Recruiting and Managing Channel Members

Once a company has selected a channel, the next step is to include it into its distribution network by giving formal recruitment letter that includes terms and conditions. This also states that this agreement is nor permanent and subject to renewal depending on the performance. However, while recruiting the channels, the terms and conditions may deal with following issues:

- Exclusive dealing: Producers allow certain sellers to carry its products only and not the competitors' products. The company benefits from having some dependable and loyal outlets whereas the dealers benefit from obtaining a steady source of supply of special products and strong seller support. You will never find any Nike or Bata outlet selling the products from the competitors.
- Exclusive territories: This arrangement may be of 2 types:
  - The producer may agree not to sell to other dealers in a given area, which can increase the enthusiasm and commitment of the dealers under contract. The FMCG companies demarcate operational areas (known as catchment areas) for most of their dealers.
  - The dealer may agree to sell only in its own territory. The dealers of FMCG companies are not allowed to send their stocks (known as trade load) to other's areas.
- Tying agreements: Producers of a strong brand sometimes lay down contracts that they will allow the dealers to sell their strong product if and only if they agree to sell some or all the other brands (in most of the cases, these are the brands that are not moving well in the market). This practice is also called full-line forcing. HLL tells its dealers that it would only give them a strong brand like Lifebuoy if they also agree to sell a brand like Vim.
- Dealers' rights: Producers are free to select their dealers, but their right to terminate dealers is restricted. The producer can terminate dealers if they fail to comply with some pre-

determined rules and regulations; but they cannot drop the dealers if they are did not agree to comply with exclusive dealing or tying agreements.

Training channel members

Companies need to plan and implement training programmes for channel members to inform them about various policies of the company, the change in marketplace or about some new product launch and trade promotion schemes.

Motivating channel members:

A company needs to view its intermediaries in the same way that it views its end users. The company needs to determine intermediaries' needs and construct a channel positioning such that it can provide superior values to these intermediaries. The company should provide training programmes, market research programmes and other capability-building programmes to improve intermediaries' performance.

McDonald suggested the following components of customer service for a manufacturer while dealing with retailers:

- Frequency of delivery
- Time from order to delivery
- Reliability of delivery
- Emergency deliveries when required
- Stock availability and continuity of supply
- Orders filled completely
- Advice on non-availability
- Convenience of placing order
- Acknowledgment of order
- Accuracy of invoices
- Quality of sales representation
- Regular calls by sales representatives

- Manufacturer monitoring of retail stock levels
- Credit terms offered
- Customer query handling
- Quality of outer packaging
- Well-stacked pallets
- Easy-to-read use-by dates on outers
- Quality of inner package for in-store handling and display
- Consults on new product/package development
- Reviews product range regularly
- Co-ordination between production, distribution and marketing

Controlling channel members:

It is very important for the companies to control their channel members otherwise they cannot fulfil their business objectives. The companies can use various types of power to secure the compliance of channels members:

- Referent power: This occurs when the manufacturer is so highly respected that intermediaries are proud to be associated. This is based on channel members' identification with, attraction to, or respect for, the power holder (company). The respect that the channel members show towards reputed companies like Maruti or ITC shows the impact of this kind of power.

- Expert power: It can be applied when the manufacturer has special knowledge, skills and abilities that the intermediaries value. The companies like Sony, IBM or Intel enjoy this type of power for their highly technical products.

- Legitimate power: It stems from an authority's legitimate right to require and demand compliance and comes into action when the manufacturer requests a behaviour that is warranted under the contract. Any company that has clearly written rules and conditions signed by the channel members with them claims to have this type of power if any channel member fails to fulfil any of the conditions specified there.

- Reward power: It occurs when the manufacturer offers intermediaries an extra benefit for performing specific acts or functions. This is very evident when companies organise trade promotion schemes among the channel members to boost the sales. This type of power produces better results than coercive power but can be overrated. The intermediaries are conforming to the manufacturer's wishes not out of conviction but because of an external benefit. They may come to expect a reward every time the manufacturer wants certain behaviour to occur. If the reward is later withdrawn, the intermediaries feel resentment that could have negative impact on sale.
- Coercive power: It is the capacity to dispense punishments to those who do not comply with requests or demands and occurs when a manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. The market dominant companies like HLL in FMCG sector or Times of India in newspapers use this power as they know they are so dominant in the market that the channel members depend on them too much for their living and termination of contract will doom their business.

Creating Channel Commitment:

Channel members are of paramount importance in the smooth running of a business. However, with the increasing involvement of channel partners, there tend to be occasional glitches in the system. To ensure a free flow of ideas and information among the channel partners, a congenial environment based on commitment and mutual trust is necessary. Trust between channel members has a significant effect on the productivity and longevity of the relationship.

Trust between channel members increases cooperation, and reduces the inherent uncertainties perceived by the members in the business. This trust considerably reduces the chances of the partners leaving the supply chain. The relationship can be further enhanced through shared values, and open and effective communication.

There are three main types of channel commitment:

- **Affective commitment:** It is a commitment to the channel out of free will and a genuine desire to improve the working relationship. This provides positive results.
- **Moral commitment** is a relationship that is maintained because the channel member feels it is the right thing to do.
- **Calculative commitment:** It refers to a relationship that is maintained out of obligation or under duress. The calculative commitment has a very strong negative impact on the channel partner relationship while channel partner relationships need to be continuously monitored and friction in channel relationships should be nipped in the bud.

With constant care and honesty, coordination among the channel members can be enhanced, leading to the long-term success of the business.

Handling of conflicts among channel members:

Conflict within distribution channels is a situation in which one member of a distribution channel system views another as an antagonist. As a result such a channel member might act towards the perceived 'enemy' in an unfriendly way and may even try to cause business problems. Such actions may upset the finally tuned distribution system and have damaging consequences for other members of the channel system.

The companies and their channels may be considered as big extended family in which each member has their own aspirations and objectives. For smooth operations, there has to be congruence of the overall objective to each one's objectives. But some cases arise when they face conflicts when their personal objectives clash with each other. This is like a joint family where sometimes the members engage into conflicts. Although channel conflict may sometimes lead to improved channel standards when the members start competing among themselves, but in most of the cases it is destructive in nature, significantly impacting the channel structure and morale. Hence, the company acting as father figure of the family should resolve these conflicts quickly and judiciously to resume the smooth business operations. The managers can do it proactively if they can identify the symptoms of such conflicts, which are:

- Overlapping prospects: When multiple members of the channel compete for the same group of prospects, it can be interpreted as good market coverage. However, research shows that if the overlap exceeds 15 – 25 % of the channel sales, it can lead to trouble.
- Eroding consumer satisfaction: If multiple channels are offering the same product, the consumer may experience redundant product acquisition costs.
- Member resistance: The retailer or the dealer may reduce support to your product by switching brands or providing a less than prominent point-of-display.
- Drop in sales force productivity: A conflict between the direct sales force and other channel members can lead to a drop in sales per representative and increase in management costs.
- Change in consumer perceptions: If the channel conflict shifts the focus from product to price, it can change the way consumers perceive the product.

In order to this they have to analyse and find out the answer of 3 questions:

- What are the types of conflicts?
- What are the causes of such conflicts?
- How to resolve these conflicts?

The types of conflicts:

Conflicts in distribution channels may take different forms. Joseph Palamountain has identified three conflict types that are discussed below. Let us understand these conflicts keeping in mind the example of newspaper industry:

Multichannel or Intertype conflict:

It exists when the manufacturer has established two or more channels that sell to the same market. In newspaper industry, this type of conflict occurs when all of the retailers like newspaper hawkers, newspaper stands or unconventional outlets (like paan shop, grocery store, petrol pump that are being used by the newspaper companies to create more availability) target the same end users (readers) in the same locality.

This sort of conflict has increased in recent years principally because of the growing practice among intermediaries of ‘scrambled’ merchandising, a practice which involves intermediaries dealing with products that were previously outside their normal product range. Intertype conflict can be seen as a sort of Darwinian evolution taking place among different sorts of channel intermediary at the same level within the channel system. It is a kind of ‘survival of the fittest scenario’ being played out on the channel ‘battlefield’. Over time the most profitable, most efficient and most popular type of channel configuration will come forth and tower above the others until further configurations evolve and compete against the entrenched order of things and the whole cycle repeats itself.

Horizontal channel conflict:

It involves conflict between members at the same level within the channel. In newspaper industry, this type of conflict occurs between the agents or hawkers when they intrude into other’s territorial areas they cover. The overall channel system should be a set of interlocking and mutually dependent elements and it is in the interests of all the cannel members to be of high degree of co-operation between each.

Vertical channel conflict:

This type of conflict is intrinsically more detrimental to the manufacturing firm as it can demolish the free flow of goods travelling along the channel 'pipeline' and result in a ‘blockage’, which can have serious outcomes for the business interests of the manufacturing firm and other channel members in all levels of the system. This type of conflict involves various levels within the same channel. In newspaper industry, this type of conflict occurs between the company and agents (dealers/distributors) or the agents and hawkers or newspaper stand owners (retailers). Communications becomes that much more difficult in such a situation and exacerbates the problem. This type of conflict can be particularly damaging and very difficult to resolve because the channel members are situated within so many different layers within the channel system.

The causes of conflicts:

Let us again take the example of newspaper industry to understand the major causes.

- Goal incompatibility: This refers to the differences in goals and objectives of various channel members. In order to penetrate more into the market, the company may decide to appoint more agents in near vicinity or pressurised by the company, an agent may appoint more hawkers in the same locality; thus creating conflicts among them. The newspapers also sometimes reduce their cover price to skim the market. But for agents and hawkers, this move results in decline of their profit margins and they may feel resented.
- Market evolution: Increasing a competitive presence will provoke companies to step up channel activity that may result in more uncertainties in channel network.
- Industry environment: The environment in which an industry operates will have a significant impact on the channel strategy. A change in this environment could lead to conflict.
- Accounts: Addition of new accounts or changes in individual accounts can alter the channel strategy thus creating conflicts.
- Strategic objectives: The strategic direction of the business is continuously adapted to the changing scenario. If the channel strategy is also not modified in conjunction, it can lead to conflict.
- Unclear roles and rights: Often conflict arises when the channel members are not quite aware of the role of each other. In case of consumer promotions like organising a coupon contest, the company expects the agents to assume responsibility at the local level whereas the agents may not have much clear conception of this responsibility.
- Interdependence: The conflict may also arise in case of malfunctioning of any channel member because all the channels are mostly interdependent to each other. For instance, a company has decided to stop the supply of newspapers to one agent due to payment or any

other problem as a result of which the hawkers who used to take papers form that agent suffer thus creating conflicts. On the other hand, if the hawkers go for a strike, both the agent and the company loss their sale.

Managing the conflicts:

There are various ways to manage conflicts. We will discuss about that keeping mind the types and causes of conflicts discussed above.

- Diplomacy: This takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. In case of hawker strike, the company and agent may send their executives to solve the problem amicably.
- Mediation: This means resorting to a neutral third party who is skilled in conciliating the two parties' interests. The conflict between a company and their dealers often has to be solved by an unbiased third party like government or some other constitutional body.
- Arbitration: It occurs when the two parties agree to present their arguments to one or more arbitrators and accept the arbitration decision.
- Superordinate goals: Channel members come to an agreement on the fundamental goal they are jointly seeking, whether it is survival, market share, high quality or customer satisfaction. Hence instead of arbitrarily appointing agents to boost up the sales, a company should sit with its existing channels to discuss about the issues and find out a solution that is acceptable to both of them.
- Exchange persons: The different channel levels swap their positions in order to appreciate each other's point of view. The company can send their executive at the agent's place or somebody form the agent's side can come to company's place to see what are the problems and how could that be solved.
- Co-optation: It is an effort by any member of channel network to win the support of other members by including representatives from them in the decision-making bodies. Hence many companies include dealers and retailers to take any local-level decisions.

- Patronising trade associations: Various channel members can reduce conflicts and create a friendly relationship with other members by actively supporting their associations. Many pharmaceuticals patronise various conferences and conventions organised by the doctors and medical representatives.

Let us discuss a little bit more on how to tackle some specific and very common channel conflicts. Depending on the nature of these conflicts, a channel manager can take responsive measures.

How to overcome Overlap:

When two or more channels target the same group, the resulting situation is described as channel overlap. The potential conflict that ensues can be avoided by applying the following strategies.

- Differentiation: Differentiating the product offering achieves dual benefits for the channel manager. Firstly, he can break down the target segment into sub-segments. More importantly, he can differentiate the channel offering based on the differentiated product proposition.
- Structural controls: The channel manager can apply structural controls and define exclusive territories for members. These can be based on accounts, products or geographic location.

How to overcome Deterioration:

If the channel structure is in a complete state of disarray, the channel manager can initiate economic measures to consolidate.

- Functional compensations and discounts: These can be adopted when dealing with inconsistent cost structures across channels. The compensation is based on the measurable performance of a specified task. Providing members with discount to increase stock level is an example.

- Shared costs: The manufacturer can share costs with the channels. For instance, a manufacturer can share costs to install an inventory management system for the dealer.
- Compensation for market share: This is a method to deal with conflict between direct and indirect representatives. Direct representatives are adequately rewarded for increasing market share, and the focus is on the territory rather than the channel. This ensures that direct sales representatives develop mutually beneficial relationships with channel members.

<u>How to overcome Retaliation</u>:

If the conflict leads to retaliation from a dysfunctional member, the channel manager has the following alternatives:

- Leverage brand strength: The brand portfolio that manufacturers command reduces the possibility of a channel conflict to minimum. They can leverage the brand strength to pre-empt any retaliation from such members.
- Shift volumes: If an emerging channel adds to the competitive strength of the company, the channel manager can consider migrating volumes from the existing channel to it.
- Back out: In some cases, the channel member is the only point of interaction with the consumer. This provides him with a significant edge over manufacturers. Backing out may be the only option for the channel manager.

Evaluating channel members:

The companies must appraise their channel members in terms of their sales volume, average inventory level, degree of customer satisfaction, payment pattern and cooperation in promotional and brand-building activities. Depending on the results, the company may decide whether any channel will continue its operation or need some training programme or get terminated.

Appraisal of the performance of individual channel member is yet another important element of channel management. Performance appraisal must bring forth the strengths and weaknesses of the channel member. If the performance is below the desired level, remedial action must be taken promptly. The appraisal should specifically identify areas where improvement is called for.

The appraisal has to be based on pre-agreed standards of performance. Appraisal based solely on sales volume will be inadequate. The ranking done on this basis may not correctly reveal the contribution made by different channel member. The fact that channel member face varying environments in their sales operations should be taken into account while appraising their performance. A wider set of relevant criteria must be used in the appraisal, while the criteria may vary from company to company and product to product.

Performance appraisal is intended to serve as a means of improving the performance of channel member. In extreme cases, however, the appraisal may lead to the termination of the channel member. When termination is the only alternative, the firm should not hesitate to take that course.

Basically, all channel members are evaluated on the basis of whether they have met their assigned targets or not. Customer satisfaction surveys are also conducted to evaluate the quality of service provided by the channel member.

Weaknesses Commonly Noticed in Networks

- The Network is inadequate size-wise
- The network is inadequate, qualitatively
- The network is not properly spread out.
- The interior markets are not covered properly
- A part of the network is inactive
- Quite a few links in the network are unviable
- The network is excessive for the task on hand

Training and Development

Training is another important part of channel management. The primary purpose of training is to improve the performance of the channel members through a sharpening of their sales skills and product knowledge. Upon the channel members rests the responsibility of sensing, serving and satisfying the needs of the customers. The intermediary cannot fulfill this role unless they are equipped with the requisite knowledge, skills, techniques and attitudes. Any progressive firm will, therefore, make training an integral part of its channel management endeavour.

The content and methodology of training should be framed so as to suit the back- ground of the channel member and the contextual requirements. The prime purpose of the training is to impart to the channel member knowledge about customers, about products, about competition, and about merchandising and sales techniques. In addition, essentials of inventory management, credit management and sales promotion can also form part of the training content. When competing companies match each other in the marketplace in every aspect, it is the training provided to the channel member that makes them different. And that's why most companies are now concentrating their energies on training. They now consider it a necessary investment.

Real Life Case Scenario

Hyundai Motors India

Hyundai Motors India, for example, took all its 70 dealers to Korea a before the launch of its Accent model. Daewoo and Hyundai both conduct regular in-house training programmes for their dealers. Concorde, a Telco-Jardine Matheson JV; created for setting up the dealer network for Indica, conducts in-house training for Indica dealers. And, Maruti has tied up with National Institute of Sales for training its dealers.

Resolving Channel Conflicts

Sometimes, there may be unhealthy competition and conflicts among the different channels/ channel tiers employed by a firm. There may also be conflicts among the channel members within a given channel type/channel tier. These conflicts must be handled with tact and fairness.

In managing marketing channels, firms will usually encounter some 'bottom-up pressure'. The retailers would exert pressure on the wholesalers/stockists, and the latter would pass it on to the firm. Sometimes, the wholesalers/stockists may have their own problems with the firm. Wise firms anticipate the pressures that can emerge from the different layers of the channels and formulate appropriate channel policies. Following example shows a proper measure of tackling dealer conflicts.

Real Life Case Scenario

Wipro Infotech Group

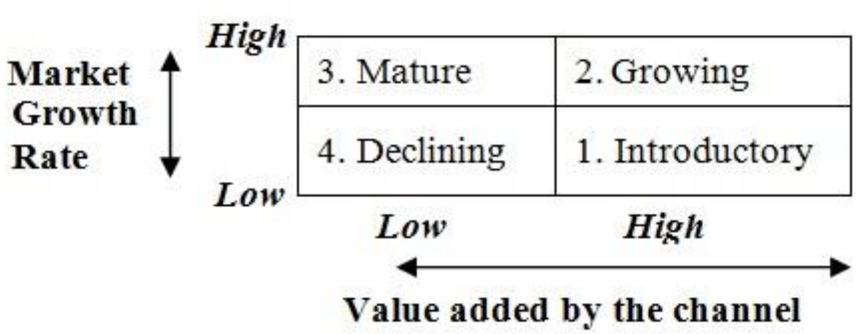
Wise firms follow a sound policy with regard to dealer conflicts. Wipro Infotech Group (WIG) can be cited as an example. In the first place, it makes a conscious effort to reduce the scope for conflicts among dealers through dealer/product class/marketing segment alignment. It has reduced the scope for conflicts among dealers, by explicitly defining the territories of operation of each. Often, there is stiff competition among WIG dealers and they frequently under-cut each other. The under-cutting is compounded by the fact that different dealer categories have varying margins. For example, an A + category dealer will be able to easily under-cut a B category dealer. This de-motivates the smaller dealers. So, the company strictly enforces the sales territories. The scope for cannibalisation is also removed. And when conflicts do occur, WIG tries to resolve them in a fair and firm manner. When overlapping does occur, then it negotiates with both the dealers, evaluates as to which of them is capable of satisfying the needs of the particular customer more efficiently and entrusts the customer with him. And while doing this, it takes care to protect the sentiments of the losing dealer.

Modifying channel arrangements:

The companies should periodically review the channel management and consider of modifying the channel structure if needed. The decision of modification of the channel mechanism depends on factors like:

- The change in consumers' attitudes, expectations and buying patterns
- The expansion of markets
- The degree of competition
- The change in technology
- Availability of alternative channels
- PLC stages of the product: The PLC stages determine the nature of channels.

The relation between market growth and value added by channels



- Introductory stage: New product enters the market through specialist channels such as boutiques, hobbyist shops that spot trends and attract innovators and early adopters.
- Rapid growth stage: As interest grows, higher-volume channels such as dedicated chains, department stores appear that offer services but not as many as the previous channels
- Maturity stage: As growth slows, some competitors move their product into low cost channels such as mass merchandisers.

- Decline stage: As decline begins, more low-cost channels such as off-price discounters, mail-order houses

Hence, depending on the PLC stage, a company should select their channel strategy.

New distribution channel

A well-articulated strategic logic for entering a new or emerging channel of distribution is the bedrock of any channel migration decision. The following six questions are helpful in evaluating the opportunity presented by the new distribution channel:

1. How attractive is the value proposition that the new distribution channel gives our target segments?
2. Is the proportion of our target segment attracted to the new channel large enough to demand our attention?
3. Do we have a differentiated value proposition or an operational advantage in serving customers through the new channel?
4. Is our cost structure and value network optimized to serve customers through the new channel?
5. What can and will competition do with the new channel?
6. How will the new distribution channel change consumer channel preferences and strategies of existing channel members?

In light of the answers to these questions, becoming either an early adopter or a follower first requires that a company balances the potential for additional sales and margins against the risk of upsetting its existing distribution structure.

The structure and mechanism of channel members

There can be 3 structures of channel management.

1st type of structure: Vertical Marketing Systems

The conventional marketing channel comprises independent producer, wholesaler(s) and retailer(s), each of which is separate business entity. On the other hand, a Vertical Marketing System (VMS) comprises the producer, wholesaler(s) and retailer(s) acting as a unified system. McCammon defined VMS as professionally managed and centrally programmed networks pre-engineered to achieve operating economies and maximum impact through integration, co-ordination and synchronisation of marketing flows from point of production to points of ultimate use. This is the combination of a set of marketing channels that is professionally managed and centrally controlled by a single channel member named as *channel captain* that owns the others or franchises them or has so much power that they will cooperate. The channel captain can be producer, wholesaler or retailer. VMS has following advantages:

- It is easier to control channel behaviour
- It is easier to eliminate conflicts that result when independent channel members pursue their own objectives.
- It improves distribution efficiency by combining the efforts of individual channel members
- The economies of scale through size, bargaining power and elimination of duplicated services can be achieved.

The different types of VMS are:

- **<u>Corporate VMS</u>:** It combines successive stages of a marketing channel network like production and distribution under single ownership. Reliance owns all the stages from oil exploration to oil refinery, petrochemicals, PFY (textile fibre) production and manufacturing of apparel (Vimal branded textiles).

- **Administered VMS:** In this type, channel members remain independent, but informal co-ordination allows for effective inter-organisational management of successive stages (form production to distribution) through the size and power of one of the members. HLL maintains an extensive distribution management of thousands of dealers and lakhs of retailers. These are independent in operation, but are controlled by HLL through their sheer size and professionalism. The same example can be cited in case of Coca-Cola and Pepsi who manages a huge network of bottlers, wholesalers, dealers and retailers.

- **Contractual VMS:** In this structure also known as Value Adding Partnership (VAP), the channel members are also independent like in Administered VMS, but the difference is that their inter-organisational relationships are formalised through contracts or other legal agreements. This structure enables integrating operational procedures on a contractual basis to obtain more economies or sales impact than they could achieve alone. Contractual VMS can be of 3 types:
    - ***Wholesaler-sponsored voluntary chains***: Wholesalers organise voluntary chains of independent retailers to help them compete with large chain organisations. The wholesaler develops a programme in which independent retailers standardise their selling practices and achieve buying economies that enable the group to compete effectively with chain organisations.
    - **Retailer cooperatives**: Retailers take the initiative and organise a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-operative and plan their advertising jointly. Profits are passed back to members in proportion to their purchases. Non-member retailers can also buy through co-operatives but will not have share in profits. The examples are various consumers' cooperatives.
    - ***Franchise organisations***: 'Franchise' in French means privilege or freedom. Franchising refers to a business arrangement, where one party (franchiser) grants another party (franchisee) the right to offer, supply or distribute goods or services, under a system or marketing plan substantially determined, controlled or suggested by the franchiser. The franchisee is authorised to use the franchiser's brand name, logo, products and method of operation in lieu of royalty payments and prescribed fees

/charges. The common goal of the franchiser and the franchisee is to dominate a specific market, and keep customers coming back for more. Companies like McDonald's, Burger King, Coca-Cola and PepsiCo have successfully adopted franchising into their distribution system. Some forms of franchising are:

- Manufacture-sponsored retailer franchise: Producer licenses its dealers to sell its cars. The dealers are independent business people who agree to meet specified conditions of sales and service. Maruti licenses its dealers to sell cars.
- Manufacture-sponsored wholesaler franchise: The company licenses wholesalers in various markets. Coca-Cola licenses bottlers (wholesalers) to buy the syrup concentrate solution and then carbonate, bottle and sell to retailers in local markets.
- Service firm-sponsored retailer franchise: The service firm organises a whole system for bringing its service efficiently to consumers. The food companies like Domino's Pizza or Pizza Hut have this kind of system

The different types of franchise systems are:

1. **Territorial franchise**: The franchisee (who oversees several territories) has the responsibility of setting up individual franchise units within his territory.

2. **Operating franchise:** An independent franchisee controls own franchise and deals directly with the parent company or with the territorial franchiser.

3. **Mobile franchise:** Dispensing goods from a vehicle either owned by the franchisee or leased from the franchiser.

4. **Distributorship franchise:** The franchisee takes ownership of goods, and redistributes it to sub-franchisees.

5. **Co-ownership franchise:** The franchiser and franchisee share investment and profits.

6. **Co-management franchise:** The franchiser controls a major part of the investment, and profits are shared proportionately.

7. **Leasing franchise:** The franchiser leases land, building and equipment.

8. **Licensing franchise:** The franchiser supplies the product or provides a list of approved suppliers to franchisees, and gives them license to use the trademark and business techniques.

9. **Manufacturing franchise:** The franchiser grants manufacturing rights with the use of specified materials and techniques to the franchisee.

10. **Service Franchise:** A franchisee provides professional service according to the guidelines of the franchiser.

Franchising allows the franchiser to expand rapidly and enhance the scale and the image of the business. The franchisee enjoys a shorter learning curve, and reaps the benefits of joint advertising and promotion, training, and support services from the franchiser. The franchising business system, - one that gives small and mid-sized businesses the opportunity to expand into multi-million dollar companies, is poised for tremendous growth in the years to come. Some types of franchises depending on the nature of business are:

> **i. Product and trade type franchising:** It is a distribution agreement under which a supplier (the franchiser) authorizes a dealer (franchisee) to sell a product line. (Example: Ford, Honda)
>
> **ii. Business Format franchising:** This kind of franchising covers an entire method for operating a business. In this form, the franchiser may be a manufacturer that provides franchisees with merchandise .A successful retail business sells the right to operate the same business in different geographical areas. (Example: Kentucky Fried Chicken)

The benefits of franchising are as follows:

- It is mutually beneficial to both franchiser and franchisee.
- Franchisers can cover a new territory in little more than the time it takes the franchisee to sign a contract. They can achieve enormous purchasing power.
- Franchisers also benefit from the franchisees' familiarity with local communities and conditions, and from the motivation and hard work of employees who are entrepreneurs rather than "hired hands."

- Franchisees benefit from buying into a proven business with a well-known and accepted brand name.
- Franchisees also receive support in the areas like marketing, advertising staff selection, training and financing.

2nd type of structure: Horizontal Marketing Systems

In this structure, which is also known as Symbiotic Marketing, two or more companies at same distribution level work together on a temporary or permanent basis or create a joint venture to tap resources or undertake programmes to exploit an emerging marketing opportunity. The reason for this decision could be lack of capital, know-how, production or marketing resources by individual company or they are afraid to take risk on venturing alone. Standard Chartered Bank entertains private insurance companies like Bajaj Allianz or ICICI Prudential to sell their insurance products form selected Standard Chartered branches.

3rd type of structure: Multichannel Marketing Systems

Many companies use two or more marketing channels to reach one or more customer segments. HLL uses the traditional dealer network system as well as MLM (Multi-Level Marketing) channels to sell their products. The benefits to use this type of system are:

1. Increase in market coverage: The companies can get access to the untapped markets.
2. Lower channel cost: It also helps to optimise the channel cost in certain cases
3. More customised selling: The companies can alter their distribution as per the customers' needs.

But there are some disadvantages also. They are:

1. More channel conflict: Various channels targeting the same customer can create resentment and confusion among them.
2. Problem in controlling various channels: Too many channels creates the problem for the controlling company to manage them

3. Degree of freedom: The degree of freedom given to channel members may make them do whatever they wish creating problems for company.

4. Non-cooperation among the different channels: In order to achieve own objectives, the channels may not co-operate with each other and create conflicts among them.