

Innovation in Marketing Channels

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1. Marketing Channels: An Evolutionary Overview

Innovation in marketing channels is a theme that has been treated in reference to specific areas of innovation or to single categories of subjects within channels. Fewer studies have been conducted with a perspective referring to the channel as a whole. Major contributions have focused on innovation in retailing as 'product innovation' for distribution companies (Dawson, 2001; Dupuis, 2000; Castaldo, 2001), or as innovation in the supply chain. In this case, primary attention has been placed on technological issues, particularly those relating to information and communication technologies (ICT), and the implications that these technologies may entail for marketing channels (Kim *et al.*, 2006; Hausman, Stockb, 2003). The few contributions that have focused on the entire channel (Gundlach *et al.*, 2006), have highlighted the single specific aspects, such as the effects of innovation on the relationship dynamics between channel members (Gupta, Loulou, 1998), and the influence of the institutional, economic, social and cultural context on innovation in international channels (Bello *et al.*, 2004). Hence, in the existing literature, a vision that does not fully grasp the continuity of relationships between upstream and downstream value chains prevails. Furthermore, there is a lack of analysis on the way in which innovation can affect the very role of marketing channels, as a liaison between production systems and end-markets.

This work aims to analyze the theme of innovation in marketing channels with a perspective focused on the entire channel, with reference to its structure and flows (information, physical, negotiating), that drive the operations and link all the subjects.

The analysis aims to provide a conceptual framework on the basis of which future investigations and insights can be conducted to capture the extent and effects of the changes that occur, as a result of innovation.

According to the Smith-Stigler paradigm, marketing and distribution channels were originally studied in reference to models based on the market structure, competition and the type of specialisation of the interacting subjects (Mallen,

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1973). This paradigm also justified the existence of trade intermediates with their capability to generate economies of specialisation.

Tied to microeconomics principles, the institutional perspective (Bucklin, 1966) focused on channel actors as a sequence of institutions that carry out the transfer of goods from the producer to the end-customer. In turn, they activate various types of flows. Similar to the institutional approach, the functional approach has analyzed marketing channels on the basis of the roles carried out by their members (Alderson, 1957).

Marketing channels have also been defined as Vertical Marketing Systems (VMS) (McCammon, 1970), in the cases where a co-ordinating leader emerges.

All traditional perspectives have assumed that a marketing channel or a VMS can be seen as a vertically integrated, uni-linear structure linking the retailer with the manufacturer through a series of intermediary wholesalers. This is no longer an appropriate conceptualisation for the structure of distribution channels in the highly developed retailing systems of Western countries. In these systems, power relations between agents in the channel have been fundamentally changed by the actions of the manufacturers and large retailers in extending, through vertical integration, the scope of their activities, particularly at the expense of wholesaler intermediaries (Dawson, 1979). The distribution channel has also been changed upon by the horizontal incorporation of additional actors (e.g., buying groups) who are not always engaged in the physical distribution of goods. For the small multiple retailer and the single-site independent, franchise organisations, voluntary groups and trade associations have become increasingly prominent agents within the distribution channel.

In more recent years, the context of globalization in which market channel structures and strategies are developing (Rosenbloom, Larsen, 2008) is bringing to a more complex concept of marketing channels, with disintermediation or reintermediation, multichanneling and new roles/specializations that are emerging as new issues. Moreover, the increasing search for efficiency and speed in vertical relationships, is leading to a convergence of perspectives for those channel related activities like supply chain management, logistics and purchasing (Gundlach *et al.*, 2006).

In this context, innovation in marketing channels becomes a complex, multiorganizational, multidisciplinary activity that requires collaboration and interactions across various entities within the supply chain network, with a substantial portion of the innovation process and resulting outcomes that occur at the buyer-seller interface level (Ganesan *et. al.*, 2009).

2. Drivers of Innovation in Marketing Channels

Referring to marketing channels, the concept of innovation must be viewed in the context of a double layer through which it expresses itself. On the one hand, it must be seen as a strategic activity for both industrial and distribution firms to acquire a competitive advantage along the distribution channel. On the other hand, it should be seen as a changing process of the economic function of the distribution systems. Following this changing process, new forms of distribution

emerge, offering new services to the existing ones. In both cases, innovation comes from the choices of firms along the channel, which increasingly involve their partners, upstream and downstream of the network they belong to. This originates innovations increasingly focused on the vertical network, more than on the individual firms.

In recent years, the innovation processes in marketing channels have occurred with high intensity and speed, especially following the changes spurred by technology that allowed the adoption of more efficient organizational solutions. As a consequence, an increased competitiveness for all firms in the channel has emerged. Another factor which has greatly stimulated innovative processes in marketing channels was the process of modernization of the retail sector that in recent decades has progressively strengthened and enriched the role of retailers. Even the social changes and new behavioural patterns of the final demand, have stimulated innovations designed to accommodate new values concerning consumer goods and their distribution systems (e.g., traceability and the compliance with social, ecological and ethical values in the manufacturing processes).

These influencing factors have been active in a context of strong emphasis on competitive dynamics, both at the horizontal level (between manufacturers and between retailers) and the vertical level. Such dynamics have occurred with the development of private label products, the emergence of retailing marketing, the increasing downstream integration by manufacturers (e.g., manufacturer-owned retail stores and factory outlets) and, conversely, the upstream integration of the retailers' supply chain.

The stimulus to innovation in distribution channels has been distinguished as technology based, with reference to the opportunities offered by innovation in information and communication technologies (ICT), and market-based (Castaldo, 2001; Cardinali, 2005). Market based factors may, in turn, be distinguished in demand-based factors, related to changes in the characteristics and behaviours of customers that companies seek to comply with (Kaufman-Scarborough, Forsythe, 2009), and competition based factors, with specific reference to a differentiation and quick response to the final demand changes approach. Often times, this logic is based on the principles of time-based competition (Hum, Sim, 1996; Brondoni, 2005), emphasizing the value of the time variable in pursuing a competitive advantage, and planning marketing policies on a perspective referred to competitors, in some cases more than to the final demand.

In the remainder of this work, innovation in marketing channels will be analyzed by taking into account all types of channels and subjects, not just those at the retail distribution level, and will consider all types of products. Distinct considerations will be developed, where appropriate, between consumer goods, on the one hand, and capital/industrial goods, on the other. The analysis will be carried out following three different perspectives:

- A. Technological perspective: What are the fronts of technological innovation for the optimization of interactions among companies and with the final demand.
- B. Relational perspective: Which innovation fields can be developed on, in regard to vertical relationships between firms in a marketing channel.

C. Structural perspective: What new channel configurations may occur.

The technological perspective (A) can be divided into an area of innovation in vertical relationships between firms and an area of innovation in relationships with final demand, as follows:

- A.1. Innovation in vertical relationships between firms.
 - A.1.1. Logistics and Electronic Data Interchange.
 - A.1.2. Vendor Management Inventory.
 - A.1.3. Collaborative Planning Forecasting and Replenishment, and Vendor Managed Category Management.
 - A.1.4. E-procurement, E-sourcing.
- A.2. Innovation in relationships with final demand.
 - A.2.1. Checkout technologies.
 - A.2.2. Electronic and mobile payments.
 - A.2.3. Distance selling, on-line sales.
 - A.2.4. Self-service technologies.

According to the relational perspective (B), the innovations in marketing channels may occur on several fronts, which do not necessarily represent an innovation in themselves, but are fronts along which firms can adopt innovative solutions, as follows:

- B. 1. Retailers' buying process.
- B. 2. Trade Marketing.
- B. 3. Category Management.
- B. 4. Private label products of retailers.
- B. 5. Corporate Social Responsibility and ethical assortments.
- B. 6. Customer care initiatives (e.g.; Customer Relationship Management, loyalty schemes, etc.).

The structural perspective (C) that refers to new channel structures, innovative channels or multichannel strategies can be divided into two fields:

- C1. Innovation adopted by manufacturers: franchising, multilevel marketing systems, multilevel franchising, manufacturer-owned retail stores, factory outlets, pop up stores, e-commerce, multi-channeling.
- C2. Innovations emerging inside the retail sector: Retail Change theories, multi-channeling.

3. The Technological Perspective of Innovation

3.1 Innovation in Vertical Relationships between Firms

Following the *technological perspective* (A), the first innovation field in the relationships between firms (A.1) is that of *technology based interaction tools*. That is, all the techniques that allow, through the use of ICT technology, to speed

up vertical relationships and make them more efficient, without interruptions and with stock reduction. Information technology and telecommunications – the main technologies on which the inter and intra-firm information management process has been built – actually represents the technological platform of Supply Chain Management (SCM).

In actuality, global SCM is becoming a strategic objective for many companies. In addition, the concept of SCM is becoming fully recognized as a common process to manage innovation and coordination among firms' networks. A permanent body – the project consortium Efficient Consumer Response (ECR)¹ – has been established for this purpose, after being on the negotiating table for several years, where manufacturers and retailers work to search for better cooperation for more efficient supply chains. ECR aims to develop the supply chain as a whole and eliminate non value-added functions. The key elements of ECR are efficient replenishment, efficient assortment, efficient product introduction and efficient promotion. These are the means with which to face the major problems in retail stores, namely out-of-stocks and over-stocks (Kotzab, 1999).

There are three levels of cooperation that can be achieved in managing the supply chain. The first level (A.1.1) refers to *logistics*, with the objective of improving the productivity of physical and information flows by improving the transportation network, the logistics centres management, the non-compliance managing processes, and by the establishment of communication infrastructures such as *Electronic Data Interchange* (EDI).

In regards to logistics, some elements have resulted as changing factors that go beyond a simple technical optimization allowed by developments in information and communication management. More specifically, for innovative relationships within the channel, characterized by the need for greater coordination and integration, logistics can be seen as an interface between strategic and tactical orientations that can sometimes be different or conflicting among the channel partners. To lower the cost of stock management, handling and transports, several organizational solutions have been developed, aimed at making the logistic cycle faster and without errors. These solutions can be developed via third party operators or by the use of transit logistic facilities, according to the cross docking² technique.

The most recent fields in logistic innovation regarding monitoring systems for material movements, both inside and outside the warehouses, relate to *Radio-Frequency Identification* (RFID). RFID is the use of an object (typically referred to as an RFID tag) applied to a product, or a package, for the purpose of identification and tracking using radio waves.

RFID is also used in inventory systems, with relevant potential reductions in out-of-stocks (Hardgrave, Miles, Mitchell, 2009). Other benefits of using RFID include the reduction of labour costs, the simplification of business processes, and the reduction of inventory inaccuracies.

The basic infrastructure for coordinating logistic processes among channel partners is the EDI that has been defined as 'tools which permit the automatic exchange of data between remote applications in situations where these belong to different organisations' (Martinez, Polo-Redondo, 2001). The principal attraction

that EDI has for companies in marketing channels lies in the large number of references that are exchanged. For large retailers, as well as wholesalers, EDI means a big saving, because they work with a large number of suppliers (and/or customers) with a great quantity of references, and all this means having to handle a vast amount of documents of different types. This is why these are the companies that have promoted the development of EDI in commercial distribution, in many cases forcing small-scale suppliers to adopt this tool.

The second level of collaboration in supply chain processes (A.1.2) is the *joint management of supplying activities*, through techniques such as Vendor Management Inventory (VMI), which includes assortments decisions, activities for reducing stock-outs, and the use of indicators to control and improve joint processes.

VMI is an operating model in which the supplier takes responsibility for the inventory of its customer. In a VMI-partnership the supplier makes the main inventory replenishment decisions for the customer. The supplier, which may be a manufacturer, reseller or a distributor, monitors the buyer's inventory levels and makes supply decisions regarding order quantities, shipping and timing (Waller et al., 1999). In VMI, the supplier is able to smooth the peaks and valleys in the flow of goods, and therefore to keep smaller buffers of capacity and inventory. Successful VMI implementations in retailing can be found in the apparel industry. However, VMI has not gained large acceptance in the grocery supply chain.

The third level of collaboration in SCM (A.1.3) involves a *higher degree of integration*, with marked implications for marketing, both in the end-customer analysis, and the establishment of certain policies (e.g., category management, promotions inside outlets, and shelf space management) through the adoption of methodologies such as *Collaborative Planning Forecasting and Replenishment* (CPFR) and *Vendor Managed Category Management* (VMCM).

CPFR is a methodology for the joint purchasing management between retailers and their suppliers. It consists of jointly making sales forecasts and procurement schemes, and includes all activities that pertain to the management of assortments, such as promotions and the introduction of new products. The CPFR encourages the sharing of market information and collaborative planning for the establishment and management of optimal assortments. The CPFR is suitable for those product categories that require a high level of promotional activity and that are characterized by significant fluctuations in demand.

VMCM is a concept for retail demand fulfilment, that combines the ideas of VMI, Category Management (see section 5) and outsourcing. The more frequent application for VMCM is on non-core product categories because the benefits of outsourcing are most obvious: for a retailer, it is expensive to maintain knowledge and skills to manage a minor product category, and the outsourcing risk is at its lowest in a non-core category (Kaipia, Tanskanen, 2003).

An additional front of technological innovation in vertical relationships between firms is that of the *management of supplies via the Internet*, including e-procurement and e-sourcing (A.1.4). It is a front that develops itself at all the previously considered levels of integration.

E-procurement covers a wide range of tools that are similar to the tools involved in the use of Internet technology. It covers every possible e-solution

adopted, to improve the flexibility and speed of the supply chain, especially the inter and intra-company synchronization. Therefore, e-procurement encompasses all phases of back-end and front-end activities, that are digitized and shared with suppliers (Risso, 2009). E-sourcing is an evolution of e-procurement. It includes all stages of the purchase made via the Internet, including the search for new suppliers, their qualifications and certification, up to the negotiation.

Tools for the management of e-procurement and e-sourcing are the electronic marketplaces (e-marketplaces), i.e., electronic platforms facilitating activities related to the transactions and interactions among firms³.

Among the rules for trading on-line adopted in e-marketplaces are reverse auctions (e-reverse auctions), where the buyer requires a good/service, and providers compete for the contract in a downward price game.

3.2 Innovation in Relationships with Final Demand

The most important fronts of technological innovation in the *relationships with the final consumer* (A.2) are checkout technologies (A.2.1), dynamic pricing (A.2.2) electronic and mobile payment systems (A.2.3), distance selling, mainly on-line sales (A.2.4), and Self-Service Technologies (SSTs), such as vending machines and multimedia kiosks (A.2.5).

Checkout or Point of sales (POS) technologies (A.2.1) are applied to locations where a retail transaction occurs. A 'checkout' refers to a POS terminal or more generally to the hardware and software used for checkouts, the equivalent of an electronic cash register. A POS terminal manages the selling process by a salesperson accessible interface. Future development of the technology is towards web based POS software that can be run on any computer with an Internet connection and supported browser, without additional software installations or manual updates required.

The benefits of POS technology are in the possibility to better manage inventory, by combining sales data with the amount and cost of the purchases. This enables the firm to analyze the profitability of individual products and manage inventory more accurately and quickly. Moreover, with data on the rate of rotation and the productivity of products, it is possible to optimize product display in the store through the use of specific space management software.

It has been several years since innovative technologies were being experimented with to make checkout procedures faster and more personnel time saving. The adoption of self-scanning systems, which are currently the most used trials in progress, seems to be only an intermediate solution compared to technologies based on radio frequency transmissions. The spread of these technologies, however, requires that manufacturers apply RFID tags to all individual products.

In addition to POS technology, *dynamic in-store pricing* policies (A.2.2) with the use of electronic shelf label (ESL) systems can be conducted. They may allow price changes depending on time of day and levels of customer traffic in the store. An ESL system consists of a PC, local wireless communication network and electronic labels (small LCD screens). The system obtains information from the store scanner database, and broadcasts it to the shelf labels. The system

continuously monitors the ESLs to ensure that they are present and that they display the correct information (Bergen *et al.* 2008).

ESL systems yield 100% accuracy because the cash register prices are identical to the prices displayed on the ESLs as both are linked to the same database. According to Zbaracki *et al.* (2004), ESL systems are costly to purchase (system price, installation cost, training to employees to use the system) and maintain (continuous upgrade of software and hardware, labels battery replacement, labels replacement after tampering).

Related to POS-scanner technologies are *electronic and mobile payment systems* (A.2.3), that are actually under transition. The extensive use of credit and debit cards for proximity purchases has already demonstrated the possibility of considerably reducing the volume of cash-based transactions. Mobile payments are payments for goods, services, and bills with a mobile device (such as a mobile phone, smart-phone, or personal digital assistant (PDA)) by taking advantage of wireless and other communication technologies (Dahlberg *et al.*, 2008).

Several successful mobile payments systems have already been launched in order to enhance the convenience of micro-payments for local daily expenditures (Ondrus, Pigneur, 2006). These solutions have been principally adopted by various quick-service oriented industries such as public transportation, toll booths, gas stations, fast-food restaurants, retail vending machines and ski resort ticketing (Chou, Lee, Chung, 2004).

Other forms of innovation in relationships with final customers are detectable in *distance selling* (A.2.4) – mainly television (TV), telephone and on-line selling – that represents the evolution of mail order sales. TV sales are revitalizing their innovative role, following technologies that make TV communication interactive, making it possible to make purchases directly through the TV.

The main innovation potential in distance selling, however, comes from online sales, as part of e-commerce. Online shopping remains a small fraction of retail sales despite the well-known benefits of electronic commerce to consumers, including lower prices (Brynjolfsson, Smith 2000), greater selection and availability (Ghose *et al.* 2006), and greater convenience by eliminating travel costs and enabling purchases irrespective of geographic location. There are many reasons for consumers to slow adoption of online shopping habits: inspecting nondigital products is often difficult, shipping can be slow and expensive, and returning products can be challenging (Forman, Ghose, Goldfarb, 2009). That is, there appears to be a set of fixed disutility costs of buying online. These costs vary across products and retailers, and in some markets have created significant hurdles to the continued diffusion of electronic commerce.

The last face of technological innovation in dealing with the final consumer is that of *Self-service technologies* (SSTs), based on interacting technologies, like vending machines and multimedia kiosks (A.2.5). With consumers wanting quick and convenient access to competitively priced products, the vending industry has seen a great deal of growth over the last ten years.

Vending machines are continually updating with the latest technologies, as well as the variety of products that are being sold. One of the newest vending innovations is telemetry. The advent of reliable, affordable wireless technology has made telemetry practical and provided the medium through which cashless

payments can be authenticated. Machines equipped with telemetry can transmit sales and inventory data to a route truck so that the driver knows exactly what products to bring in for restocking. Or the data can be transmitted to a remote headquarters for use in scheduling a route stop, detecting component failure or verifying collection information.

Responsive pricing policies (Courty, Pagliero, 2008) in vending machines are also made possible by technology, e.g., in the case of soft drinks vending machines that are programmed with pricing schemes that vary prices based on consumers' desire at that moment, depending on outside temperature. New energy technology is also making its way to vending machines in the form of hydrogen fuel-cell machines that run off the grid.

Multimedia kiosks, sometimes described as interactive kiosks or public access kiosks, are computer workstations that are designed to provide public access to digital information and e-transactions. Kiosk technology supports public access applications with a highly visible housing for the workstation, and interfaces that are easy to use and often based on touch screens.

Kiosks are typically located in a store, or in a shopping centre or mall, or in other public environments such as railway stations, motorway service stations and airports. Yet, whilst web-based e-business has been the subject of much media and academic attention, kiosks are an unobtrusive addition to the landscape of traditional retail outlets (Rowley, Slack, 2003). In such applications, kiosks represent an innovation in in-store communication and promotion. Kiosks can provide customers with a richness of product information, including, for instance: related products, stock levels and availability, recipes, special offers, and personalised product design. More sophisticated kiosks can be used as the basis for interaction with customers, part of a loyalty programme, and may offer other opportunities for community building, such as those associated with customer-to-customer communication. Multi-media kiosks have been considered as the marketing organisation's opportunity to regain control over the ultimate stage (the point-of-purchase decision) in the marketing cycle (Norris, 1994).

4. Innovation in Channel Relationships

In reference to the *relational perspective* of innovation in marketing channels (B), innovation can occur in upstream activities conducted by channel members, or in their downstream activities, or in relationships with end-customers. Unlike in the previous section, that was focused on the technological perspective of innovation, in this section, a strategic/organizational view is proposed. This perspective provides the conceptual basis for the clearer positioning of innovations related to the technological perspective.

In the case of upstream activities (B.1), the main field of innovation in recent years is that of the *buying strategy of large retailers*. This innovation was step by step, rather than radical.

Following the modernization processes of the distribution sector, large retailers have begun to express autonomous strategies in their assortment choices, by following an active approach to the procurement market. According to this

approach, inventory choices summarize the link between the downstream and upstream markets, ensuring consistent positioning to the retailer.

To respond to rapid changes in the final demand, to the shortening of the life cycle of products, and to the increasing need of improving the efficiency of the physical distribution of goods, retail buying activities have become more dynamic, while also becoming the subject of organizational innovation. These innovations concern the relationship with suppliers and require their involvement (Gonzalez-Padron et al., 2008). Here, the suppliers' role and their importance varies in relation to their product offerings (in terms of brands, originality, uniqueness, innovation), to their size, to the level of concentration within the sector which they belong to, and to the value of their brand (Musso, 1999). While in the past the prevailing behaviour of retailers was to favour larger suppliers, there are now new possibilities of relationships for small and medium suppliers (Grayson, Dodd, 2007). They can find additional space and play a complementary role, based on dynamicity, variety, specialization, and a greater responsiveness to the logics of local sourcing, even at the international level (Pepe, 2007).

In a mirror like position to the supply relations, one main field of innovation in downstream relations is *Trade Marketing* (TM) (B.2) (Dupuis, Tissier-Desbordes, 1996; Fornari, 1990). TM is aimed at identify effective marketing tools facing a retailing sector that is no longer fully controlled by the manufacturer. Even this front, therefore, arises from the process of the modernization of retailing. The retailer, as an intermediary that is both a part of the marketing infrastructure for the manufacturer (through which other marketing tools can be activated), and a customer, becomes the object of the marketing initiatives, which must be consistent with the policies that the manufacturer adopts towards the final consumer, and with the buying strategies of the retailer itself.

The TM brings to the development of innovations in the sales organization for manufacturers, in the use of commercial and promotional tools toward retailers, in the business intelligence processes where the distributor becomes both the object and partner of market analysis. The TM has previously expressed its innovative potential in the use of instruments addressed at the retailer. More recently, the analysis field focusing on the buying process of distributors has been developed. Indeed, as traditional marketing includes the study of the consumer buying behaviour, the TM analyzes retailers' criteria for selecting suppliers and their buying strategies, organization and activities.

Related to the points stressed previously (the buying process of retailers and TM) and to the assortment decisions, is *Category Management* (CM) (B.3). CM is a retail management initiative that aims at improving a retailer's overall performance in a product category through more coordinated buying, merchandising, and pricing of the brands in the category. CM involves the distributor/supplier process of managing categories as strategic business units, producing enhanced business results (Dhar *et al.*, 2001). A category is defined as a distinct manageable group of products that consumers perceive to be related and/or substitutable in meeting a consumer need (ECR Report, FMI, 1995).

CM involves both front-end activities to enhance category demand and back-door activities to improve supply management and logistics coordination with vendors.

The areas of innovation arising from the CM can be identified as follows:

- Criteria for product display in stores.
- Manufacturer's sales organization (roles and product specialization of key accounts).
- Organization for the buying activities of retailers and levels of responsibility; need for coordination between sales and buying activities for retailers.
- Analysis criteria of the role and viability of the product categories.
- Relationship between trade marketing and retailing marketing; and
- VMCM, as a process innovation of the VMI concept, related to the ECR (see Section 4.1).

A further area for potential relational innovation in marketing channels is that of *private label products* (B.4). Retailers are using their store brands as a means of differentiation, helping to drive store traffic and increase loyalty due to unique identification with the store. Moreover, store brands allow the retailer to better meet the needs of a growing value-conscious segment of customers.

Innovation linked to private label products leads to a redefinition of the roles between manufacturers and retailers (Kumar, Steenkamp, 2007), with the latter who appropriate activities of brand policies, promotional activities, and, in some cases, even the research and development of new products. Consequently, a potential loss of all marketing functions of the producer, and sometimes of upstream activities, e.g., design and sourcing, appears. More recently, private label assortments are expanding over the traditional food categories, involving several non food categories, e.g., underwear, batteries, DIY tools, small household appliances and pharmaceuticals.

Again, according to the relational perspective, a further innovation field is that of *Corporate Social Responsibility* (CSR) (B.5) and all its related policies, particularly those relating to the management of ethical products and those related to the monitoring/tracking of supply chains. CSR is an enlarged concept of responsibility, depending on a general evolution of 'values' linked to the relationship between a business organization and its environment. For companies, this means responsibility to consumers, versus that of its shareholders, with the latter related to the maximization of profit and assets. The increasing consumers' sensitiveness to the concept of sustainability has encouraged innovative retailers to adopt a CSR for managing their assortments. More recently, the boundaries of the classic concept of business ethics have enlarged; entering the wider realm of sustainable development. Indeed, the expression 'sustainable development' synthesizes the three dimensions of the problem: the safeguarding of the environment, the respect for human rights, and the fairness in the redistribution of value among all subjects of the supply chain.

A last area in which relational innovation can be developed relates to *customer care initiatives* (B.6), i.e., all activities aimed at strengthening the relationship with the end user based on information obtained through Customer Relationship Management (CRM) processes. The CRM process in the retailing context is associated to the use of loyalty cards, that allow the retailer to obtain a great

number of information from its customers. The technology of loyalty cards allows retailers to transform cold data on consumer behavior into warm and ‘learning’ relationships (Pine, Peppers, Rogers 1995) and into customer loyalty, founded on mutual understanding and trust (Mauri, 2003).

Loyalty programs, which represent tools for improving relationships and the share of wallet (SOW)⁴, offer integrated systems of marketing actions and economic, psychological, and sociological rewards.

For the various innovations seen up until now, regarding relational aspects, the application field is the one of consumer goods, and in a marked prevalence grocery goods. The only exception is CRM that can express itself in industrial goods as well. The first two points (buying process of retailers and trade marketing) are above all developed in the relationships between channel members, even though the connection with the end-consumer emerges when data sharing and joint promotional/communication activities extend to the boundaries of the relationship.

CM, private labels products and CSR, represent fields of cooperation between channel partners, whose effects are towards the end-consumer. The last point – customer care – is more clearly centred on the end-customer, with the retailer as the protagonist, in case of consumer goods, or even the producer, in the case of industrial goods.

5. Retail Change and Channel Structure

According to the *structural perspective* (C), innovation in marketing channels refers to the changes in channel structure, to the development of new channels and to the consequent process of disintermediation, re-intermediation or multi-channel development.

The analysis can be accomplished on the distinction between innovation that is manufacturer led (C.1) and innovation due to the internal mechanisms inside the distribution sector (C.2).

The *innovation undertaken by the manufacturers* (C.1) primarily addresses the research of solutions that can:

- Protect or improve the brand, through a greater control of the distribution that can assure a coherent use of marketing policies at the retail level (price, communication, promotions, store image and layout, as well as visual merchandising).
- Reinforce the relation with the end-customer, even through service policies.
- Reach a higher profitability through the internalization of downstream activities in the value chain; and
- Shorten the channel through a reduction in the intermediation levels.

The main innovations of manufacturers in the structure of marketing channels have occurred at the retail level. They may be related to *franchising* (Gillis, Combs, 2009), mainly at international level (Szulanski, Jensen, 2008); *Multilevel*

Marketing Systems (MVM) (Johnston, Ferrell, Darmon, 2007); *multilevel franchising* (Emerson, 2009) that combines both traditional distribution and direct selling techniques; *manufacturer-owned retail stores* (Wang, Bell, Padmanabhan, 2009); *factory outlets* (Bray, Berger, 2008); and *pop up stores*, also named 'guerrilla stores' (Niehm *et al.*, 2007).

The latter are *temporary stores*, that represent the latest expression of innovative solutions adopted by brand manufacturers, as a new experiential marketing format intended to engage consumers. Pop-up retail entails creation of a marketing environment focused on promoting a brand or product line, available for a short time period, and generally in smaller venues that foster more face-to-face dialogue with brand representatives, which is a top factor attracting people to the experience (Gordon, 2004). Moreover, pop-up retail is applicable beyond traditional retail environments or in businesses associated with creating retail environments, such as apparel retailers or restaurants (Shanahan, 2005). Pop-up retail may be event-driven and mobile, and generally depends on guerrilla marketing techniques (e.g., word-of-mouth) instead of mass media campaigns to draw people (Trend Watching, 2006).

Following a structural perspective, *e-commerce* – analyzed in Paragraph 4.2 as an innovation in the relations with the end-customer – can be included among the innovations that can bring about the birth of new channels. The emergence of new e-commerce related channels represents a matter of multi-channelling, rather than that of disintermediation, as will be discussed later in this section.

The innovation in the structure of marketing channels that originates *within the retailing sector* (C.2) can be considered as part of its continuous changing process. Since the first contributions by which McNair (1958) and Hollander (1960) developed the Wheel of Retailing theory of retail change, many other reviews of such theory (Mårtensson, 1981; Brown, 1988; Levy, Weitz, 2001; McGoldrick, 2002) and other theories have been developed in order to describe and explain retail change; e.g., Retail Accordion (Hollander, 1966); General-Specific-General Cycle (Gist, 1968), Retail Life Cycle (Davidson *et al.*, 1976), Dialectical Perspective (Gist, 1968); theories based on biological metaphors (Dreesmann, 1968); theories based on open systems perspective (Markin, Duncan, 1981; Roth, Klein, 1993) and the concept of the Big Middle (Levy *et al.*, 2005).

Today, researchers are claiming that the boundaries between new retail formats are becoming increasingly blurred (e.g., McGoldrick, 2002).

The retailing based innovation in marketing channels can also be seen as a 'product innovation' of the retail offer. The product innovation in retailing is intended both in the perspective of the rising of new distributive format/concepts of retail stores, and in the perspective of a continuous evolution of the commercial offer through: the marketing levers (assortment, price, promotions, merchandising, etc.); the environment and all soft attributes of retail stores (visual merchandising, the architecture of retail stores, layouts, equipment, etc.); the relations with the end-customers (fidelity cards, micromarketing, and one to one marketing); and the offer of services that lie outside the traditional competitive boundaries (catering, entertainment, cultural services, etc.) (Castaldo, 2001).

Both in the case of structural innovation developed by manufacturers, and that developed inside the retail sector, the arising of new channels leads to the phenomenon of *multi-channelling*, especially with e-commerce, that enables the integration of online sales into a portfolio of multiple alternative distribution channels (Agatz *et al.*, 2008).

For manufacturers, major marketing-related concerns in multi-channeling include cannibalization and channel conflicts (Webb, 2002). With an increase of the number of channels carrying the product, the sales derived from each channel are reduced making it difficult for a firm to recover its costs. Conflicts may arise between different divisions that manage a company's different channels, but even more so between different supply chain members, for example a manufacturer competing with its own resellers through a customer- direct Internet channel (Tsay *et al.*, 2004).

Consequently, managing the overall portfolio, rather than individual channels, is key in multichanneling and a multi-channel strategy (Rosenbloom, 2007) is necessary. It is important for vendors to manage customer interactions across different channels using a common set of information and processes, and leveraging information learned on any channel to provide better services or more targeted offers on other channels. From an operations management perspective, economies of scale from the integration of multiple channels need to be weighed against specific requirements of each individual channel. Thus, companies need to make trade-offs when deciding which processes to integrate across channels and which processes to separate (Gulati, Garino, 2000).

6. Conclusions and Emerging Issues

The analysis conducted in this study was aimed at contributing to a vision of innovation in marketing channels, which was not limited to a few specific aspects of innovation or to the single stages of the channel, and which considered the channel as a whole. The need of this vision comes from the fact that actually most of innovations in marketing channels occur in interaction activities, with effects that can only be assessed with a comprehensive perspective. Indeed, manufacturers, wholesalers, retailers or even customers have become increasingly problematic to be analyzed as separate categories. The role of retailers and their counterparts seems to have changed when it comes to activities like design of products, price setting, purchasing and manufacturing. Private labels, online marketplaces and the organizing of multiples are three aspects where the roles of manufacturers, wholesalers, retailers and consumers are becoming more blurred.

The classification suggested in this work, following three different perspectives – a technological one, a relational one, and a structural one – represents a reference point for studying, in depth, at an empirical level, the innovation processes that arise from the interaction between channel members and in relation to the end-customer.

Some aspects that need further study have emerged from this work.

A first issue has to do with the analysis of the following innovation drivers:

- Changes in the final demand and corresponding new needs/expectations that could be faced with innovation in distribution/retail services and formats.
- Development of technology that offers new opportunities for companies to introduce innovations, both in the offer of distribution services, and in the channel relations or in the relations with the end-consumer.
- Horizontal competitive mechanisms – both between manufacturers and between retailers – as well as vertical competitive mechanisms, that lead to new organizational and structural solutions in marketing channels.

The second issue that requires a more thorough analysis is that regarding the necessity to accomplish a conceptual framework connecting the elements that affect innovation to their consequences in channel relations and in the relations with the end-customers. This framework should be developed in the distinction between consumer goods and industrial goods. As it emerged in the recent literature (Ganesa, Gorge, Jap, 2009; Rosenbloom, 2007), multi-channelling represents a common and transversal theme in innovation dynamics together with that of the implications that the Internet and e-commerce development constantly produce.

A final aspect that needs to be further clarified regards the time horizon that should be taken as a reference for innovation analysis. The problem does not arise in the analysis of what happened, but to that of what will happen. Fast developing technologies are opening new views to great changes in regards to the habits and modality of consumption, of purchasing activities, of the interaction between companies, and of time management. These changes will require companies to search for new organizational models, new management of channel relationships, as well as new models of communication.

In the face of all this, there is the problem of discriminating between a medium period viewpoint, assuming the current state of the technology ‘with existing plants,’ and a long-term period viewpoint, with very more advanced technologies. This difference, with most companies that are often linked to a short-middle term perspective, is of particular importance for addressing strategic choices, both of manufacturers and retailers.

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Notes

¹ The ECR was founded in 1987 in the United States on the initiative of Procter & Gamble and Wal-Mart. The ECR project has spread into the next decade, even in European markets, where national ECR associations have been established. The two key elements of ECR projects are aimed, firstly, at ensuring the flow of goods without stock breakings, and secondly, at regulating the information flow between actors within the channel through communication systems, such as Electronic Data Interchange (EDI) and new Internet based information technologies.

² Cross-docking is the practice of unloading materials from an incoming semi-trailer truck or rail car, and loading these materials directly into outbound trucks, trailers, or rail cars, with little or no storage in between. Cross-docking can be managed according to the logic of the multi-vendor platform (platform common to several manufacturers) or multi-retailer (platform common to several retailers).

³ E-marketplaces may take different connotations, depending on the types of users and how their interactions work. An e-marketplace is called vertical when transactions are related to a specific sector or market segment. It is called horizontal if it accounts for different industrial sectors. Regarding the selection process of participants, an e-marketplace is called public if it is open to all companies wishing to buy or sell online, whereas it is called closed or selective, when restrictive criteria are set for access.

⁴ Most grocery shoppers have a primary or focal store in which they make a large share of their purchases, but the extent to which other stores are used routinely, and consequently the share devoted to the focal store, varies across consumers. In this context, customer SOW corresponds to the share of category expenditures spent on purchases at a certain store, which integrates both choice behaviour and transaction values during a specific time period into a single measure of customer share. For retailers, SOW is of great significance, because they need to know how shoppers divide their purchases across competing stores and how they can increase their share of total expenditures.