DETERMINANTS OF CHANNEL EXPANSION BY JAPANESE MANUFACTURERS

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ABSTRACT

This paper suggests several hypotheses about conditions under which Japanese manufacturers expand their channels. The results of empirical analysis show that market opportunity, level of product differentiation, and a manufacturer's current competitive position determine the degree of channel expansion.

INTRODUCTION

Expanding channels (i.e. to develop new customers or begin transaction with new distributors) is important in improving manufacturers' sales. However, little attention has been given to channel expansion in Japanese academic research. With this problem in mind, this paper attempts to specify the antecedents of channel expansion by Japanese manufacturers. First, we review prior research, and then propose hypotheses to explain channel expansion. This is followed by an empirical analysis with data collected from Japanese firms. Last, we discuss some implications and direction for future research.

LITERATURE REVIEW AND PROPOSED HYPOTHESES

Prior research suggests that market opportunity, existing customer (distributor) factor, and product characteristics are related to channel expansion. First, Guildham (1972) and Bowersox, Cooper, Lambert, and Taylor (1980) indicate that availability of new customers based on market growth induces channel expansion. Second, because channel expansion reinforces a manufacturer's bargaining power through reduction of its dependence on existing customers (distributors), the expansion may happen when rivalry with existing customers (distibutors) is intense (Pfeffer & Salancik, 1978; Rosenbloom, 2004). These arguments suggest the following hypotheses.

H1: Availability of new customers is positively associated with channel expansion.
H2: Market growth rate is positively associated with availability of new customers.
H3: Rivalry with existing customers is positively associated with channel expansion.

Third, product characteristics may affect channel expansion. Webster (1991) suggests the absolute number of users in a consumer market is more than in an industrial market, so extensive goods exposure to users will be more important in the former than in the latter. Additionally, among consumer goods, more active expansion will be called for in the case of convenience goods which consumers exert little effort to purchase (Copeland, 1924). Furthermore, manufacturers which have achieved or aim at product differentiation will be less active in channel expansion because their service and support for users are given priority over extensive goods exposure, and diligent selection and monitoring of distributors are needed (Porter, 1980; Rosenbloom, 2004). Therefore:

H4: Consumer goods manufacturers engage in channel expansion more actively than industrial goods manufacturers do.
H5: Convenience goods manufacturers engage in channel expansion more actively than the other consumer goods manufacturers do.
H6: Level of product differentiation is negatively associated with channel expansion.

Unfortunately, the argument above overlooks two important theoretical problems. First, hypotheses H1 and H2 assume that high market growth offers availability of new customers to a manufacturer automatically. However, Japanese manufacturers traditionally have utilized their own sales forces to capture new market opportunity, and this implies that market opportunity is not only given by uncontrollable environmental factors but also created by manufacturers' sales forces. This reasoning suggests that the more excellent a manufacturer's sales force is, the more opportunity it can capture. Therefore:

H7: Excellence of sales force is positively associated with availability of new customers.

Second, though H1-H6 do not consider the manufacturer's horizontal competitive position, this may have a great impact on channel expansion intensity. For example, Cyert and March (1963) and Baum, Rowley, Shipilov, and Chuang (2005) argue that an organization facing poor performance relative to rivals emphasizes more exploratory undertakings that offer the possibility of raising its performance. This suggests that the poorer a manufacturer's performance is, the more actively it engages in new customer development. On the other hand, a manufacturer enjoying good performance does not have motivation to expand channels, but it has enough resources to enhance its sales force because of its prior success, which may stimulate channel expansion indirectly.

Therefore:

H8: Performance relative to rivals is negatively associated with channel expansion.
H9: Performance relative to rivals is positively associated with excellence of sales force.

METHODOLOGY

To test the proposed hypotheses (see FIGURE 1), we collected data from Japanese manufacturers listed on the Tokyo Stock Exchange 1st and 2nd section. We mailed questionnaires to 1280 divisions of them, and 160 divisions' questionnaires of 155 firms are usable for the analysis (a 12.5% valid respondent rate). Items about product category differences were operated as dummy variables, and the other independent variables were measured by 6-point Likert-type single or multiple scales.

RESULTS

We tested the hypotheses using pass analysis. The estimated standardized coefficients are shown in FIGURE 2. The goodness of fit index indicated a close fit of the data to the model. Regarding our hypotheses, H1 and H2, involving the relationships among market opportunity and channel expansion, are both supported. However, coefficients of rivalry with existing customers, consumer goods, and convenience goods were not significant. On the other hand, the coefficient of level of product differentiation was significant but opposite to the expected direction. Thus hypotheses H3-H6 are all rejected. Finally, H7-H9, involving the motivation and resources margin for expansion, are all supported.

IMPLICATION AND FUTURE RESEARCH

Our findings have several important implications. First, our empirical results suggest that market opportunity has an impact on channel expansion, and the opportunity is varied not only by environmental conditions but also by the excellence of the sales force. This implies that enhancement of the sales force and accumulation of opportunity-sensing capability play a crucial role in expansion. Second, a manufacturer's competitive position has a significant effect on channel expansion via two processes: expansion driven directly by the motivation to improve performance (when performance is poor) and expansion driven indirectly by investing rich organizational resources for the enhancement of the sales force (when performance is good). Finally, the level of product differentiation

induces rather than *restricts* channel expansion. This implies that achievement of product differentiation leads customers (distributors) to request the product, and intensifies manufacturers' bargaining power over customers (distributors), which then facilitates finding new customers and mitigates the cost of selecting new prospective distributors and monitoring of their behavior.

Though this study was a rare attempt to explain channel expansion of Japanese manufacturers empirically, it did not consider the types of customers which manufacturers target (i.e. whether targeted new customers are in same industry or same location as existing ones or not). This may affect channel expansion, hence it is valuable to take this problem into consideration in future research.

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FIGURES

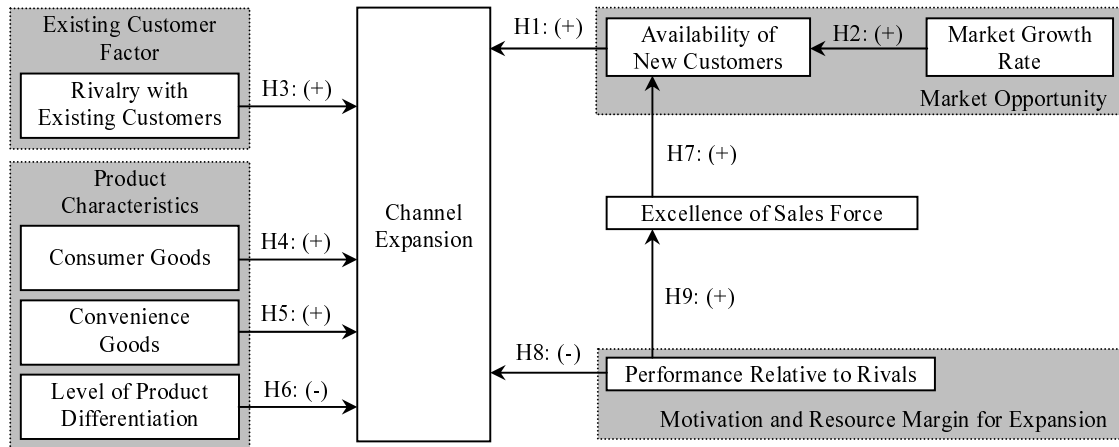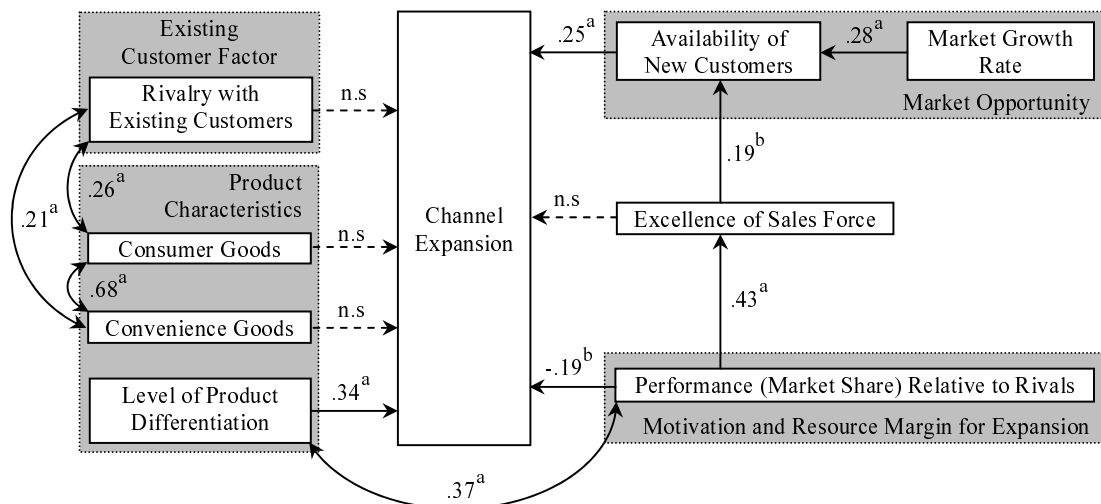Fig. 1. Conceptual framework and hypotheses

Fig. 2. Pass analysis model coefficients

Note: Consumer Goods is a dummy variable (1 = Consumer Goods Manufacturer, 0 = Industrial Goods Manufacturer). Convenience Goods is a dummy variable (1 = Convenience Goods Manufacturer, 0 = Other). [a] denotes $p < .01$ and [b] denotes $p < .05$. Chi-square = 59.75 (d.f. = 22, $p < .01$), GFI = .92, AGFI = .85, RMR = .11, RMSEA = .10. Two-way arrows between two variables indicate that these variables are correlated. Details on measurement items and sampling are available from the author on request.