research, these power bases are widely accepted in distribution channel research (Kasulis & Spekman, 1980; El-Ansary & Stern, 1972). In the article, a set of five power bases is defined. These are:

- **Reward power**, when a company perceives that another has the ability to mediate rewards for them;
- **Coercive power**, when a firm expects to be punished when it fails to conform to the influence attempt;
- **Legitimate power**, when an actor has the legal right to prescribe behavior for a company, or when the company feels that it should comply based on internalized values from another code or standard;
- **Referent power**, based on the identification of one company with another, which means a feeling of oneness or a desire for a shared identity;
- **Expert power**, based on the perception that one company has special knowledge or a high level of expertness.

For all power bases, the magnitude of the base determines the associated level of power. The strength of reward power depends on the magnitude of the reward, and failing to provide actual rewards after confirming to do so reduces reward power. Reward power results in increased attraction and low resistance on the side of the influencee, while coercive power leads to decreased attraction and high levels of resistance. For both reward and coercive power the degree of dependency varies with the observability of the influencee’s conformity. Sometimes, reward power and coercive power are difficult to distinguish between. For example, the withholding of a reward can be perceived as a punishment. The crucial difference is that reward power can eventually result in independency of the influencee, while coercive power will maintain a level of dependency. Referent power also has elements of reward and coercive power, as conforming is generally aimed at avoiding negative results in the case of nonconformity, or obtaining positive results by conforming. A crucial difference is however, that in those cases the outcomes are not directly mediated by the influencer. An influencer is not necessarily aware of its power over the influencee. In case an actor conforms to a group’s rules based on respect for its
collective wisdom, this is a case of expert power, though having strong characteristics of referent power. Expert power is more limited than referent power, in the sense that a firm only has power in the areas in which it is knowledgeable. In contrast to reward and coercive power, the magnitude of legitimate, referent and expert power is not dependent on the observability of conformity, since in general there is a level of voluntariness involved.

Kucuk & Krishnamurty (2007) focus on consumer power on the internet. According to them, the internet channel's technological sophistication benefits consumers in several ways. The internet equalizes the power differences between companies and their customers, which is in favor of the latter. Four areas are identified in which the power distribution changed in favor of the consumer, as a result of the “digital revolution”. These are:

- Technological;
- Economic;
- Social;
- Legal.

First, the technological dimension amounts to consumer convenience by allowing consumers to shop in innovative ways. This can be for instance from their home environment. Consumers can also track and control their orders at any time of the day, which urges companies to be more transparent towards them. Second, the internet increased economic power of consumers. On the one hand by increasing bargaining power, due to the ability to research and access an increased amount of options, which is an effect of reduced search and transaction costs. On the other hand by reducing costs due to disintermediation in the supply chain. The economic power dimension mainly creates value for the consumer. A third consumer advantage of the digital channel relates to social contact. Because consumers can easily contact social networks, experts and communities, they can unite and information asymmetry is reduced. Also, consumers can contact the company directly instead of via intermediaries, which increases social pressure on firms. The strength of social power is rooted in the increased connectivity between consumers. Finally it is argued that the internet contributes to greater legal power for consumers. On the one hand, legal information about organizations is much easier to acquire. On the other, the selling of consumer information acquired via the internet to third parties is prohibited, in contrast to consumer information gathered via traditional channels. It is also suggested that greater protection of the consumer in the offline world is realized. An example given by the authors is the establishment of a national online do-not-call registry, sponsored by the US Government, which would otherwise be unmanageable. More applicable in this case, the considerable increase in e-commerce stimulated the development of tailored legislation. Increased legal power provides the consumer with increased protection.

When comparing the typologies by French & Raven (1959) and Kucuk & Krishnamurty (2007), it can be noted that the latter doesn't solely focus on power, as increased consumer convenience also receives considerable attention. Although legal power is similar to legitimate power as defined by French & Raven (1959), and technological, social and economic power sources have some
interface with expert power as consumer knowledge is increased, both
typologies show little resemblance. The article by Kucuk & Krishnamurty (2007)
provides a good impression of the structural changes in the position of the
consumer caused by introduction of the internet, but the power dimensions
defined are so specific that they are of not much value in a broader distribution
channel context. Neither are they for interfirm relationships.

3.2.2.2 Power use and outcomes
A firm’s use of power is affected by its perception of its own power, together
with expected rewards and expected costs of an influence attempt (Wilkinson,
1996). Kelman (1961) identifies three general consequences of a successful
influence attempt (as mentioned in Kasulis & Spekman, 1980). These are:
• Compliance, where a company conforms to an influence attempt solely
  because it expects a favorable reaction from the other;
• Identification, where a company conforms to an influence attempt because it
  wants to establish or maintain an association with the other party;
• Internalization, where a company conforms because the demands of the
  influencer are in agreement with its own values.
Those three types of consequences are argued to be lying on a continuum, where
cognitive involvement is lowest with compliance, and highest with
internalization. Identification is positioned between the two. In addition, the
types of behavior are linked to the power bases causing them.

According to Kasulis & Spekman (1980), compliance will generally result in a
short-lived, hesitant response, which is only achieved when the actions of the
influenced firm are monitored by the influencer. This type of behavior is most
probable when it is caused by coercive, reward or legal legitimate power.
Identification, in turn, often results in a fairly predictable response, which lasts
longer. However, the effect is limited to the source of identification. Identification
is more likely when it is based on referent or expert power sources.
Internalization is the most powerful from of compliance, as this involves the
highest level of voluntariness on the part of the influence. Therefore the effect is
long lasting, as it is based on similar viewpoints. A relationship based on
internalization has many of the advantages of vertical integration. Traditional
legitimate power is most likely to result in internalization, as is persuasion using
information and arguments the influencee wasn’t previously aware of. According
to the authors, a channel management strategy should aim at establishing a level
of cooperation between channel members. To achieve this goal, the power bases
likely to lead to identification and internalization are most useful.

The degree to which a firm’s power use turns out to be successful is dependent
on the strength of the influence and the resistance to the influence (Wilkinson,
1996). The strength of the influence is dependent on the costs incurred when
refusing to comply, and the probability those costs will occur. Costs are not
necessarily monetary, but can also be in the form of for example reduced
business or respect. Resistance to an influence attempt may be caused by
incompatibility between the influence attempt and a company’s current position,
by the personalities of the people involved in a power relationship, by
entrenchment in a company's current business network, or by experience and habits a company developed over time.

3.2.2.3 Power imbalance
The "balance of power" is the relative power actors have in a relationship (Ramsay, 1996). In other words, it indicates how much power one member of a distribution channel has compared to another. Butaney & Wortzel (1988) argue that channel control is important and can be accomplished by the exercise of power. According to them, manufacturers want control over the distribution channel, to support their marketing strategies. Middlemen are said to pursue channel control to prevent being bound by strategies determined by the manufacturer. However, according to Hingley (2005), power balance is not necessary for an effective business relationship. Equivalently, commitment and trust are desirable but not required to effectively do business. As long as both parties are satisfied with a relationship, and sufficient benefits can be achieved by each of them, imbalances in for example power or profits are accepted in exchange relationships. This goes especially for weaker organizations. However, it is also argued that power balanced relationships generally are more stable than unbalanced ones. Power imbalance generally diminishes in long-term relationships, as it is of not much consequence, when trust develops between partners (Khoja et al., 2011). Nevertheless, power is always present in business exchange situations. Friction and power play can coexist with relationship development between business partners (Hingley, 2005).

Ramsay (1996) argues that buyers with a power advantage over their suppliers are able to resist a large proportion of the cost-increases they experience, and to impose larger price reductions on their suppliers. Equivalently, suppliers with a power advantage over their customers are able to pass on a lot of the cost-increases experienced to the next level in the distribution channel, and resist price reductions initiated by their customers. He also argues that the ratio between cost-increase resisted by buyers and cost passed on by suppliers is a measure of the power balance between the two. The same goes for the ratio between the proportion of price reduction imposed by buyers and resisted by suppliers. This is represented visually in Figure 16. Perfect competition would result in the supplier passing on any on-cost, with no resistance on the part of the buyer (point (1,0)). Total cooperation would result in a distribution lying on the line between (0,0) and (0.5,0.5). All other points between (1,0) and (0,1) indicate power imbalances in the supplier buyer dyad. This means that an asymmetric distribution of costs in the supply chain indicates the presence and application of power, while a symmetric distribution indicates absence of power or power balance.
3.2.2.4 Consumer power and the internet
Based on their findings, Kucuk & Krishnamurty (2007) argue that the presence of consumers in the digital market requires a different approach to configuration of the marketing mix. At first, the customer should be more actively involved in the product development process, and companies should focus on long-lasting relationships with customers. Second, consumers require more transparency in pricing than with traditional business, as they are getting used to comparing and finding the best deal. Third, the shopping environment shifted from stores to at home. Finally, consumers have more control over which information channels they consult prior to purchase, and therefore can obtain a more objective view of the product. For example blogs and user communities compete with corporate websites. Information availability is an important cause of increased consumer power and decreased firm power.

The authors also provide four important factors that companies should take into account when engaging in today’s online business environment. To start with, findability is important, which means that the product should be easy to find in the digital world, and that the company’s corporate website is representative and attractive. Second, a company’s credibility is important. False or confusing information will result in an unsatisfactory shopping experience, thereby considerably reducing the chance of a future purchase. Third, firms should assure sufficient shopping convenience, for example regarding payment options.

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14 Figure reproduced from "Power measurement" by J. Ramsay, 1996, European Journal of Purchasing & Supply Management, 2, p. 140. Copyright 1996 by Elsevier Science Ltd.
and delivery. If the customer experiences one of those aspects as uncomfortable, he is more likely to switch to another supplier. Fourth, considerable attention should be given to consumers in the post-purchase stage. It benefits a firm’s reputation and prevents negative feedback spreading among consumers when customer experience is used in the product development process.

3.2.2.5 Power and relationship management
Krapfel et al. (1991) define six relationship management modes for sellers, whereby the appropriate relationship management mode depends on the level of power balance and interest commonality between firms. A matrix showing the appropriate management mode based on the combination of power balance and interest commonality can be found in Figure 17. The main distinction between the different relationship management modes is the amount of information sharing, together with accuracy, timeliness and relevance of information. The six relationship management modes are:

• Collaboration, a very cooperative relationship mode with a high amount of open, trusting, communication and information sharing, applicable when the risk of opportunism is low;
• Negotiation, a relationship characterized by formal and selective sharing of insensitive information;
• Administration, where the seller is like to engage in directive communication, whereby the information flow is generally in one direction, functional and timely, but not automatically very open;
• Domination, which is similar to administration, but supported by threats instead of promises. The more powerful party extracts information from the other party and sensitive information is not shared;
• Accommodation, where useful, non-sensitive information will be voluntarily shared to foster the relationship, until the point it increases vulnerability;
• Submission, which differs from accommodation in the sense that appearing cooperative is not a main interest of the seller. There is little voluntary information sharing, and information requests are honored marginally and with delays.
3.2.3 Market segmentation

Three sub-topics can be identified that together form the area of market segmentation. These are consumer segmentation, demand-side B2B segmentation and supply-side B2B segmentation (Rezaei & Ortt, 2013). The focus in this section is on consumer segmentation, which is aimed at identifying groups of end consumers with similar characteristics. According to Dickson & Ginter (1987), a consumer’s demand function is that person’s preference for certain product characteristics. They state that a market can be considered segmented when heterogeneity exists in consumers’ demand functions, such that market demand can be disaggregated into segments with different demand functions. The concept of heterogeneity of markets is a fundamental premise for justifying segmentation (Wind, 1978; Greenberg & Schwartz McDonald, 1989). However, there are some markets where there are no significant differences between customer segments such that segmentation would be worthwhile (Wind, 1978). The process of market segmentation is the identification of market segments, so that they can be addressed separately for marketing purposes. Thereafter, companies can choose to follow a segment-based product differentiation strategy tailored on one of those segments, which means that either physical or nonphysical product characteristics are altered to match consumer needs (Dickson & Ginter, 1987).

3.2.3.1 Segmentation objectives

According to Beane & Ennis (1987), there are two reasons to segment markets. The first motive is to identify new product opportunities or to find areas that might be receptive to repositioning of the product. Second, the outcomes of segmentation can be used to gain a better understanding of the customers, in order to improve advertising messages. In other words, segmentation is about tailoring product and service offerings to customer groups most likely to

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purchase them (Yankelovich & Meer, 2006). The rationale for segmentation is that, in a heterogeneous market, treating certain customer types different is more profitable than treating them all the same (Bock & Uncles, 2002; Wind, 1978). In addition, not all customers or customer types contribute equally to a firm’s profit, and segmentation can function as a tool to identify the customers that deserve tailored offerings (Lambert, 2009). Segmentation should identify the group or groups worth most pursuing (Yankelovich & Meer, 2006).

3.2.3.2 Requirements for segmentation bases

Beane & Ennis (1987) recognize that, for a segmentation to provide useful information, the segments should be measurable, accessible and substantial, as argued by Kotler (1980). This means that their size, location and content should be easy to evaluate, that the segments should be accessible through some kind of marketing instrument, and that the segments should be of substantial size to deserve attention. Traditional demographic information such as age, gender and education level, are not adequate to serve as a basis for marketing strategy. In contrast, values, tastes and preferences are more likely to influence consumers’ purchases. When looking past traditional demographics and focusing on values tastes and preferences, segmentations become more appropriate in identifying the groups most worth pursuing. In that case, segmentation can assist not only advertising decisions, but also for example product innovation, pricing and distribution channel decisions (Yankelovich & Meer, 2006).

Yankelovich & Meer (2006) state that the segmentation variables selected should depend on the type of questions to be answered. In other words, which kind of segmentation is appropriate, depends on its purpose. Every segmentation exercise should be performed with a specific goal in mind. In addition, using one single segmentation base for all decisions may lead to mistakes and a waste of resources (Wind, 1978). Segmentations are not a one-time exercise, as consumer needs, attitudes and behavior and market conditions are dynamic (Yankelovich & Meer, 2006). Over time, consumers can move into another segment (Wind, 1978). As soon as a segmentation loses its relevance, it should be abandoned or updated. In addition, a segmentation is valid when groups are identified that are significant for a company’s financial performance. To increase revenues, companies should find out why their best customers are more profitable than others. This information can then be used to find new customers that at least partly match the profile (Yankelovich & Meer, 2006).

In their article, Yankelovich & Meer (2006) also argue that for decisions with greater impact, heavier decisions with larger consequences, consumers’ motives, concerns and even psyches have to be investigated much deeper. To illustrate this idea, the gravity of decision concept is used. Hereby the position of a decision on the gravity of decision spectrum determines what types of segmentation variables are appropriate. For smaller expenses, for example, customer characteristics like price sensitivity, habits and impulsiveness of the target customer are relevant. In contrast, for more durable and expensive goods, quality, design, complexity and status are more appropriate. The most important decisions relate to for example healthcare. When making decisions on such
topics, people's core values are most important, because their emotional investment is large in such cases. Those core values commonly conflict with market values.

Greenberg & Schwartz McDonald (1989) formulate three requirements for the dimensions on which segmentation is based. At first, the dimensions should correlate with market behavior, which means that they adequately distinguish between customer groups with differing needs. Second, the segmentation dimensions should be able to directly result in product manipulation and development of promotion strategies. Third, the segmentation should provide guidance for media buying, which means that a certain promotion instrument should be available to address the segments identified.

### 3.2.3.3 Classifications of segmentation variables

Bock & Uncles (2002) identify two different types of segmentation variables. These are supply side and demand side variables. Supply side variables directly or indirectly influence consumer demand. In other words, they determine how attractive the firm and its products are to customers. Demand side variables relate to how attractive customers are to the firm. In their taxonomy, Bock & Uncles (2002) identify three supply-side dimensions on which consumers may differ. These are:

- Preferences for product benefits, the characteristics consumers value in a company's products;
- Consumer interaction effects, when one's purchase decision is determined by interactions with other people (e.g. a celebrity or a friend);
- Choice barriers, barriers causing consumers to make decisions that do not maximize their material utility, for example lack of brand awareness or switching costs.

Two demand-side dimensions on which customers may differ are identified:

- Bargaining power, the extent to which the buying party in a transaction can negotiate lower prices for the same product than another buyer;
- Profitability, the level of profit a consumer delivers or can potentially deliver to a company.

Beane & Ennis (1987) identify five bases on which the market can be segmented, largely based on Kotler (1980). These are:

- Geographic, based on the region, population density or climate people live in;
- Demographic, based on variables such as age, gender, income, educational level, etc.;
- Psychographic, focusing on people's lifestyle, personality, values and beliefs. This type of segmentation is described as being superior to demographic segmentation, as the information in psychographic is richer than pure demographic information;
- Behavioristic, segmentation based on knowledge of the product, attitude and response to the product. Behavioristic segmentation is split up in criteria such as purchase occasion, benefits sought from a product, user status (new, existing, potential, etc.), usage rate, degree of brand loyalty, buyer purchase readiness and responsiveness to marketing factors;
• Image, the relationship between the customer's self-image and the image of the product. This segmentation base can be considered a combination of psychographic and behavioristic segmentation.

Greenberg & Schwartz McDonald (1989) identify four segmentation bases. These are:

• Personal characteristics, which are fairly accessible, such as socioeconomic or demographic attributes and product usage information;
• Psychographic segmentation, based on personality traits, values or lifestyles;
• Behavior segmentation, concentrating on the occasions when customers buy the product, and the corresponding quantities;
• Needs/benefits segmentation, which focuses on motivations, perceptions, requirements and barriers related to a purchase.

When the different viewpoints are compared, certain similarities and differences can be observed between articles. It can be noted that the supply-side segmentation dimensions by Bock & Uncles (2002) are covered by the categories formulated by Beane & Ennis (1987). The dimensions “preferences for product benefits” and “choice barriers” are covered by the “behavioristic” segmentation category, while “customer interaction effects” are similar to the “image” category of the same authors. In addition, Wind (1978) also recognizes consumer interaction effects in purchase and consumption behavior. The dimensions formulated by Beane & Ennis (1987) are also recognized by Greenberg & Schwartz McDonald (1989), except for the “image” dimension, related to the social aspects of a product.

Though segmentation categories such as “geographic” and “demographic” trouble the view, all variables defined by Beane & Ennis (1987) and Greenberg & Schwartz McDonald are targeted at understanding the utility consumers want to experience from the product and how a company can provide this. This is in accordance with Yankelovich & Meer (2006), who state that segmentation is about identifying needs, attitudes and behavior of consumers instead of consumers’ identities. Geographic segmentation for example, is based on the assumption that for some purposes a consumer’s location is an appropriate indicator of desired product and service aspects. The main criticism on segmentation based on personal characteristics is that it doesn’t reveal the customers’ actual needs and motivations for buying a specific product (Greenberg & Schwartz McDonald, 1989). In that sense, psychographic segmentation is argued to be an advance beyond demographics. Nonetheless, the relevance to any particular product category is often said to be weak. Greenberg & Schwartz McDonald (1989) consider needs/benefits segmentation a superior method, which is applicable in almost every case. This segmentation dimension is comparable to the behavioristic segmentation category as formulated by Beane & Ennis (1987).

Yankelovich & Meer (2006) also acknowledge the importance of evaluating the profit potential certain consumer segments have, as do Bock & Uncles (2002) with their demand-side dimensions “consumer bargaining power” and “profitability”. However, Beane & Ennis (1987) have no attention for demand-
side variables. In addition, Webb (2002) suggests that companies facing choices regarding a traditional channel and a lower-cost internet channel should segment their customers based on their needs and willingness to pay. The outcomes can then assist in evaluating which channel is most appropriate for each segment. This view compares to Bock & Uncles (2002) and Yankelovich & Meer (2006) in the sense that both customers’ needs and their potential to the company are taken into account. Doyle & Saunders (1985) acknowledge that the attractiveness of segments identified should be evaluated.

3.2.3.4 The segmentation process
The choice for segmentation variables should be dependent on the reason with which the segmentation is carried out (Yankelovich & Meer, 2006; Wind, 1978). Therefore when customer segmentation is used as an instrument to help make decisions regarding a company’s distribution network, the logistics requirements associated with a specific type of consumer are relevant. For this reason, customers’ requirements regarding response time, product variety, product availability, customer experience, order visibility, returnability and the behavioristic variables purchase occasion and degree of use might influence a customer’s channel preference (Chopra, 2003). The potential profitability of different types of customers and their willingness to pay are relevant aspects from the company’s perspective.

Wind (1978) identifies two segmentation prototypes. These are a priori segmentation and clustering-based segmentation. With a priori segmentation, management decides on a basis for segmentation in advance. The result of such segmentation is an estimated size of the predefined segments, and for example their demographic, socioeconomic and psychographic characteristics. Clustering-based segmentation only differs from a priori segmentation in the way the segmentation basis is selected. A set of potentially relevant variables is selected beforehand, and the final segmentation is made based on the similarities between customers on the variables chosen. When using a segmentation procedure to assist in decision-making regarding the design of a company’s distribution network, an a priori method is appropriate, as the relevant dimensions on which consumer preferences may differ are known beforehand.

3.2.3.5 The role of marketing
Along with giving attention to the topic of market segmentation, one should evaluate the role of marketing in the company in general, as market segmentation is only one of the marketing functions. Traditionally, the goal of a company’s marketing department has been to have the right product, in the right place, at the right time. To this end, it is their task to find out what customers perceive as valuable, by obtaining market and customer information. Thereafter, it should be found out how the needs and value perception differ across various customer groups, by performing consumer segmentation. Based on that, tailored product and service offers should be made to the promising market segments (Jüttner, Christopher & Baker, 2007).
Supply chain management, in contrast, focuses on efficiently providing the required amount of service to the customer. In other words, it is concerned with adequately matching supply with demand. However, supply chain management alone doesn’t provide insight in what customers value and what value propositions can be made to meet customer needs most efficiently. Having products available at the right place and time are as much supply chain management issues as they are marketing issues. Therefore cooperation between those business functions can yield significant synergies (Jüttner, Christopher & Baker, 2007). Successful supply chain management requires integration across different company functions, whereby a key role has to be played by marketing (Lambert & Cooper, 2000). The marketing department should be the connecting element between consumers and the company, thereby allowing for integration of demand and supply processes.

To achieve superior business performance, a company should offer consumers a combination of product and service they perceive as superior (Jüttner, Christopher & Baker, 2007). However, what customers perceive as valuable varies across customers, and customers’ value perceptions are variable over time (Parasuraman, 1997, as cited in Jüttner, Christopher & Baker, 2007). Market orientation, in other words gathering, disseminating and responding to market information, contributes to a firm’s business performance, as it assists companies in profitably achieving customer satisfaction (Min & Mentzer, 2000). A proper understanding of demand is necessary to facilitate supply chain coordination (Jüttner, Christopher & Baker, 2007). According to Jüttner, Christopher & Baker (2007, p. 389), the marketing department “should provide timely information on: defined customer segments; new customer/product opportunities; planned pro-motions; feedback on over/under service delivery and, furthermore, seek information on: lead times, capacity and pipeline costs”, among other tasks.

A barrier to cooperation between marketing and supply chain management is that they generally use conflicting key performance indicators to evaluate their performance (Jüttner, Christopher & Baker, 2007). The whole company should jointly strive to serve consumers’ needs. This is not solely the task of the marketing department (Lambert & Cooper, 2000). However, when the whole company assists in marketing activities, the marketing function should play a central role in coordinating the cooperation between the different departments (Min & Mentzer, 2000). To be able to gather market information, companies should maintain close relationships with the customers and with actors in the distribution network (Min & Mentzer, 2000).
4. Scenarios for the distribution network

When considering Koni’s distribution channel in the automotive aftermarket, several levels can be distinguished. The higher an intermediary is in the distribution channel, the larger its scale and its level of aggregation are. From high to low level the entities in the distribution channel are the manufacturer, distributors, wholesalers, garages or retailers (dealers of the products) and end users. The distributors serve a specific geographic area. For example, EFKA Import fulfills the distributor role in The Netherlands, while Koni’s subsidiary Koni France fulfills the distributor role on the French market. In some countries, more than one distributor is active. Traditionally, Koni delivers to its distributors. The distributors in turn deliver to Koni dealers, such as car garages. This happens either directly, or indirectly via wholesalers. The dealers then sell products to consumers, often in combination with mounting services. A visual representation of the traditional distribution channel can be found in Figure 18. However, nowadays distribution not always follows this traditional path. Shortcuts and disintermediation can reduce the length of the distribution channel and thereby lower distribution costs, often facilitated by the possibilities provided by the internet. The possible shortcuts in the distribution channel are also shown in Figure 18, with dashed lines. Some of these shortcuts occur on both the Dutch and the French market. For example, Koni France also sells products directly to online retailers, such as Oscaro and LD Motors, thereby bypassing garages that traditionally functioned as the only retail outlets. EFKA Import, aside their distribution activities, operates a sales channel itself, in the form of a webshop. Additional possibilities for Koni would be to directly address end users through for example a webshop, to sell directly to garages, or to sell directly to wholesalers. However, these alternatives are not currently in place, so they cannot be investigated empirically.

![Figure 18 Traditional distribution network and possible shortcuts](image)

For both The Netherlands and France, three different sales scenarios can be identified, that are interesting for further investigation. These are explained in
the following paragraphs, and will be evaluated in the next chapters. It should be noted that in both countries some comparable channels are in place. Nevertheless, it is still interesting to investigate both cases and compare them, because investigating multiple cases allows for better understanding of the subject, and because cultural differences might also have an effect on the situation.

4.1 Scenarios on the Dutch market
On the Dutch market, three different distribution scenarios are in place, together serving over 1500 sales points. The total sales volume varies between 5000 and 7000 shock absorbers per year. However, the goal is to reach 15000 pieces annually. Roughly 65% of the yearly sales flows through independent sales outlets, as described in Scenario 1. Around 35% is sold via wholesalers, as described in Scenario 2. A negligible amount is sold through the distributor's own webshop, which is described in Scenario 3.

4.1.1 Scenario 1: Sales via traditional distribution network (NL)

In the first distribution scenario, there are two intermediary layers between Koni (K) and the end consumer (C). This situation is represented visually by the highlighted channel in Figure 19. The intermediary layers are the distributor (D), which in The Netherlands is EFKA Import, who in turn supplies the local dealers (G). These can be for example repair garages, parts shops or small webshops. In addition to those regular dealers there are around 50 Koni Sport Specialists, spread around the country. These generally are tire shops, car repair garages or tuning shops. The Koni Sports Specialists are never in very close geographical proximity, so they have a certain amount of exclusivity. For a sales point to become a Koni Sport Specialist, a certain level of equipment and education of the staff are required. Of the 65% of total sales flowing through this channel, around 15% of total sales is sold via webshops, which relatively are EFKA's largest volume customers. In its role as a distributor, EFKA is the link between Koni and the actors further down the distribution channel. It is their responsibility to take care of order handling and delivery to their direct customers. EFKA is also the contact point for consumers' questions about the products. Thereby they are responsible for organizing promotional activities, in which Koni assists them. By
contract, distributors are obliged to keep a reasonable amount of inventory, to assure acceptable availability levels and not miss substantial sales opportunities.

Koni has been doing business with EFKA since 2002. Before, Kühne Automotive was the sole distributor for Koni products in The Netherlands, having a strong position with regard to wholesalers in the replacement market. Adding EFKA to the channel as a second distributor was reasoned not to lead to channel conflict, as they focused on tire specialists and car tuning shops. In the meantime, Koni and Kühne discontinued their cooperation, so EFKA is now the only distributor for Koni Car products on the Dutch market\textsuperscript{16,17}. The termination of the relationship between Koni and Kühne is caused by the fact that Koni lost terrain in the car repair and replacement market, which is the business in which Kühne is active. Koni is aware of the fact that they lost connection with the replacement parts market. However, the numbers of damper sold by Kühne were much larger than the present numbers sold by EFKA.

In the situation described, the products generally are pulled through the distribution channel. Sales only happen when consumers are consciously looking for Koni products. Also, according to the distributor, there are very little Koni dealerships in The Netherlands that actively sell Koni products by influencing the consumer’s buying decision. In the other cases, Koni sales only happen when customers ask for the products at one of the dealers or Koni Sport Specialists, or when they are advised to buy Koni by their local dealer. When a consumer requests one of the products at one of the sales points, an order is placed at EFKA, as generally little inventory of parts is kept at the detailer level. Upon receiving an order, EFKA checks if the product is in stock. If this is the case the order is shipped to the customer by a package carrier, which then can mount the shock absorbers on the consumer’s vehicle. If the order is not in stock, EFKA can place an order at Koni. The flow of information and products in the channel is visualized in Figure 20, whereby the solid lines represent product flows, and the dotted lines represent information flows.

\textbf{Figure 20 Product and information flow Scenario 1 (NL)}

\textsuperscript{16} http://www.bovagkrant.nl (accessed: September 2013)
\textsuperscript{17} http://www.automotive-online.nl (accessed: September 2013)
The second distribution scenario makes use of three instead of two intermediary layers between the manufacturer and the end consumer. This is represented by the highlighted channel in Figure 21. Again, EFKA is the first tier after the manufacturer. However, in this case the distributor supplies a wholesaler (W), such as AD or Brezan. These wholesalers usually have one or more central warehouses, from where a larger number of locally oriented wholesale outlets are stocked regularly. These local outlets are the places where for example car repair shops and fast fitters buy the spare parts they need for reparations. In some cases the wholesalers arrange deliveries to their customers up to six times a day. This marketing channel allows easier sales to a larger public, because the wholesalers serve a large number of local repair shops, some of which are loyal and exclusively buy parts from one wholesaler. Therefore, being present in this channel offers the loyal buyers nothing more than the possibility to buy Koni products, which they wouldn’t do otherwise. In addition, it provides other local repair shops with the opportunity to obtain Koni products.

In this type of channel the products are generally pushed through. By having a presence in the channel the products can be noticed by potential clients, where they otherwise won’t. However, presence in the assortment of wholesalers doesn’t immediately assure higher sales volumes. This is certainly not the case for Koni, as they sell a specialty product, at a higher price than that for standard replacement parts. From a wholesaler, no other channel functions are expected than efficiently providing their customers with car parts upon request. When a consumer approaches for example a repair shop and conveys interest in a Koni product, this is made known to the wholesaler. These wholesalers usually don’t have a substantial stock of Koni products at their local franchises, nor at their central warehouses. This means that when a customer requests a Koni product, EFKA is contacted to place an order. EFKA then either delivers from its inventory or orders the product at Koni. When an order has to be placed at Koni, it is shipped directly to the wholesalers’ local shops. Figure 22 displays the product and information flows in the channel.
In addition to the two distribution channels described before, there is another channel in place in The Netherlands, with only one intermediary between Koni and its consumers, as shown in Figure 23. That is, the Dutch distributor operates a direct sales channel via the internet. Although almost the same price level is maintained for the products as in the other channels, the price margin collected by EFKA is highest in this case. However, this channel lacks the possibility for the customers to have their products mounted on their vehicle. Also, the level of service and personal advice is much lower than in the other channels. A potential customer has to be able to make its own choices, only assisted by the product configurator on EFKA’s website and optionally some phone contact. Customers should arrange installing of the products independently. This sales channel is less relevant, as only a small amount of sales goes via this way.

This kind of distribution channel can also be considered a product-pull channel. Consumers have to be consciously looking for Koni products in order to place an order. When a consumer places an order at EFKA via the webshop, the product is packaged and sent to the client with a package carrier. When products are not in stock, Koni is contacted in order to check for availability and delivery time. This information is then communicated to the client, which can change its purchase decision accordingly. Figure 24 shows the relevant product and information flows.
### 4.2 Scenarios on the French market

On the French market, three different distribution scenarios are in place as well, which together serve over 3000 sales points. The total sales volume of car shock absorbers in France is between 10000 and 20000 pieces per year. Around 15% of annual sales is realized via independent specialists, as described in Scenario 1. Roughly 25% is sold via wholesalers, as described in Scenario 2. About 60% of sales is realized via large online resellers. This channel is described in Scenario 3.

#### 4.2.1 Scenario 1: Sales via traditional distribution network (FR)

![Figure 25 Distribution Scenario 1 (FR)](image)

In the first French distribution scenario, there also are two intermediary layers between Koni (K) and the end consumer (C), as can be seen in Figure 25. The first intermediary layer is the distributor (D). The distributor role in the French market is fulfilled by Koni France. The second layer (G) exists of several types of independent specialist companies in the automotive sector. This can for example be tuning shops, tire shops, 4x4 specialists, oldtimer centers or repair shops specializing on a certain car brand or model. The range and relative number of company types in the second layer appears to be larger than it is in the Netherlands, possibly because Koni France has the strategy of supplying as many sales outlets as possible. In their role as the connecting element between Koni and the rest of the market, Koni France organizes order handling and transport of products to their customers, as well as providing customer support. Koni France also manages a warehouse near Paris, of which the daily operation is outsourced to SNEL, a third-party logistics services provider. This warehouse harbors stock with an average value between 380,000 and 390,000 euro. What Koni France doesn’t do is providing Koni with market information or sales forecasts that allow them to respond better to customer demand. In most countries, the distributor role is fulfilled by an independent entity, however France is an exception to this.

As in the Dutch market, to sell products customer demand is required that pulls the products through the distribution channel. Consumers should be looking for Koni products or advised to buy them by their local sales outlet, in order to result in sales. When a customer decides to buy a Koni product, the seller places an order at the customer service of Koni France, either by fax, by e-mail or by telephone. The amount of inventory further down the distribution channel is very limited, so in general after an order is received, this is communicated to the
SNEL warehouse, which makes the order ready for pick-up and shipment to the customer by a parcel delivery service. When the type of damper requested is not in stock at SNEL, it is shipped there from the factory in Oud-Beijerland with the weekly transport, after which it is forwarded to the customer's address. Upon receipt at the local specialist, the products are fitted to the end customer's vehicle. The product and information flow in the channel is represented in Figure 26. The solid lines represent product flows, and the dotted lines represent information flows. It should be noted that some of the specialists engage in online sales. However, except for the lack of installing services, these channels operate the same as their offline equivalents. They are not similar to the distribution channel actors described in paragraph 4.2.3.

![Figure 26 Product and information flow Scenario 1 (FR)](image)

**4.2.2 Scenario 2: Sales via traditional network with wholesaler (FR)**

![Figure 27 Distribution Scenario 2 (FR)](image)

The French wholesaler distribution channel is comparable to that in The Netherlands. This scenario also makes use of three intermediary layers between the manufacturer and the end consumer, as opposed to the two intermediaries in the preceding scenario. The channel is schematized as the highlighted channel in Figure 27. In France several networks of wholesalers are in place, just as in The Netherlands. Examples are Auto Distribution and Groupauto. Some of these networks perform this function Europe-wide. However, also here the advanced logistics services and capabilities of these networks are not employed to the benefit of Koni. When a consumer orders products at his local repair garage (G) or tire shop, they contact their local wholesaler (W). These local wholesalers can place piece-by-piece orders at Koni France (D), without intervention of the wholesaler’s central office, after which SNEL is again instructed to prepare and ship the goods. The wholesaler then either delivers the shipment to its customer, or the customer picks it up, after which the products can be mounted on the car of the end user (C). When products are not in stock at the SNEL warehouse, they have to be ordered at and transported from the manufacturing site in Oud-Beijerland.
Because the products’ route to the end-users doesn’t follow the common path whereby they are delivered from the wholesalers’ central warehouses, through local depots, to their local branches, Koni doesn’t benefit from the advanced logistics capabilities of the wholesalers. Therefore product sales don’t immediately increase by their availability in the channel, as lead times are generally longer than for standard replacement products. The higher price for Koni products is another inhibiting factor for sales increase. The wholesaler’s value adding channel activities are restricted to handling customer contact on a lower aggregation level than the manufacturer and distributor themselves and providing logistics services. The wholesalers don’t keep an inventory of Koni products. Figure 28 shows the relevant product and information flows.

![Figure 28 Product and information flow Scenario 2 (FR)](image)

4.2.3 Scenario 3: Sales via online retailer to consumer (FR)

![Figure 29 Distribution Scenario 3 (FR)](image)

A third channel that is in place in France consists of two intermediary layers, which are the distributor and specialized online resellers, examples of which are Oscaro and LD motors. These specialized online resellers solely focus on sales via the internet. This channel layout is represented by the highlighted channel in Figure 29. This sales channel is very important for Koni as roughly 60% of sales goes via this channel, and a limited number of players are active, of which the most important ones are Oscaro and LD Motors. There are also specialist garages, like the ones described in paragraph 4.2.1, that run a webshop in addition to their other activities, but the focus here is on specialized internet retailers selling a large amount of parts for all types of vehicle brands and types. This type of channel is generally characterized by considerably lower prices than are common in the other channels, and a focus on fast delivery. However, such type of channel doesn’t provide the opportunity for consumers to have their purchases installed on their vehicles. They have to arrange this themselves. In fact, the actual channel functions performed by the online resellers are limited. They mainly provide an online showcase for car parts, while leaving most of the
logistics and promotion activities to the manufacturers. What this type of companies generally does have is a dedicated sales force that can assist the buyer in its purchase decision or answer technical questions.

With this type of distribution arrangement, in most cases the products are pushed through the channel. Generally, customers are looking for repair parts for a specific type of car, and they look on the internet to select the product that best matches their criteria, from a large collection of parts. An important criterion for web customers is the price. Web resellers that offer a large assortment, including different alternative brands for the same type of component, can influence their customer’s purchase decision by representing certain brands more or less prominent on their website. However, as Koni shock absorbers are not standard replacement products, and their price is higher than most of their competitors’, they generally will not be chosen as repair parts. Because of this, the pull principle is again relevant, as presence in the channel will not lead to higher sales. When a consumer places an order at the reseller’s website, this is communicated to Koni France by use of an electronic interface. Koni then checks for product availability and informs the reseller. When the order is available it can be either shipped to the end consumer or be picked up by the reseller from the SNEL warehouse, after which they arrange transport to the consumer themselves. When products are not available at SNEL, and therefore will not be deliverable to the end consumer within 48 hours, the reseller can decide to not sell the products to their customers and remove the reference from its website. A trend has been spotted in France that these online resellers with a large assortment of products are not only used by consumers, but also by for example repair garages, thereby effectively fulfilling the role of and replacing wholesalers. The product and information flows in this channel are shown in Figure 30.

![Figure 30 Product and information flow Scenario 3 (FR)](image)

4.3 Comparison of the alternatives

When comparing the distribution channels described regarding the distribution arrangements in place and the types of actors in the channels, it can be observed that they show strong similarity. In both countries the distributor directly supplies to for example specialist repair garages, 4x4 specialists and tuning shops. However, it should be noted that the French network of specialists is better developed than the Dutch network of Koni Sport Specialists, which is largely existing of regular repair garages and tire shops. The distributors also supply the wholesale channel in the same way in both countries, whereby they supply the wholesalers’ local stores, instead of their centralized warehouses, thereby not leveraging the wholesalers’ advanced logistics capabilities.

Despite the similarities shown by two of the three distribution channels in both countries (as described in paragraphs 4.1.1, 4.1.2, 4.2.1 and 4.2.2), the
distribution networks developed considerably different regarding sales via the internet. EFKA sells a moderate amount of shock absorbers through their webshop in The Netherlands, at prices equal to the ones in the other channels. In addition, there are some small independent webshops selling Koni products. There is a considerable amount of large dedicated webshops in The Netherlands that sell a wide assortment of car parts for all types of vehicle brands and types, but Koni is available in a very limited number of those. In contrast to this, a number of independent online car parts resellers, focusing on delivering the parts quickly and at very low prices, prove to be major customers for Koni France. It is even the case that Koni products are available on the well-known French car parts webshop Mister Auto (mister-auto.com), while they are not on its Dutch counterpart (mister-auto.nl). A possible explanation for this difference is that the prices in the different channels vary very little across the different Dutch channels. Most customers do not have the possibility to mount shock absorbers themselves and therefore are likely to have them installed at the nearest Koni sales point. In France however, the internet channel generally is over 30% cheaper than the other channels. There, these large online resellers fulfill a role similar to that of a wholesaler. In this case customers can have their products installed at a local independent repair shop and still spend less overall.

Another difference between the Dutch and the French distribution network is that in The Netherlands EFKA is keeping some inventory itself, independently, while Koni France outsourced all warehousing and logistics activities to a third-party service provider. Both distributors outsource transportation to package delivery service companies.

4.4 Validation
The validity of the findings regarding the layout of the distribution channels, the comparison of the different channels per country, and the similarities and differences between the distribution networks in The Netherlands and in France has been assured in two ways. At first, information and perspectives on this subject were sourced from actors on all relevant levels in the network, thereby allowing for comparison. Also, multiple employees of Koni, active on different positions within the company, were asked if they agreed with the resulting findings and the comparisons between the channels and between both countries under review. The correctness of the findings was confirmed.
5. Evaluation of distribution network scenarios

5.1 Results from the Dutch market

5.1.1 Results of the analysis of Scenario 1 (NL)

5.1.1.1 Logistics performance

In this distribution scenario, the response time can vary significantly. When one of the sales outlets orders a product at EFKA that is in stock, delivery generally takes around one day. However, when this is not the case, the response time is significantly longer. When the products are in stock at Koni’s production site in Oud-Beijerland, the requested items can be added to the weekly transport from the factory to the distributor. This transport, usually containing between 50 and 100 dampers, is sent out weekly on a Wednesday and arrives at EFKA the next day. EFKA then often manages to repack and forward the products the same day, again with a delivery time of a day. Consequently, in this case delivery time varies between two and nine days. However, when the products are not in stock and have to be produced upon order, delivery times up to three months are reported.

The distribution channel has several possible locations to keep inventory. These are at the manufacturer, at the distributor, and at the retail sales points. At present, hardly any parts inventory is kept at the retailer level. In fact, in this type of distribution arrangement it is the responsibility of the distributor to keep a reasonable amount of inventory as to not miss a considerable amount of sales possibilities, as is included in the contract. However, the level of inventory kept by EFKA is relatively low. At present, EFKA claims to keep inventories with a value between 35,000 and 40,000 euro. In contrast, Koni Oud-Beijerland keeps inventory with an average value between 3,4 and 3,5 million euros to serve all their customers worldwide. Koni repeatedly made known to EFKA that they expect them to maintain higher inventory levels for the fast moving products, but this is refused. The distributor claims that it is not a feasible way of doing business for him to increase stock, and argues there is no need to keep inventory as it is situated close to Koni. Therefore only small inventories are kept of a limited number of the fast movers. This situation results in low availability levels in the Dutch market. Low availability in the aftermarket immediately influences sales numbers, as aftermarket clients are likely to look for an alternative when response times are long.

To determine Koni’s inventory, several information sources are applied. Senior management determines the required level of availability. Also, regular Sales and Operations Planning (S&OP) meetings are scheduled, whereby for example intended sales promotion activities for the coming period are shared, after which their impact on demand is estimated. Furthermore, historical order information is used to determine a monthly sales forecast. Koni uses the software solution AS400 to assist in this process. The software application contains order and sales information from an extensive time period. The Supply Chain Manager then manually can set a number of variables, such as on how many months the demand prediction and inventory advice should be based. Due to the enormous
amount of products the company sells this is a very time-consuming activity. The user can also correct for abnormalities in demand. Based on the historical information, and on the additional information provided, AS400 generates an advice on when to replenish the inventory and how many products, as to maintain the required service level. When clients order a very large amount of one type of shock absorbers at once, Koni tries to deliver these in multiple shipments, to be able to maintain acceptable availability levels for other clients. When one customer orders a significant amount of one type of shocks per year, it is more feasible to not treat these orders as aftermarket orders for which inventory needs to be present, but to have them order these quantities a couple of weeks in advance and consider them customer-built orders. It is the goal to have a limited number of fast-movers in stock at Oud-Beijerland. Fast-movers should be kept at the distributors locations. According to planning, within a year Koni Oud-Beijerland will switch from using AS400 to using SAP. Switching to SAP will mean that all Koni entities, such as their subsidiaries in China, Czech Republic and the U.S. will use the same system, which is currently not the case. While the old program is claimed to contain a rich collection of information, which makes the system very adequate, this switch is likely to allow for better integration between these parties. Koni’s sales forecasts are made once per month, but inventory is monitored on a continuous basis, whereby suggested replenishment quantities are variable.

5.1.1.2 Supply chain relationships
In this type of distribution channel, the relations in the supply chain appear to be very distant. The relations in the channel can be considered arm’s-length, both between Koni and EFKA, and between EFKA and their sales outlets. This is even the case with the sales points that are official Koni Sport Specialists.

In the relationship between Koni and EFKA, there is little sense of working towards a joint goal. Both parties operate in their own interest, without attention for the other’s business. Only simple transactions of goods for money occur, without risk-taking. While EFKA is the sole distributor for Koni Car products in The Netherlands, they are still said to not act proactively in handling warranty claims. Furthermore, symmetry and compatibility between the two companies is limited. Koni is a large, internationally operating manufacturer, which has been lacking behind for some time. However, they acknowledge the need to and are willing to change and adapt to modern times. However, it seems as if EFKA is not willing to invest effort in expanding its business, and is content with its current situation. Also, communications between the parties are limited. A sales representative of Koni visits EFKA once or twice a year, and formal phone contact is limited to at most five times a year. Operational communication, regarding orders and deliveries, happen multiple times a week, but this is handled by the customer service department and doesn’t improve the relationship. The coordination of activities or making joint plans doesn’t occur. In the past there was a promotion program whereby distributors could reclaim a large amount of their promotional expenses, but this was abandoned years ago. Last year, Koni provided materials to furnish a stand at a car-tuning meeting for the distributor and some promotional goodies, but there the promotional
assistance stopped. Also, sales forecasts are not provided by EFKA, as to allow for production planning. Their function in the channel is limited to handling the contact between Koni and customers one tier downstream in the channel, and some advertisement in magazines and via Google. Although the relationship is friendly on a personal level, both parties are disappointed in each other's performance. Koni would like EFKA to keep more inventory, as it receives a profit margin to fulfill this function. On the other hand, EFKA thinks Koni should restructure its production processes to be more flexible and more agile. Thereby, EFKA feels that their orders are of less importance to Koni than the orders for their Bus, Truck and Trailer and Railway departments, and thinks those orders receive higher priority for production. Between both companies, a very formal contract of about twenty pages is in place, which is characteristic for the circumstances under which they interact. Koni is fully aware of the situation, but the scarce time the sales department has is aimed at developing markets such as Eastern Europe, as this is a promising growth market. The number of used western cars is increasing, and together with the rough roads this is a promising market for Koni. This has its influence on the attention received by the Dutch market. EFKA in turn, despite repeatedly stressing its dissatisfaction with Koni’s manufacturing and delivery competence, seems quite content with the present situation, as no efforts are done from their side to improve the situation.

The relationship between the distributor and the sales points are also at arm's length. EFKA claims to be happy with everyone that is willing to sell the products, and has no wishes or requirements regarding these outlets’ sales efforts whatsoever. The distributor claims to actively be acquiring new sales outlets. Remarkably, the sales points visited indicated that the contact with the distributor was very limited. Contact is reported to be more than a year ago in some cases, and some indicate that product catalogues are not even sent out anymore. One of the respondents compares the relationship with the one he has with his tire distributor, which visits frequently and provides promotional materials regularly, and experiences contact with EFKA as somewhat disappointing. In general, the brand Koni is still appreciated by the respondents, and they would be willing to sell more of it, provided that availability and delivery times increase.

Despite the preceding, Koni and EFKA are still in a situation of mutual dependence, as EFKA earns a considerable amount of its sales revenue with Koni's products, and for Koni EFKA is the only present connection with the Dutch car aftermarket. Terminating the relationship would result in a considerable loss of revenue for both companies.

In the distribution channel as a whole, most of the influence is in favor of the sales outlets. They are the ones that can influence a customers buying decision. Thereby, alternatives are available in the market for shock absorbers off which garages can make their profits. Customers looking for performance shock absorbers can turn to Bilstein or KW instead, while customers that are simply looking for replacement shock absorbers can choose from a wide range of cheaper alternatives, such as Monroe, KYB and Sachs. Therefore it is not worth a lot of extra effort for these dealers in order to sell Koni. Some dealers like the
opportunity to offer their customers a wide range of alternatives, some have a historical enthusiasm for the brand Koni and some appreciate the exclusivity of being a Koni dealership. But in any case alternatives are present, making the business impact for them negligible in case they would have to discontinue the sale of Koni.

5.1.2 Results of the analysis of Scenario 2 (NL)

5.1.2.1 Logistics performance
In the second distribution scenario, a distinctive additional player is active in the channel, being a wholesaler. These wholesalers are an additional intermediary step between the distributor and the end customers. By operating a fine network of sales outlets and advanced logistics services, they offer their clients one-stop-shopping for a large variety of car parts. Two important wholesaler networks are the ones operated by Brezan and by Auto Distribution (AD). Brezan’s network consists of 140 sales outlets in The Netherlands and Belgium, of which half is franchise-based and half is owned. They operate a central warehouse in Ede, The Netherlands, from which seven regional depots and the local outlets are supplied. From the depots, every business customer’s address can be supplied within an hour. If a customer requires a product from the central stock, it can be delivered before the next day 08:00. Both consumers and professional customers can buy directly from Brezan in their shops. A slightly different approach is followed by AD. Their network of around 100 wholesalers in the Netherlands exists of independent entrepreneurs, which joined the AD network. The organization can assist those wholesalers with several services, such as marketing, procurement and stock management services. From their central warehouse in Oosterhout, local AD wholesalers are supplied multiple times a day. Distribution via a large wholesaler network is a common approach for the distribution of aftermarket car parts, but unfortunately both organizations don’t keep an inventory of Koni products at any of their locations. In both cases Koni products can be ordered at EFKA when requested by a client, but at present delivery times are the same as in the first scenario. This means that also in this channel the order lead time again is two to nine days when a product is in stock at EFKA, or up to three months when this is not the case. When operated in this fashion, the channel again functions as a pull channel instead of as a push channel, whereby sales are not boosted by the sole presence in the channel.

5.1.2.2 Supply chain relationships
In the second distribution channel scenario, there also are distant relationships between the actors in the channel. Although, according to EFKA, especially Brezan is willing to consider adding Koni products to its assortment, their availability and delivery times are an inhibiting factor. Therefore further integration of activities is inhibited. Also, the product assortment Koni offers might not completely fit with the requirements of the market segment targeted by large wholesaler chains. Therefore no joint planning or coordination of activities is appropriate between companies, and communication is limited to the placing of single orders. Occasional arm’s length transactions occur between EFKA and wholesalers, and between local wholesalers and their direct
customers. When Koni would be able to craft an arrangement with a large wholesaler organization, whereby the wholesaler could increase its product assortment, and whereby Koni could increase customer service and obtain marketing advantage by use of the wholesaler's logistics capabilities, this might benefit both parties. At current, EFKA is known as a potential business partner, but a relationship didn’t form yet.

In the wholesaler distribution channel the dependency is largely in favor of the wholesaler. The wholesalers can influence to a large extent the buying decisions of their direct customers, and indirectly to some extent the choice available to the end users. In addition they have large bargaining power vis-à-vis parts manufacturers, as very large volumes of components are bought. What is detrimental for Koni is that these large organizations determine their product assortment based on demand in the market, and currently the demand for Koni products as replacement parts is low compared to that for other brands. At the same time, presence in the wholesaler channel considerably increases the number of sales outlets in which Koni products are available. Thereby the wholesalers’ logistics performance is hard to create independently.

5.1.3 Results of the analysis of Scenario 3 (NL)

5.1.3.1 Logistics performance
In the third Dutch sales scenario, the logistics performance is comparable to the first scenario. Again, the only inventory locations in this case are at the manufacturer’s site in Oud-Beijerland and at the distributor. For the order lead-time and costs it doesn’t matter if products are sent to a repair garage or to a consumer’s home address. Therefore in this case the response time is again two to nine days, when products are available at Koni or at EFKA, or else up to three months. What is remarkable about this distribution channel is that the distributor is in fact competing to take business from its own clients.

5.1.3.2 Supply chain relationships
The relationship between Koni and EFKA doesn’t vary depending on the route the products follow to the end consumer. The transactions between EFKA and their internet customers generally very limited contact takes place. The transactions are merely limited to a simple exchange of goods for money.

In the web channel the purchase decision is fully controlled by the customer. Neither Koni nor EFKA has the ability to influence an online purchase decision. The consumer is completely independent and can decide to buy a competitor’s product quite as easily. Koni’s brand name and reputation are the only distinctive elements in this kind of channel configuration.
5.2 Results from the French market

5.2.1 Results of the analysis of Scenario 1 (FR)

5.2.1.1 Logistics performance
In the French distribution network, logistics are performing quite satisfactory, although most dealers don’t keep significant amounts of inventory. When a customer places an order at Koni France, and the products are available at the SNEL warehouse, they generally are delivered to the end customer within 24 or within 48 hours, depending on the package carrier choice. When TNT is chosen as the delivery service, the order is delivered at the client’s address within 24 hours, at a price of 25 euro. When delivery is outsourced to GLS, the order is received within 48 hours after order placement, at a rate of 15 euro. In the time when there was no central warehouse in France, every order had to be shipped internationally from the factory in Oud-Beijerland, which took around 48 hours and involved considerably higher transport costs. A different situation occurs when the order is not available at the SNEL warehouse, but is in stock in The Netherlands. In that case the products can be shipped to the warehouse with the next weekly replenishment transport. In the worst case delivery time to consumers can then take eight or nine days, or 48 hours in the most beneficial case. When a product is also not available in Oud-Beijerland, delivery can take weeks, or even months.

Koni France doesn’t keep records about the availability of products in the SNEL warehouse. According to a report from Oscaro, the internet reseller with which Koni has been in business longest, they experienced availability of around 95% over the last period. The actual number might be slightly lower, as Oscaro enjoys a preferred status, and some dedicated safety stock is kept for them. The webshop Mister Auto reported that they had experienced availability of 42% in September. However, this is probably due to the fact that their catalog is not up to date, as they often order products that are no longer available. Koni can produce a wide range of shock absorbers for a large number of vehicle types, but most of the internet retailers decide to adjust the product assortment offered on their website according to the actual inventory at SNEL. The availability of fast movers usually is higher that that for other products.

To be able to meet demand efficiently, a certain number of references is kept in stock at the SNEL warehouse near Paris. However, at the moment there is not a well-elaborated procedure with which inventory levels are determined. For example, when the warehouse was opened, it was stocked with an amount of 4500 products. This amount was increased with 6000 items, based on a sales forecast Oscaro provided with regard to a sales promotion they planned. The actual number sold during this action was only about 2000 pieces. Koni France argued that at first only fast-movers were kept, but that now also some slow movers are stocked, when this is requested by one of the larger customers. Then again, measurable criteria for making inventory decisions seem not to be in place.
In its function as a distributor, Koni France’s marketing and sales promotion activities are limited. In the car aftermarket channels, marketing activity is generally limited to simple price reductions. Koni France experiences it as a large problem that no brand promotion programs are undertaken to gain more recognition in the market. It is said that it is vital to do so, but Koni France is claimed not to have the budget and personnel capacity to engage in extensive promotion themselves.

5.2.1.2 Supply chain relationships
The relationships with the specialists in the French market can generally be considered distant and arm’s length. Upon consumer request, the specialists order products at Koni France, without having a considerable level of integration between the two. Physical visits at the specialist’s offices happen rarely, and most of the communication with the specialists is operational, about the placement and shipping of orders. Although contact is limited, most of the specialists are content with their current relationship with Koni, and don’t see a reason to change the situation. With a lot of the specialists, Koni France has been in business for years or even decades, due to which a relationship of trust evolved. Some of the dealers are committed to selling Koni, either because of their joint history or because of the brand name. Some dealers just like to have the opportunity to sell Koni, because it allows them to offer an large and specialized product assortment. Especially 4x4 specialists are highly committed to Koni, as the Raid product group is said to be the best in its class. Those clients also seem to be more likely to keep inventory than regular ones. With exception of the 4x4 specialists, the Koni dealers are not dependent on Koni products for continuity of their business, as alternatives are available. Koni in its turn is not dependent on the relationship with each specific one of their sales outlets, but they need a certain amount of them to stay in business.

5.2.2 Results of the analysis of Scenario 2 (FR)

5.2.2.1 Logistics performance
There are considerable commonalities between the specialist channel and the wholesale channel. The logistics performance, such as response time and availability are the same, as the distributor itself has the largest influence on this aspect, and the sales points themselves don’t keep inventory. As orders in this channel are also directly shipped from the SNEL warehouse to the local branches of the wholesalers, delivery times are again 24 or 48 hours, depending on the choice of package carrier. The main difference between the specialist channel and the wholesale channel is the customer base, regular customers and repair shops versus car enthusiasts, and the level of specialist knowledge available. Therefore the customer experience can differ between the channels.

5.2.2.2 Supply chain relationships
In the wholesale channel, as well as in the specialist channel, the relationships are on an arm’s length basis. A formal buyer seller relationship is in place, with no significant integration of planning or activities. However, most actors in this
channel indicate to be interested in a better contact between them and the distributor. At present, none of the sales points in the wholesale channel are committed to selling Koni, nor are they doing this on a regular basis. Some of them are willing and interested to do so, but contact is so limited that this is hardly possible. A Koni sales person visits once every couple of years or even less in this channel, and some of the wholesalers don’t receive any updates. A couple of the respondents indicated to be interested in more frequent contact, for example in the form of newsletters, and they also conveyed interest in in-shop promotion materials. Dependence between Koni France and the wholesalers is evenly distributed. Both parties don’t need each other to assure continuity of their business. However, selling Koni is an opportunity for wholesalers to extend their product line into the high-end segment, and wholesalers can provide Koni with a connection to the mass consumer market. This is not immediately guaranteed to result in increased sales, but it increases visibility of the brand.

5.2.3 Results of the analysis of Scenario 3 (FR)

5.2.3.1 Logistics performance
In the French online retailer distribution channel, logistics are also performing quite satisfactory, despite the fact that the internet resellers don’t keep inventory themselves. After an order is placed, delivery time is again 24 or within 48 hours, depending on the choice of parcel delivery service. Many webshops have the goal to deliver products to their clients very fast, preferably within 24 hours, and this is attainable in the present situation. As in the previous cases, delivery times can increase considerably when products are not available at the SNEL warehouse, and have to be shipped from The Netherlands. Most online resellers choose to not sell products that cannot reach the customers within 24 hours. When a product is also not available in Oud-Beijerland, delivery can take weeks, or even months.

As mentioned before, Koni France’s marketing and sales promotion activities are limited, as their marketing activity is generally limited to simple price reductions. However, between the distributor and Oscaro there is a limited amount of communication regarding promotional actions, even though this is completely one-directional with the others.

5.2.3.2 Supply chain relationships
Of the three distribution channels in place in the French market, the relationships are least distant with the online resellers. One of them, Oscaro, with a sales quantity of around 3500 dampers each year is responsible for a considerable amount of Koni France’s sales. Therefore they receive more priority than other customers. Between Koni France and Oscaro, contact is quite frequent via e-mail or telephone, though physical visits are less common. In addition, Oscaro mentioned to be happy the distributor has the same mother language, as this saves time in communication. LD Motors, which also is responsible for a lot of Koni sales, around 1500 pieces per year, is less content. An example was mentioned that there was a 4x4 promotion for both LD and Oscaro, whereby Oscaro was asked to command a price slightly higher on their website. They
simply refused this, and therefore LD Motors felt left alone, while a large amount of their business depends on Koni products. This kind of situation is inhibiting for their trust in Koni. It was also mentioned that Koni’s sales representative repeatedly didn’t answer or return phone calls. Despite this LD Motors values having a relationship very highly, as they sell only Koni shock absorbers and one other manufacturer’s dynamos. In contrast to this, Oscaro hardly attaches any value to selling the Koni brand. They simply like to be able to offer their customers a large assortment, but the specific affiliation with Koni is negligible. The same is true for Mister Auto. Aside from Oscaro, all parties interviewed mentioned that contact is limited. Aluform Products, a smaller online reseller of car parts, even mentioned that they didn’t even receive the product catalog for 2013, and that they felt that some of Koni France’s customers get a preferential treatment. Virtually all intermediaries, in all distribution channels, indicated that Koni’s promotional activities are a huge shortcoming. The opening of the SNEL warehouse can be considered a relationship-specific investment towards Oscaro, though it is now used to serve the whole French market. When evaluating relationships in this type of channel, it can be concluded that none of the relationships has a considerable amount of operational integration. Most of the relationships are rather distant. The only reason to do business with these resellers is because of the sales this generates.

Although the relationships in the channel are distant, they are useful to both parties, as they both profit from Koni sales. In the relationship with LD Motors, the dependence is distributed evenly, as they are dependent for a considerable amount on Koni sales for their existence. In the relationship with Oscaro and with Mister Auto this balance is to the disadvantage of Koni. The large amount of visitors on those websites makes them interesting business partners. This is especially the case for Oscaro, as they are a very well known address for car parts in France. This is an important source of power for them. This situation allows Oscaro to be very demanding regarding availability and delivery time of products, while not having to make any effort to improve the logistics issues themselves. In addition, gaining market information is easy for online resellers, and they can influence their consumers’ brand choice by influencing products’ visibility on the website, or by special offers.

5.3 Comparison of the alternatives
When comparing the performance of the distribution networks in The Netherlands and in France, a lot of similarities can be noticed. However, one very important difference can be identified, which is the fulfillment of the inventory keeping function by the distributors, and thereby the availability of products. In turn, the availability of products directly influences order lead-time. At present, although not in a structured way, Koni France keeps a considerable inventory of fast-movers in France. Until earlier this year, their inventory was situated at the warehouse in Oud-Beijerland, but to be able to fulfill customer demand quicker a warehouse was opened that is dedicated to the French market, operated by third-party logistics provider SNEL. As a result of this, delivery time to the end consumer decreased from within 48 hours to less than 24 hours. In contrast, the Dutch distributor keeps a restricted amount of inventory, even of fast movers.
This results in delivery times that can be up to several months in a lot of cases. Consequently, where the French channel intermediaries generally are content about the delivery times they experience, most actors in the Dutch distribution network are not. What should be noted is that there is no well-developed procedure for determining inventory levels in the SNEL warehouse. SNEL only manages the operational activities in the warehouse, but Koni France is responsible for timely inventory replenishment. Developing this capability has the potential to further increase distribution channel performance and thereby decrease lost sales.

It appears that EFKA is merely fulfilling the role of an agent instead of a distributor, as the important channel function of keeping inventory is not fulfilled to a sufficient extent. Thereby, they don’t seem to be willing to change this situation, while collecting the same product margin as full-service intermediaries, as EFKA buys products from Koni at the net. export price just like any other distributor. Another remarkable fact is that the quantity of products EFKA sells yearly is much smaller than the numbers sold by their predecessor Kühne Automotive. While a lot changed in the automotive market and the spending pattern of young people in recent years, this might also be partially due to the narrow scope of sales points EFKA targets. They largely focus on tuning shops and tire centers, whereby not the whole market is served evenly.

Another channel function that distributors may perform is the communication of market information to the manufacturer. This can for example be in the form of market trend reports or demand forecasts. Demand forecasts allow the manufacturer to adjust the planning of the production process as to be able to fulfill the distributor's future orders more efficiently. Neither Koni France nor EFKA provides Koni with demand forecasts, or any other form of market information.

It has been noticed that both of the distributors haven’t developed an elaborated marketing strategy. EFKA declares that it pays Google money to assure it shows up in search operations related to Koni. Thereby they occasionally advertise in a car magazine or have a stand at a tuning show. However, these are not part of an integrated strategy. The same goes for Koni France. They have an extensive distribution strategy and sell products to a large amount of sales outlets. There is no type of shop that receives any specific attention. Their promotional activities generally are restricted to price reductions on specific product groups. Koni France argued that to be able to develop a sales strategy, a team of sales people is needed, instead of one or two sales representatives. Thereby, both EFKA and Koni France claim that the expenses for a marketing campaign are too large for them to carry alone. There also is the possibility that those actors are not willing, or not capable of developing and implementing a marketing strategy. As a result, there seems to be a mismatch between the product assortment, including the pricing, and the distribution strategy, both in The Netherlands and in France. As an example, Koni sells performance shock absorbers in the higher segment, at a premium price. However, the Dutch distributor claimed the wholesale channel to be the most important of the distribution channels, while the specialist channel seems to be more appropriate for such a product.
Regarding the relationships in the distribution network, it can be concluded that these are rather distant in both countries. Generally no meaningful contact exists between the distributors and their direct customers, and transactions between the two happen at arm's length. When requested by a consumer, the customers order products at the distributor, which then are shipped to them. No further integration between the parties exists, and all actors operate from their own perspective. This is in contrast with the principle of being part of a supply chain, where all actors together strive for the highest joint performance, of the supply chain as a whole. However, it is not very likely that more integrated relationships would yield considerable benefits, considering the large differences between the actors in the channels. What is noteworthy though, is that several cases were identified in which the contact between the distributor and a sales outlet was lost. This happened both on the Dutch and on the French market. In both countries some of the respondents reported to no longer have contact, nor did they receive updates or product catalogs anymore. This while they were still interested in selling the brand. In general, in the current configuration the different distribution channels in place don’t seem to complement each other. They merely target the same type of customers in a different way.

5.4 Additional observations
Apart from the distribution channel specific findings, some other observations were made during the research, concerning different aspects of the company.

A first thing that is striking is that Koni has a very weak market presence in the field of promotion. One aspect in which this is reflected is the company website. Though the website was improved considerably over the last few months, it still doesn’t guide potential buyers sufficiently in the purchase process. Nowhere on the site can the addresses of local dealers or sales points be found. The same goes for the contact information of Koni distributors worldwide. A personal experience is that for an outsider, it is quite hard to find out where Koni products can be bought. Therefore a large amount of the customer base exists of people that are consciously looking for Koni products, or accidentally walk into a Koni-selling shop. In addition the Dutch distributor has a website that is not very appealing and on which the presentation of Koni products is not representative. Koni France doesn’t have a website of its own.

Another exemplar of Koni’s weak presence is that the physical Koni dealerships cannot be identified as such. None of the sales points visited were in possession of any point-of-sales promotion materials, both at the outside and the interior of those companies. In contrast, large banners of competitors Bilstein and KW, and of several tire brands were present at these locations. Also, a large number of websites was visited of both Dutch and French Koni dealers, and although some of them are known to sell considerable volumes of Koni products, most of the time they are not recognizable as a Koni dealership. The limited recognizability of Koni sales points, and the gradual fading of brand recognition are understandable, as there is a very limited number of promotion materials available. Some of the limited promotion materials available include a coffee mug.
and a model car. These gadgets are in no way in proportion to the purchasing price of a set of shock absorbers in the first place. Thereby appropriate point-of-sales displays appear to be unavailable. Both distributors and sales points indicated a need for such materials.

What is also remarkable is that Koni doesn’t appear to have a clear view of the end consumers and their needs and requirements. No single form of market research is undertaken. There also is no contact with the end-users. They are not consulted directly, nor are they via the distributors. There is a general feeling of what the customer groups may look like, mainly expressed in demographic variables and psychographic terms. However, the company’s view on the customers is fully based on contacts with their distributors and on historical information, so no empirical proof of the validity of those views is in place. The lack of such information makes it hard to make a meaningful connection between customer characteristics and their choice for a specific product or distribution channel. Therefore focused product development or marketing is difficult.

A next point of attention is that Koni doesn't have a unified pricing policy. Most distributors buy their products from Koni at the net. export price, which is roughly 30% lower than the regular market price. However, for decades, Koni France has benefited from an intercompany discount of an additional 10%. This means that they buy products at 40% below the market price. This considerable price advantage over the other distributors allows Koni France to offer attractive purchasing tariffs and generous special reductions to their customers. This doesn’t cause problems within the French market, but some of the online resellers also deliver to customers outside their own country, which disturbs foreign markets. This results in some resistance and opposition in foreign distribution networks, as it facilitates unfair competition.

When targeting the car parts aftermarket, a couple of specifics of this market should be taken into account. At first, the market for car repair parts is largely focused on price, as indicated by many of the respondents contacted. According to the respondents their customers sometimes choose for a cheaper product, even while they know it is of lower quality. At the same time, Koni doesn’t have a lower-priced replacement product in its assortment, which is suitable for the repair market. The product line that is closest to this is the Koni STR.T line, which is in the high-level replacement or the low-level tuning category. However, this product is still considerably higher priced than its competitors. In addition, this product line is reported not to be very profitable at the moment, due to problems with procurement of parts, while it was intended to sell in high volumes and generate considerable profit. Second, when a parts manufacturer supplies car manufacturers with OEM parts, this is likely to result in a guaranteed demand for repair parts, as many vehicle owners, especially of younger vehicles, prefer original repair parts. This means that if this is not the case, the opposite is true. A third characteristic, which mainly is the case in the independent repair channel, is that not the end customer but the repair garage has a large influence on the choice for a specific brand of repair parts, as these are bought without involvement of the consumer or the repair garage can
recommend a certain brand. Fourth, aside from price, availability is important in the market for repair parts. People want to be able to continue using their vehicle as soon as possible.

5.5 Validation
To validate the findings regarding the logistics performance of the channels, the individual performance of important actors in the network and the relationships between actors in the network, the results were discussed with several employees of Koni, at different positions within the company. Because not everyone has been closely involved with the project, this sometimes required an explanation of the research in advance. They have been asked to which extent they agree with the findings. Although part of the research focused on areas of the distribution channel Koni employees don’t often come into contact with, the results in those areas were considered plausible. The validity of the results of the other parts was confirmed.
6. The market and consumers

In the market for shock absorbers, several product types can be identified. A first distinction that can be made is whether the shock absorbers are bought simply as replacements for shock absorbers that are worn or damaged, or to improve the driving characteristics of the consumer’s vehicle. When shock absorbers are bought to alter a consumer’s driving experience, this can either be to improve handling, to improve comfort, or to achieve a combination of those. In this section, Koni’s product assortment is described, as well as how it is positioned vis-à-vis its competitors. Afterwards, the factors determining a consumer’s product choice are explored, as are the aspects influencing their channel choice.

6.1 Product lines

Koni’s product assortment consists of over 3000 references, of products in several product categories. Table 1 shows an overview of the different product lines that are available for regular street use, and the categories in which they fall. Koni also produces racing shock absorbers, but these are not meant for road vehicles.

Table 1 Product assortment

<table>
<thead>
<tr>
<th>Replacement</th>
<th>Sport &amp; Tuning</th>
<th>Performance</th>
<th>Offroad</th>
</tr>
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<tbody>
<tr>
<td>STR.T</td>
<td>STR.T</td>
<td>Classic</td>
<td>Heavy Track</td>
</tr>
<tr>
<td>Sport</td>
<td>FSD</td>
<td></td>
<td>Raid</td>
</tr>
<tr>
<td>Coil-over</td>
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Koni’s only product line that is relevant in the replacement market is Koni STR.T. However, it should be noted that price and performance higher than for other replacement brands. In fact the STR.T product line can be considered a high level replacement product, or an entry level tuning product. Considering the tuning market, aside from the STR.T assortment, there are Koni Sport products, for customers who are looking for improved handling. Often, these products are similar in construction to the Koni STR.T line, but they regularly have the possibility to adjust damping characteristics. There also is the Coil-over product category, which is considerably more expensive than the Koni Sport product line, and involves more radical lowering and tuning. In the performance market, which is focused more on driving comfort than on handling, Koni has the Classic and FSD product lines. The Classic product line is a descendent from the Koni Red line with which the company gained fame in its early years. These are aimed at oldtimer enthusiasts that want a high quality replacement product for their classic car. The FSD product category allows better handling, while not compromising comfort. The price of FSD kits for most car makes is comparable to that of Koni Sport kits. Finally, there is the 4x4 category, in which the Heavy Track and Raid product lines are present. The Heavy Track product line exists of shock absorbers for 4x4 vehicles and SUV’s, which provide improved road holding and comfort on all types of surfaces. Koni’s Raid product group contains heavy-duty dampers for heavy offroad use, such as desert trips.
In the market for replacement products, Koni experiences fierce competition from cheaper brands such as Monroe and KYB, as in such markets price is the most important discriminating factor for consumers, and competitors generally are cheaper in price. In the Sport & Tuning market, there is one important competitor. Bilstein’s B6 product line competes with the Koni Sport products. In the coil-over market Koni’s product assortment is very restricted, while the German company KW is the main player in that segment. The product lines Classic and FSD are unique, as none of the competitors sells a system comparable to FSD, and also none of them has such an extensive collection of dampers for classic cars. In the offroad market there are some smaller-sized competitors, but Koni’s Raid product line is claimed to be the best product in its kind, while it is sold at an affordable price. The company’s FSD and Sport product lines have regular profit margins, for the classic product line this is about 10% higher, and the Raid product line is most profitable.

What is remarkable is that Koni has no products that are in the lower-priced replacement market. According to one of the respondents, this is because on the one hand Koni’s company culture is aimed at realizing improvements in the driving characteristics of cars, which would conflict with selling a low-end replacement product. On the other hand, the production facility in Oud-Beijerland is said not to be capable of producing the volumes that are needed in the repair and replacement market.

6.2 Product choice
At Koni, the idea is held that a consumer’s product choice is depending mainly on age and, related to that, disposable income. The STR.T product line is aimed at consumers in the age category of 18-30 years. The more expensive Sport product line targets a somewhat wider customer group of 18-40 years old. Those two product series are aimed at improving a car’s handling, while the driving characteristics will be sportier. The FSD products combine improved handling and improved comfort. This product line, which in price generally is comparable to Koni Sport, is targeted at buyers in the age category of 30-60 years, and it doesn’t sell satisfactorily for smaller and cheaper vehicle types. While mounting FSD generally increases both handling and comfort at the same time, it doesn’t provide the tough, sporty feel some customers value, as the Sport line does. The coil over product line allows the user for more extreme ride lowering, beyond the standard 30mm, and provides a considerable increase of handling, at the expense of comfort. This product line is even more expensive than the Sport and FSD product groups, but is quite specific in performance and targets all customers looking for this type of product. The Classic, Heavy Track and Raid damper were designed for a specific purpose, and generally the age category these products appeal to lies between 40-60 years. Despite the fact that this typology looks somewhat simple, it seems as if this is the appropriate way for Koni to divide its customers. The products lines in each category generally provide a comparable function, but the more expensive product lines just have a higher performance level or more adjustment options. Koni products are mainly bought by car enthusiasts. However, when the desired Koni product is not available soon enough upon ordering, they are likely to switch to a competitor’s
products. To summarize, consumers make a product choice based on their purchase budget and the product characteristics they value, which depend on the intended application of the dampers. This is illustrated in Figure 31.

![Figure 31 Product choice](image)

### 6.3 Channel choice

For both of the countries investigated, the logistics performance of the three distribution channels in place was comparable. As retailers generally keep a negligible amount of inventory, distributors are the main inventory-keeping actors in the distribution network. Therefore, inventory levels and performance of the distributors have a large influence on the channels’ logistics performance, such as availability and delivery times. Therefore a consumer’s channel choice is mainly determined by the amount of value he requires the channel to add. All additional channel functions, such as professional advice or montage services, directly increase the product’s price. In other words, what are main decision criteria for the channel choice, presumably after the product choice has been made, are the consumer’s service requirements and the relative pricing in the channel. Some buyers that are very concerned with the products’ relative price, but are not able to install the products themselves might buy products in an online channel and then try to arrange montage at a lower price at a local repair shop, although these are generally not very fond of this kind of arrangement. The factors affecting channel choice are shown in Figure 32. A customer’s requirements regarding delivery time appear to be dependent on the type of customer. Buyers of Classic and Offroad dampers seem more tolerant for longer delivery times, as the products they order usually are not fitted on the vehicle they use for everyday transport. Thereby there are not a lot of alternatives available in these product categories. Therefore, priority for Sport and STR.T products would be justified in some aspects, such as production and delivery.
Figure 32 Channel choice
## 7. Conclusions & Recommendations

The research questions served as the main guidance for the thesis structure. In Table 2, the research questions and brief answers to them are given. These answers are given on two levels, which are general and case-specific. It is also indicated where in the report the different questions are treated in detail. What should be noted is that the research structure changed somewhat over the course of the research. Initially it was assumed that problem analysis and agenda setting were not necessary, as the company already acknowledged having distribution issues and was assumed to have a complete and clear view on the problems in the distribution network. In retrospect, it turned out that taking a broader perspective was useful in approaching the problem.

### Table 2 Research questions and answers

<table>
<thead>
<tr>
<th>Research question</th>
<th>Answer</th>
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<tbody>
<tr>
<td>RQ1: What alternative distribution channels are available between a manufacturer of car parts and its consumers?</td>
<td>In general, car parts manufacturers can supply the aftermarket and the original equipment market (vehicle manufacturers). The actual number and layout of distribution channels is largely dependent on the level of directness the specific manufacturer desires and the type of outlets they want the products to be available in.</td>
</tr>
<tr>
<td>For Koni, in both countries under consideration, three AM distribution channels could be identified. These are via specialists, via wholesalers and via the internet. Koni’s presence in the OEM market is limited. <em>A detailed description of the different alternatives can be found in Chapter 4.</em></td>
<td></td>
</tr>
<tr>
<td>RQ2: What criteria are relevant for comparing the alternative channels in the distribution network of a producer of car parts?</td>
<td>Several angles can be chosen to evaluate the performance of a distribution channel. One way to go is to focus on the logistics performance of the channels in place. Another interesting approach is to concentrate on the interrelations between actors in the channels. Furthermore, it can be chosen to concentrate on a more general scale and evaluate the overall layout of the channels, or to give specific attention to the performance of the actors in the channels while considering the channel design as fixed.</td>
</tr>
<tr>
<td>For the research, it was decided to evaluate both the design of the distribution network in general and the performance of the distribution network presently in place. To evaluate and compare the distribution channels in place, the relationships in the channels are investigated, including the power balance between the actors. <em>More information can be found in Chapter 3.</em></td>
<td></td>
</tr>
<tr>
<td>RQ3: What method is appropriate to judge the performance of the distribution alternatives on the criteria identified?</td>
<td>For the research, it was decided to evaluate both the design of the distribution network in general and the performance of the distribution network presently in place. To evaluate and compare the distribution channels in place, the relationships in the channels are investigated, including the power balance between the actors. <em>More information can be found in Chapter 3.</em></td>
</tr>
<tr>
<td>RQ4: How are the different From this part on, the outcomes should be</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Answer</td>
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<tr>
<td><strong>RQ5:</strong> What can be concluded from the analysis of the distribution</td>
<td>An important finding is that distributors have considerable influence on the performance of the distribution network as a whole. When they perform sub-optimally this negatively affects all other actors in the distribution network, while in contrast the effect of a moderately or poorly performing consumer sales outlet is negligible.</td>
</tr>
<tr>
<td>channels in order to identify opportunities for improvement of the</td>
<td></td>
</tr>
<tr>
<td>distribution network?</td>
<td></td>
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<tr>
<td><strong>MRQ:</strong> What distribution network configuration is most appropriate</td>
<td>Which distribution network is most appropriate heavily depends on the company’s products and target market. Determinative factors are the level of channel service required by the customers, and the relative importance of the aftermarket compared to the original equipment market for the company.</td>
</tr>
<tr>
<td>for a manufacturer of car parts to bring its products to market,</td>
<td></td>
</tr>
<tr>
<td>regarding its supply chain requirements?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In general, the present structure of Koni’s distribution network is appropriate. However, the practical situation is susceptible to improvement. Thereby, Koni should anticipate on the changing role of the internet in modern business, and realize the business opportunities this results in. More information can be found in Chapter 7.</td>
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</table>
7.1 Conclusions
When considering the results of the research, several conclusions can be drawn, which in turn can be used to identify action points. A first finding is that the distributor is an important player in the distribution network, whose individual performance largely influences the performance of the network as a whole. If they fail to perform certain channel functions, such as keeping inventory or providing demand forecasts, this results in lower performance for all channel members. Koni’s distribution network could benefit significantly from a full-function distributor, as the production process for shock absorbers takes considerable time, while high availability is important when selling in the car parts aftermarket. Thereby most of the relationships in the network are quite distant. Integrating activities between all dyads within the distribution channels to a large extent might not be worthwhile, though involving all levels with promotional activities might deliver considerable benefits.

One of the main concerns of the company is to sell larger volumes of products. One way to achieve this goal is to prevent that products are out of stock when ordered by the customers, as stockouts generally result in lost sales in the aftermarket. For that matter, opening a warehouse in France has been a smart move, as it not only allows Koni to satisfy Oscaro’s demand most of the time, but it also increases availability to the other customers in the French market. However, another evident way of realizing a higher sales volume is to generate higher demand, provided that also this higher demand can be met efficiently. To realize higher demand, clear and transparent marketing would be an effective instrument, which is completely lacking at present. Thereby, to initiate an effective marketing campaign, a company should have an adequate view of the end-users of their products, including their specific needs and the benefits they are looking for when buying the products. At present, Koni doesn’t have a well-elaborated view on the consumers and their characteristics.

It should be considered Koni’s mission to provide their distributors with an attractive product in the broader sense. In other words, the product and service characteristics as a whole should be attractive. This makes the products easier to sell and assures that high-quality channel intermediaries are willing to sell the product. Offering attractive product and service characteristics to distributors includes allowing them to earn a proper price margin in return for their channel services, but also preventing unfair competition or showing some flexibility regarding delivery when needed. As a result of the 10% intercompany discount between Koni and Koni France, the French distributor is allowed larger flexibility in providing large-volume discounts to their customers than their colleagues in other countries. As a result, the large customer Oscaro can maintain very low prices on their website. However, sometimes they also sell outside France, thereby entering the territories of other distributors, which can lead to friction in the network by cause of unfair price competition. An unstructured and non-uniform pricing policy allows for disturbance of the equilibrium in the distribution system, at the risk of channel conflicts. It is also noted that the distributors receive shipments only once a week, on which no exceptions are made.
When considering the KPI’s identified in paragraph 2.3, which were sales volume, the presence of marketing initiatives and promotion materials in the channels, and inventory levels of fast-movers at the distributors, it can be concluded that the company is performing sub-optimally on at least two out of three. To start with there is no homogeneous marketing strategy to promote the brand. EFKA undertakes some promotional activities independently, but for Koni France promotions are restricted to occasional price discounts. The inventory levels are also not optimal. Though Koni France is willing to keep sufficient inventory, there is no strategy behind the current approach, and EFKA is keeping little inventory altogether. However, it should be noted that inventory keeping has less consequences for Koni France than it does for EFKA, as Koni France doesn’t have to bear all financial consequences itself. Over a certain period of 100 weeks from 2011 to 2013, EFKA’s sales volume in the Dutch market was 7.115 shock absorbers. In the same period, Koni France sold 28.519 car shock absorbers on the French market. The estimated number of inhabitants of France in 2013 is 65.951.611, according to the CIA’s World Factbook18. The 2013 estimated number of inhabitants of The Netherlands is 16.805.03719. Koni France’s sales number is 4,008 times higher than that of EFKA, while the number of inhabitants of France is 3,925 times higher than that of The Netherlands. It appears as if the relative difference in sales between the two parties is negligible.

7.2 Recommendations
Based on the findings during the research, several suggestions can be made to improve the performance of the distribution network. These can be subdivided into short-term initiatives and long-term initiatives. The short-term initiatives can be implemented without affecting the present distribution channel configuration. The long-term initiatives require structural changes to the distribution channel, for which a long-term focus is required.

7.2.1 Short-term initiatives

7.2.1.1 The role of distributors
As an important step, Koni should reconsider the roles their distributors fulfill in the global distribution network. Thereby it should be evaluated which channel functions these actors fulfill, and how the cooperation is performing. Examples of distributors’ channel functions are keeping inventory, providing sales forecasts, acquiring market information, maintaining customer relationships and finding new customers (Narus & Anderson, 1986).

When distributors are found that fail to deliver the desired functions, Koni can decide to replace the distributor in question with one that better matches the company’s desired function profile. For example, in a reaction to EFKA’s marginal inventory-keeping services and limited customer scope, Koni could decide to approach alternative parties that are willing to keep higher inventory levels and have a wider scope than tire shops and car tuning shops.

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Another option would be to develop a modular pricing system, whereby a distributor’s purchasing price is determined by the value he adds in the distribution network. This way, distributors are compensated only for the channel functions they fulfill. For example, when a distributor refuses to keep sufficient inventory levels, the inventory keeping function has to be fulfilled by Koni itself. In return, the distributor in question should pay a higher price for the products than the net export price.

A third possibility is for Koni to assist their distributors in improving their performance. For example, when distributors would provide monthly demand forecasts, two months deep, this would allow Koni to schedule production as to be able to meet demand more efficiently. However, this doesn’t happen at present. In some cases, this might be because the distributor is simply not willing to do so, but in other cases the customer might not have capacity to provide forecasts. When Koni would use its knowledge and expertise to assist distributors in making demand forecasts and determining an appropriate inventory policy, this might benefit both. When the manufacturer assists distributors in making inventory decisions it could position virtually all fast-movers at distributors, while keeping slow movers themselves. When executed correctly such an approach could result in higher availability levels in the distribution network as a whole, at lower inventory costs. At present, the relationships in the distribution network generally are quite distant, but in this aspect closer integration might assist in meeting customer demand more efficiently.

What is more, as mentioned, the special intercompany reduction Koni’s subsidiaries receive tend to disturb proper functioning of the market when this price advantage works through in the products’ market price. Therefore, a clear pricing and marketing strategy has to be adopted that goes for all distributors, regardless if they are independent or subsidiaries. An exception might be made for Koni America, as transportation prices or other additional costs might otherwise not allow them to compete on the US domestic market, but in Europe these price differences should vanish. Differences in reported profit of the subsidiary distributors will level out at the enterprise-wide level.

7.2.1.2 Marketing
Another important aspect that requires attention is Koni’s marketing strategy. In this regard, Koni should take its responsibility as a strategy developer, as the distributors are active on a smaller geographical level. This makes it impossible for them to develop a coherent company image independently. Thereby they often miss the capacity to develop a coherent marketing plan. At present, Koni engages in no significant activities regarding promotion of the company’s brand name or products. As a result, the brand name is losing recognizability. Also, it is very hard for a customer to find where Koni products can be bought. An important step towards higher sales is increasing demand, by informing potential customers about Koni and its products.
One way to stimulate demand is by increasing presence in the market, for example by sponsoring or brand advertising activities. Thereby, point-of-sales promotional materials can play an important role in increasing brand recognition. It was noted on several occasions that there is a need for such promotion materials at channel members, but that they are not available. Developing attractive in-shop product displays and providing dealers with Koni banners are convenient initiatives to bring the brand and its products under the attention of consumers. In addition, all potential sales points should be supplied with an up-to-date product catalog regularly, which doesn’t happen at present.

Another essential asset for companies in today’s market is a clear, representative and informative online presence in the form of a company website. Thereby, to solve the issues regarding the findability of sales outlets, the company website should mention per country where Koni sales outlets are located, as to minimize the purchase barriers for consumers.

To be able to efficiently target the correct consumers in marketing communication, the company should have a clear view on the different types of consumers that are interested in Koni products, and their corresponding needs and benefits. This is presently not the case, as the company’s view on its customers is fully based on historical experiences and indirect information via contact with the distributors. To improve this situation Koni should perform an extensive customer segmentation exercise and have regular contact with customers, which allows for adequate tailoring of the product and service offering to the relevant customer groups.

During the research, it turned out that Koni is not active in the repair and replacement parts industry, as this doesn’t fit with their company philosophy of improving a vehicle’s driving characteristics. The product line that is closest to a replacement product is the STR.T collection. Koni’s STR.T line was both meant as a low-level tuning, or a high-level replacement product, appealing to a larger group of customers. However, replacement products require a different type of distribution than tuning products, whereby timely availability is very important. For market success it is important to have a clearly defined product and marketing strategy. Selling larger volumes of STR.T dampers might allow the company to divide fixed costs over a larger number of products and increase profit. It also might bring the brand name under the attention of a larger public. However, at the moment the STR.T product line is not profitable and delivery times are long. In order to increase the profit potential of the product line these two inhibiting factors should be solved.

### 7.2.2 Long-term initiatives

#### 7.2.2.1 Distribution channel structure

In the longer term, companies are able to execute more drastic changes, which affect the general configuration of their distribution system. A possible initiative in this area would be to bypass distributors, and start delivering directly to actors one tier below, such as wholesalers, fast-fitter chains or chains of repair shops. This still allows for shipping larger quantities than directly to consumers,
while retaining at least part of the distributor's price margin. Possible examples are delivering directly to wholesaler Brezan or fast-fitter chain Kwik-Fit. This initiative is especially interesting in the Dutch market, as at present Koni is already the party keeping the major part of the inventories in the distribution channel, because EFKA refuses to take responsibility for this channel function. When Koni bypasses distributors, they can retain a higher profit margin themselves, thereby receiving compensation for the inventory-keeping channel function. However, doing this in all countries would require them to increase stock-keeping and customer service capacity at the same time, which might not be feasible.

One possible variation on this approach would be to engage in a strategic partnership with a wholesaler chain that can identify with the brand identity of Koni, and sell exclusively through this channel. In return, the wholesaler should actively place promotion materials in its sales network and perform some inventory holding services, for which it is compensated financially. A main benefit for Koni is that increasing presence in the wholesale channel might be a low-cost way to regain attention of consumers. Thereby the advanced warehousing and logistics capacities of large wholesaler might be leveraged to the benefit of Koni. This way, part of the distributor function is in fact outsourced to the wholesaler. This option is especially relevant when focusing on the replacement parts market.

Another option would be to fulfill the complete distributor function in-house, including deliveries to small-scale customers such as repair shops and tuning shops. Although this would also require keeping higher inventory levels by Koni, this would at the same time mean complete influence on the number and type of sales outlets targeted. For example, Koni would have the freedom to realize presence in the large online reseller channel in the Dutch market as well, where this currently is not the case.

7.2.2.2 The role of the internet
An initiative that can support the disintermediation initiative described previously is to further develop the function of the company website. When distributor orders could be placed using a user-friendly web interface, this would allow customer service personnel to take orders more efficiently, and save time for other activities. If over time this turns out to work efficiently and with little problems, it can be decided to have retail outlets, and possibly even consumers, order products online at an official Koni webshop. Especially on the Dutch market, operating an official Koni webshop is an interesting opportunity. It allows for high profit margins while, as mentioned before, the required inventory keeping function is largely fulfilled by Koni already, instead of by the distributor. However, a known problem with online shopping by consumers is the large number of product returns this results in.

7.2.2.3 Supplying OEM parts
During the research it was found that when a manufacturer of car parts supplies a vehicle manufacturer with original parts, this results in demand for these
products in the aftermarket. This is because, especially for younger cars, the owners commonly require repair shops to use repair parts from the same brand as the original parts. Therefore presence in the OEM channel is a driver for aftermarket sales. Koni could try to leverage the presence of mother organization ITT in the OEM segment, and their contacts with vehicle manufacturers, in order to get wider access to this area. However, this might require producing a simpler and less expensive product, which again doesn’t fit with Koni’s company philosophy.

7.3 Implementation
Not all recommendations mentioned in the previous paragraph can be combined randomly. Some suggestions are suitable to combine and might even be more effective when doing so, while combining another set of initiatives might result in reduced overall effectiveness. It should be mentioned that, regardless of the changes in the distribution network layout chosen to implement, the company will always benefit from increasing brand marketing. To this extent a promotion campaign should be initiated, and banners and in-shop displays should become available and be present at consumer outlets. Thereby all existing or potential sales points should be regularly provided with an up-to-date product catalog. Furthermore, the company should develop a clear view on its customers and their specific needs and requirements. It should also be determined in advance whether or not Koni wants to increase presence in the OEM market, thereby considering the effects this will have.

When this first hurdle is taken, the company is faced with an important decision. This is whether or not they might be willing to perform the distributor’s function in-house, in part or completely, as this will significantly affect personnel and capital requirements. This choice affects other distribution channel decisions to take. If Koni is willing to perform the distributor function, partly or fully, they can either go for the modular pricing system, whereby distributors are only compensated for channel functions they fulfill. They can also decide to bypass the distributor and perform this task in-house. However this requires for example increased stock keeping, it also allows the company to increase profit margins considerably. When Koni is not willing to perform distributor functions, there are two options left. They can either replace distributors that do not live up to the expectations, or, if they cooperate, assist them in reaching their potential.

In the special cases where the national distribution function is performed by a Koni subsidiary, such as in France, the choice is somewhat different. In such cases the question should be if the subsidiary should be kept as a separate entity. It might be the case that an independent distributor can work more efficiently if some activities can be combined for more than one brand of products. Such activities might be customer service or delivery. If it is decided to keep a subsidiary distributor, its performance should be evaluated thoroughly, to decide if improvements are necessary.
7.4 Scientific contribution of the research
The research differs from others in that it combines multiple areas in literature, which at the same time is its strength. By considering the topics of relationships in the distribution network, marketing, distribution and sales performance as interrelated instead of as separate and independent, a non-traditional addition is made to literature. As mentioned, the value of the research is more in the practical application of this multidisciplinary perspective than in the choice of evaluation topics as such. Aside from that, the same distribution network is evaluated both on a macro and a micro level at the same time.

First and foremost, the research results are relevant to manufacturers of car parts with a considerable interest in the aftermarket. However, the larger part of the report is also relevant to manufacturers of discrete products that are active in other markets, no matter if they have consumers or businesses as their end customers. Thereby not a lot of previous research has been undertaken regarding the aftermarket for vehicle components, so the report can be a meaningful addition in that area. Thereby a test case is provided for existing literature, in a changing market with an increasingly important role for the internet.

7.5 Limitations of the research
When evaluating the research, some limitations can be identified. To start with, the research was carried out in a single case design. Although some of the findings can be generalized, this means that the external validity is limited, as most findings are directly or indirectly linked to the case of Koni. Thereby, the research focused on only two countries, which are both in Western Europe, while Koni sells its products worldwide. This might trouble the findings.

As a second point, on all tiers of the distribution channels a limited amount of actors has been contacted. While it would be impossible to visit a much larger number of respondents in the time budgeted, this might yield additional insights. Thereby, gathering quantitative information, for example by sending out questionnaires, allows for better measurable information. In addition, some communication with respondents necessarily was done in writing, or indirectly via French speaking colleagues, as the language barriers between The Netherlands and France are very large. This makes it hard to register some delicacies in phrasing or expression or to pose additional questions. There is also the issue that some actors that are interviewed might try to paint a more positive picture of their own performance and provide information sparingly, incompletely or falsely. It was also decided to place contacting consumers out of the scope of research and to only investigate actors with a function in the distribution network. However, their perspectives might be an interesting addition and provide a better view of the current performance of the distribution network, and insight into their buying behavior.

A third weakness is that the subjects chosen to be included in the theoretical framework do not completely match with the actual problem at the company. The partnership literature turned out not to be fully relevant in all relationships
between actors in the distribution channel. When looking for a test case for partnership literature, investigating the relationships with other actors might be more relevant. Also, the initial problem experienced by the company required a much more practical approach, as Koni experienced a logistics problem related to warehouse placement and management.

Aside from these research-specific limitations, there were also some personal experiences during the research that were didactic. An important factor is that not everyone is willing or able to cooperate with the research. Some people are very busy, and some are simply unwilling. Therefore, it is important to anticipate on these types of circumstances. Thereby, it was noted that different people can have a different view on the same situation. Not verifying multiple people’s stances and viewpoints can lead to biased information.

7.6 Suggestions for future research
The research has mainly focused on the situation in The Netherlands and France. It would be interesting to extend the research to more countries, to get a more complete view of the situation. Thereby, it would be interesting to investigate the distribution channel of other, comparable companies, to be able to increase external validity of the outcomes.

As another point, the research was carried out in a qualitative way. Taking a quantitative perspective and gathering numeric information allows for absolute comparison of the findings and deeper insight into the performance of the distribution network as a whole.

A relevant future research subject would be to investigate the distribution channel from a marketing angle, instead of from a logistics angle, which would include performing a thorough market segmentation procedure. The outcomes of such a research would allow Koni to better match their product and service offering with the needs and requirements of consumers.
Bibliography


Appendix

A.1 Distribution channel arrangements

In the figures below, the distribution channel arrangements as defined by Chopra (2003) are shown. Hereby a solid line represents a product flow, and a dashed line denotes an information flow. The bold, solid lines in the last two figures symbolize customer flow.

Manufacture storage with direct shipping means that products are shipped directly from the manufacturer to the end customers, which is also called drop shipping. This is shown in Figure 33.

![Figure 33 Manufacturer storage with direct shipping](image)

Manufacture storage with direct shipping and in-transit merge means that products are sent from the manufacturer to a location where products from several manufacturers are combined, generally by a package carrier, to be able to deliver a customer order as a single delivery. This is shown in Figure 34.
Distributor storage with package carrier delivery means that manufacturers don’t keep inventory of finished products. This is done in intermediate warehouses by distributors or retailers. Package carriers are used to deliver products to the customers. This is shown in Figure 35.

Distributor storage with last mile delivery is almost the same as the previous arrangement, except that delivery is not outsourced to a package carrier, but distributors or retailers take care of delivery themselves. This is shown in Figure 36.
Manufacturer or distributor warehouse storage with customer pickup means that inventory is stored at the manufacturers’ or distributors’ warehouses. Upon customer order, products are shipped to special pickup locations, where customers can collect their order. This is shown in Figure 37.
Retail storage with customer pickup means that inventory is held locally at retail stores. Customers can either place an order via phone or internet and pick the goods up later, or simply walk into the retail store. This is shown in Figure 38.

![Figure 38 Retail storage with customer pickup](image)

### A.2 Performance comparison of distribution channel arrangements

Table 3 compares the relative performance of the distribution channel arrangements as defined by Chopra (2003) on the corresponding performance criteria.

#### Table 3 Comparative performance of distribution channel arrangements

<table>
<thead>
<tr>
<th></th>
<th>Retail storage with customer pickup</th>
<th>Manufacturer storage with direct shipping</th>
<th>Manufacturer storage with in-transit merge</th>
<th>Distributor storage with package carrier delivery</th>
<th>Distributor storage with last mile delivery</th>
<th>Manufacturer storage with pickup</th>
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<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
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<tr>
<td>Product variety</td>
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<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Product availability</td>
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<td>2</td>
<td>3</td>
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<td>5</td>
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<td>4</td>
<td>3</td>
<td>2</td>
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<td>Inventory</td>
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<td>1</td>
<td>2</td>
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<td>1</td>
</tr>
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<td>4</td>
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<td>2</td>
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</table>

### A.3 Performance for different product or customer characteristics

Table 4 indicates the appropriateness of the distribution network arrangements as defined by Chopra (2003) for several product or customer characteristics.
Table 4 Distribution performance regarding product/customer characteristics

<table>
<thead>
<tr>
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<th>Retail storage with customer pickup</th>
<th>Manufacturer storage with direct shipping</th>
<th>Manufacturer storage with in-transit merge</th>
<th>Distributor storage with package carrier delivery</th>
<th>Distributor storage with last mile delivery</th>
<th>Manufacturer storage with pickup</th>
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<td>Low demand product</td>
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<td>+</td>
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<td>+</td>
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<td>Many product sources</td>
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<td>++</td>
<td>++</td>
<td>++</td>
<td>-</td>
</tr>
</tbody>
</table>

++: Very suitable; +: Somewhat suitable; +-: Neutral; -=: Somewhat unsuitable; --: Very unsuitable