Channel Conflict Challenges

This activity highlights several common channel conflict situations, across three different industries. For each situation, your task is to determine how you could minimize the level of conflict.

Chemists (drug stores) and Supermarkets

Pharmaceutical (drug/medicine) companies make a broad range of products. Some must be sold via chemists/pharmacies (such as medicines), whereas some can be sold in supermarkets (such as headache tablets). Obviously, supermarkets offer significantly greater sales potential.

This channel conflict challenge revolves around the distribution of a range of popular vitamin tablets. Traditionally, they have been sold only in chemists. However, as the overall market has become more health conscious, the major supermarket chains have approached the pharmaceutical firm, as they now want to also sell this product.

The chemist's channel is not happy with this news. Obviously, the supermarket chains are in a position to under-cut them on price, which would mean that they would lose this profitable product line, as well as a number of their customers who only visit a chemist to buy this product.

Therefore, the chemist's channel has indicated to the firm that they want to keep their exclusive arrangement in place; otherwise, they will be less willing to distribute the firm's range of other products (that is, medicines).

Insurance Companies

Traditionally, most insurance products have been sold via agents and brokers. However, with the advent of call centers and the internet, it has become easier for insurance companies to sell their products directly to end-consumers.

Clearly, by dealing direct and not paying commissions, the insurance firms can usually offer their products at much cheaper premiums. Naturally, insurance agent/brokers are not very happy with this situation.

The initial challenge for the insurance company is that most of their sales are achieved through insurance agents/brokers. These distributors find and sell to the customer and place the business with the insurance company. If they became unhappy with a particular insurance company, they would simply stop placing any business with them.

Therefore, how could an insurance firm start selling insurance directly to end-consumers without upsetting their traditional (and very important) insurance agent/broker channel?

Franchisee Conflict

Sometimes there is conflict between the various franchisees of different Burgers Galore stores. One example of this is in regard to price setting. This occurs because all franchisees are free to set their own prices (in most countries). The franchisor does publish a list of recommended prices, but the franchisee is not obliged to follow.

The recommended price for a kid's meal is $4.99, which most stores follow. However, one franchisee in a city location charges $7.99. Their rationale is that they do not get many children in the store, and they want to discourage these sales.

Other franchisees complain – as some of the customers in the city store are also parents, and will be less likely to take their children to a <u>suburban</u> Burgers Galore store on the weekend (as they will think that kid's meals are $7.99 in all stores?

Student Discussion Questions

1. How would approach/resolve each of the above situations?
2. How often, do you think, that channel conflict occurs in real business life?
3. If it is common, then is it worthwhile for some firms to minimize the number of channels that they use?
4. What type of firms/products would benefit from using many different distribution channels?