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Empirical Determinants of the Choice of Intermediaries by Selected Multinationals Operating in Nigeria's Food/Drinks Market

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Abstract

This study examines in an empirical manner variables that producers tend to consider in order to determine the choice for a profitable business in the entire distributive process. This endeavor however poses a number of problems for the producers. Seven problems were however identified around which objectives, research questions and hypotheses were generated. In order to provide solutions, descriptive research design was adopted.

A sample of 5 (five) multinational companies with well over 30 years of operations in Nigeria, N100billion in Assets, with extensive distributive networks across the country were used for the study. Each of these companies fundamentally operates a network of over 100,000 intermediaries across the nation on a sustainable basis. The instrument for data collection from respondents was a closed-ended questionnaire, piloted for reliability and validity tests. On the strength of these tests, the instrument was adjudged suitable for data collection.

Five (5) of the variables investigated, turned up significant. Intermediary's Knowledge of Product, Market and Customer; Financial Standing of Intermediary and Extent of Competitive and Complementary products being carried by an Intermediary tied as the three most important determinants in producers' selection of intermediaries. Other determinants are as indicated under the discussion and conclusion.

Findings revealed the extent to which each of these empirical factors effectively and efficiently determine the choice of marketing intermediaries in the multinational companies surveyed. Our conclusions and recommendations are relevant to other developing countries especially in Africa.

Keywords: marketing intermediaries, intermediation, multinational companies, intermediary selection, marketing organizations, empirical factors, distribution channel

1. Introduction

Producing the right products, pricing them correctly and crafting well-designed promotional plans are necessary but not sufficient conditions for customer satisfaction until such products are made available at the right quantity, location and time. (Jobber, 2009). Thus is the importance of "Place" in the marketing Mix of a firm. Marketing organizations more often than not depend on channel intermediaries for effective execution of this function.

Marketing Intermediaries are independent firms that intermediate between producers and the ultimate consumers in products distribution. An organization can create competitive advantage through effective distribution of its products and achieve better market coverage; lower distribution cost, improved profit margins, and enhanced convenience to customers and in effect adds value to the supply chain through working with the right set of marketing intermediaries.

Developing appropriate selection criteria and choosing the right set of intermediaries however constitute major areas of challenges for the contemporary marketing organizations. This is mainly as a result of the crucial roles expected to be played by these marketing intermediaries in the marketing process of these organizations in ensuring that products get to the ultimate consumer at the right time, place, quantity and minimum cost. According to Bucklin, (1966) and Adriano, (2008), the role of the marketing intermediaries is to provide a company with the accomplishment of the task of delivering the product at a right time, place, quantity and minimum cost.

Many producers, including major multinational companies in the developing countries are faced with the problem of searching for reliable, effective, and efficient intermediaries capable of handling their products to their own overall satisfaction/success and the ultimate benefits of the consumers in a way that seeks to guarantee a smooth business relationship between the two parties with little or no friction in the entire marketing process. According to Jobber, (2010) the intermediaries' searching or selection process involves identifying candidates and developing selection criteria.

Literature reveals the choice criteria available to marketing organizations in selecting the right type and set of intermediaries in the distribution of products. The identified selection criteria represent standard expected of the independent firms operating as marketing intermediaries and are placed under seven categories as listed below:

- Intermediaries with adequate market, product and customer knowledge.
- Intermediaries with good reputation among customers.
- Intermediaries with good financial standing.
- Intermediaries with acceptable managerial competence.
- Intermediaries with hunger for success.
- Intermediaries with the right enthusiasm for handling the producers' lines.
- The extent to which competitive and complementary products are carried by an Intermediary.

The essential theme of this study is to describe in an empirical manner how and to what extent these variables have both singularly and collectively influenced the intermediary choice selection of multinational firms operating in the food/drinks market in a developing country like Nigeria.

1.1 Statement of the Problems

As a result of the issues thrown up from the preceding background of the study, the following problems are identified:

- The problem of searching for Intermediaries with adequate market, product and customer knowledge.
- The problem of searching for Intermediaries with good reputation among customers.
- The problem of searching for Intermediaries with good financial standing.
- The problem of searching for Intermediaries with acceptable managerial competence.
- The problem of searching for Intermediaries with hunger for success.
- The problem of searching for Intermediaries with the right enthusiasm for handling the producers' lines.
- The problem of identifying the extent to which competitive and complementary products are carried by an Intermediary.

1.2 Objectives of the Study

- To identify whether market, products and customers knowledge is a determinant factor in intermediary selection by a producer.
- To identify whether reputation among customer is a determinant factor in intermediary selection by a producer.
- To identify whether financial standing is a determinant factor in intermediary selection by a producer.
- To identify whether managerial competence is a determinant factor in intermediary selection by a producer.
- To identify whether an intermediary's hunger for success is a determinant factor in her selection by a producer.
- To identify whether an intermediary's enthusiasm for handling the producers' lines is a determinant factor in her selection by a producer.
- To identify to what extent competitive and complementary products as carried by an Intermediary is a determinant factor in her selection by a producer.
- To determine the order of importance of these factors to a producer in intermediary selection

1.3 Research Questions

- To what extent do market, products and customer knowledge determine the choice of an intermediary?

- To what extent will reputation of an intermediary among customer determine her choice by the producer?
- To what extent will financial standing of an intermediary determine her choice by the producer?
- To what extent will managerial competence of an intermediary determine her choice by the producer?
- To what extent will an intermediary's hunger for success determine her choice by the producer?
- To what extent will an intermediary's enthusiasm for handling the producers' lines determine her choice by the producer?
- To what degree will competitive and complementary products carried by an Intermediary determine her choice by a producer?

2. Review of Literature

Every producer is faced with the decision of the type of distribution channel or channels that should be adopted in delivering products to the ultimate consumer. According to Jobber, (2009) all products whether they are consumer goods, industrial goods or services require a channel of distribution. White, (2003) defined channel of distribution as the complete sequence involved in bringing a finished product from the producer to the ultimate consumer. "Place" in the marketing mix determines the channels of distribution appropriate for the target market or market segments, and the associated service levels. This must be based on the long-term balance of the benefits and the costs of that choice (Heller et al., 2002). The main benefits of intermediation concern the intra and inter organizational linking of activities, tying of resources and bonding among actors. All firms are involved in intermediation, since every company is connected to many others (Gadde, 2010).

According to Zhang (2010) selection and management of distribution channels are not only part of management functions and daily operation of multinational corporations (MNCs), but also important compositions of core capability and competitive advantage.

Early writers in the area of channel and intermediary's choice emphasized the cost and financial decisions implications. Stern et al, (1996) posited that marketing intermediaries provide the manufacturer cost and investment reductions, in addition to greater flexibility and continuity. They can also generate synergies when they represent various manufacturers. Lilien et al, (1992) however stated that channel selection decision is not only an economic decision but also emphasized control and adaptability of intermediaries. This line of thought is equally captured in current literature as emphasis is laid on firms building relationships with intermediaries, anchored on strong positive feelings of affiliation and companionship. New driving forces are significantly affecting intermediation and emphasizing the centrality of its role. From a traditional role of physical interconnection, intermediation has taken on a critical new function by supporting interaction and facilitating customer participation within a network, and then by creating the conditions for enhancing relationships between different organizations. (Cantu et al., 2010).

According to Perrault and McCarthy, (2005) marketing intermediaries assist in providing convenience for the consumer by making products available where they want them, invest in inventory, serve as risk takers and provide critical information to both producer and the customers. Leif-Magnus, (2010) presented a framework of six roles of intermediaries, including hub, broker, specialist competence, risk carrier, resource provider and organizer. The first four of which find parallels in functionalist discussions of roles, and the last two appear more closely tied to new developments in distribution. These are specifically tied to the way intermediaries have increased opportunities to act as resource providers and organizers in contemporary distribution.

Emphasizing the difficulties inherent in intermediaries choice selection, Stern and El-Ansary, (1982) have identified such constraints as the availability of good middlemen, traditional channel patterns, product characteristics, company finances, competitive strategies, and customer dispensation question. The choice of a channel is not open to any firm unless it has considerable freedom of action in matters of marketing policy (Mcvey, 1960). The four most important factors that affect company's choice of marketing intermediaries are consumer habits, product characteristics, the market and the company factors (Adriano, 2008). According to Celly and Frazier (1996) marketing intermediaries must have great market knowledge and be flexible. They must be able to contribute to the manufacturer's cost and investment reduction. Tortato and Marx, (2010) studied the configuration of distribution channels for new automobiles. They identified three variables - dealer size, consumer behavior and legal environment which have the potential to affect the choice of intermediaries.

2.1 Research Hypotheses

H_o1: An intermediary's market, product and customer knowledge may not significantly determine her choice by the producer.

H_o2: An Intermediary's reputation among customer may not significantly determine her choice by the producer.

H_o3: An intermediary's financial standing may not significantly determine her choice by the producer.

H_o4: An intermediary's managerial competence may not significantly determine her choice by the producer.

H_o5: An intermediary's hunger for success may not significantly determine her choice by the producer.

H_o6: An intermediary's enthusiasm for handling the producers' lines may not significantly determine her choice.

H_o7: The extent of competitive and complementary products carried by the intermediary may not significantly determine her choice by the producer.

3. Research Methodology

3.1 Research Design

Descriptive research design was adopted for the purpose of this research. This is because the variables involved in this study are purely non-metric and therefore descriptive employing cross-sectional survey approach.

3.2 Population of Study

The population of study consists of major multinational food and drinks marketing organizations with distributive outlets operating in Nigeria for over thirty years. Given this description, the researchers found only the following companies meeting these criteria: Nestle foods, Friesland Plc, Guinness Nigeria Plc, Unilever Plc, Paterson Zochonis Industries Plc, Nigerian Breweries Plc, Nigerian Bottling Company and 7UP Nigeria Plc.

3.3 Sample Selection and Size

Applying a purposive sampling technique on the sampling frame populated by the seven multinational food and drinks marketing companies as described in section 3.2, a sample size of five (5) comprising Guinness Nigeria Plc, Nigerian Breweries Plc, Unilever Plc, Friesland Plc and Nigerian Bottling Company were selected for this study.

3.4 Instrumentation

For the purpose of this study, the instrument for data collection is a structured multiple choice questionnaire or close ended questionnaire. Its adoption is influenced by high response rate.

3.5 Pilot Study of Instrument

In order to ensure that the instrument is suitable for data collection, same was subjected to reliability and validity tests. This was done through half-split technique, and the data obtained analyzed using Pearson Product Moment Correlation analysis yielding in the process a coefficient of 0.945. On the strength of this parameter, the suitability *of the instrument for data collection was ascertained through the pilot study.*

3.6 Administration of the Instrument

Having determined the reliability and validity of the instrument that ensures its consistency and accuracy in measurement, same was administered for data collection through mail-questionnaire approach during the second quarter of year 2012.

3.7 Method of Statistical Analysis

Data collected through the means of the structured multiple choice questionnaire were analyzed using the Statistical Package for Social Sciences (SPSS). The relevant statistical parameters were obtained and presented for analysis and interpretation.

4. Results

4.1 Frequency Distribution of Respondent Companies

The five companies investigated have carried on business in Nigeria for over 31 years working with both local and offshore intermediaries. These organizations have more than eight product lines in their portfolio that are widely accepted in the market. Four of the respondent companies distribute their goods only through intermediaries; the fifth company adopts dual channel methods by servicing both through intermediaries and directly to consumers.

Four of the companies have staff strength of between two thousand and ten thousand in work force while the fifth company employs less than two thousand workers. Three of the companies have annual turnover in excess of one hundred billion naira (N100bn) and less than five hundred billion naira (N500bn). The fourth company had annual turnover of over five hundred billion naira (N500bn) while the fifth company has below one hundred

billion naira (N100bn) in annual turnover. One of the five companies had Assets in excess of five hundred billion naira (N500bn). Three companies have between fifty billion naira (N50bn) and one hundred billion naira (N100bn) Assets base. The fifth company had Assets in excess of one hundred billion naira but less than five hundred billion naira (N500bn). This analysis has further shown the adequacy of the sampled units in terms of relevant attributes and hence data collected can be regarded as robust and suitable for the purpose of this study.

Table 1. Data on respondent companies' profile (frequency distribution)

Descriptive	Frequency	Percentage
Length of business operations		
31 yrs and above	5	100
Number of Products in line of business		
8 and above	5	100
Availability of Product-Mix		
Yes	5	100
Description of brands/products		
Widely accepted by customers	5	100
Method of Product Distribution		
Both direct to customers& through intermediaries	1	20
Intermediaries only	4	80
Total	**5**	**100**
Offshore intermediaries Available		
Yes	5	100
Company Staff Strength		
501-2000	1	20
2001-10,000	4	80
Total	**5**	**100**
Company Annual Turnover		
N50bn - N100bn	1	20
N101bn - N500bn	3	60
N501bn and Above	1	20
Total	**5**	**100**
Company Asset Base		
N50bn - N100bn	1	20
N101bn - N500bn	3	60
N501bn and Above	1	20
Total	**5**	**100**

4.2 Descriptive Statistics

Table 2 is the descriptive statistics showing respondents' rating of factors that marketing organizations consider in the selection of marketing intermediary. Three of the variables (1) Intermediary's knowledge of product, market and customer, (2) Intermediary's financial standing and (3) extent of competitive and complementary products carried by Intermediary each has a mean score of 3.8 and standard deviation of 0.44721. These statistics show the significance of the three variables as inevitable qualities that a potential intermediary must possess for its selection. Intermediary's enthusiasm for handling producer's lines had mean score of 3.4 and standard deviation of 0.54772. The importance of an intermediary's managerial competence as a factor in the choice of intermediary is however relatively wide spread with a mean score of 3.0 and largest standard deviation of 0.70711. On the other hand, two variables (1) Intermediary's reputation among customers and (2) Intermediary's hunger for success each has a mean score of 2.6 and standard deviation of 0.54772 representing the two least important variables in intermediary's selection.

Table 2. Descriptive statistics

Response Variables	N	Minimum	Maximum	Mean	Std. Deviation
Product, Market & Customer Knowledge of intermediary	5	3.00	4.00	3.8000	.44721
Intermediary reputation among customers	5	2.00	3.00	2.6000	.54772
Financial standing of intermediary	5	3.00	4.00	3.8000	.44721
Managerial competence of intermediary	5	2.00	4.00	3.0000	.70711
Intermediary's hunger for success	5	2.00	3.00	2.6000	.54772
Intermediary's enthusiasm for handling producer's lines	5	3.00	4.00	3.4000	.54772
Extent to which competitive & complementary products are carried by intermediary	5	3.00	4.00	3.8000	.44721
Valid N (listwise)	5				

4.3 Intermediary's Choice Determinants in Order of Priority to Respondents

Table 3 shows the mean scores and ranking of variables that determine intermediary choice selection. Using the data – mean scores obtained and initially presented in table 2, three variables (1) Intermediary's knowledge of product, market and customer (2) extent of competitive and complementary products carried by Intermediary and (3) intermediary's financial standing, tied as the three most important variables in determining intermediary's selection. This is followed by two variables (4) Intermediary's enthusiasm in handling producer's brands and (5) Intermediary's managerial competence. Finally, (6) Intermediary's reputation among customers and (7) Intermediary's hunger for success tied as the two least variables in determining producer's intermediary choice.

Table 3. Order of importance of intermediary choice determinants

Determinants	**N**	**Mean**	**Rank**
Intermediary's knowledge of product, market & customer	5	3.8000	1st
Intermediary's financial standing	5	3.8000	1st
Extent of intermediary's marketing of competing & complementary products	5	3.8000	1st
Intermediary's enthusiasm for handling producer's lines	5	3.4000	2nd
Intermediary's managerial competence	5	3.0000	3rd
Intermediary's reputation among customers	5	2.6000	4th
Intermediary's hunger for success	5	2.6000	4th

4.4 Inferential Statistics

This section presents the test of hypotheses formulated in section one of this study. The hypotheses were tested using one-sample t-test statistics.

Table 4 shows the t-test results emanating from the testing of hypotheses. From the above results $H_0 1$ is rejected at ($p < 0.001$) and it is concluded that an intermediary's market, product and customer knowledge may significantly determine her choice by the producer. At ($p > 0.07$), we fail to reject $H_0 2$ and thus reach the conclusion that an Intermediary's reputation among customers may not significantly determine her choice by the producer. $H_0 3$ is rejected at ($p < 0.001$) therefore an intermediary's financial standing may significantly determine her choice by the producer. Also, at ($p < 0.034$), $H_0 4$ is rejected as a result intermediary's managerial competence may significantly determine her choice by the producer. At ($p > 0.070$) we fail to reject $H_0 5$ and therefore conclude that

an intermediary's hunger for success may not significantly determine her choice by the producer. $H_0 6$ is rejected at ($p<0.005$), therefore an intermediary's enthusiasm for handling the producers' lines may significantly determine her choice by the producer. Finally, $H_0 7$ is rejected at ($p<0.001$) and thus concludes that the extent of competitive and complementary products carried by the intermediary may significantly determine her choice by the producer.

Table 4. One-sample test

Response Variables	Test Value = 2					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Product, Market & Customer Knowledge of intermediary	9.000	4	.001	1.80000	1.2447	2.3553
Intermediary reputation among customers	2.449	4	.070	.60000	-.0801	1.2801
Financial standing of Intermediary	9.000	4	.001	1.80000	1.2447	2.3553
Managerial competence of intermediary	3.162	4	.034	1.00000	.1220	1.8780
Intermediary's hunger for success	2.449	4	.070	.60000	.0801	1.2801
Intermediary's enthusiasm for handling producer's lines	5.715	4	.005	1.40000	.7199	2.0801
Extent to which competitive & complementary products are carried by intermediary	9.000	4	.001	1.80000	1.2447	2.3553

5. Discussion and Conclusion

Findings from this study have shown that respondent multinational companies consider the seven identified variables in their choice of intermediaries in spite of their varied weights on intermediary choice selection.

Our ranking in table 3 indicated that three major factors as already mentioned overshadowed all other determinants. Intermediary's Product, Market and Customer knowledge are unarguably, needed to move the product through the supply chain. The intermediary needs to have the technical knowledge or otherwise to discuss the product in order to convince the consumer of its capability to gratify needs. Similarly the intermediary equally must understand the market in terms of other competing brands and the intensity of competition in order to be able to evolve the much needed marketing strategy for competitive advantage. Customer knowledge is fundamentally also required to generate relevant services to retain the customers.

Financial Standing of the intermediary is as important as the Intermediary's knowledge. This is because the producer tends to expect the intermediary to carry out promotional activities which requires some capital outlay. Adequate inventory, storage and display equally require some amount of capital outlay. Where the intermediary is unable to provide this capital outlays, the producer has no option but to bear these costs. To avoid this expenses the producer will rather prefer that intermediary with sound financial standing to move her line of products effectively.

Other things being equal, intermediary carrying none or very few of competitive products are most favored in producer's selection. This is in anticipation that resources can be maximized especially in the areas of promotional activities and warehousing. Such product(s) also enjoy less competition on the shelf. Similarly, in complementary products demands for each of the products tends to increase. Producers therefore viewed extent of competitive and complementary products very significant in intermediary's selection.

Developing selection criteria and choosing the right set of intermediaries unfortunately have never been easy. It has therefore remained one of the strategic areas that continue to constitute major challenges for the contemporary marketing organizations. Unfortunately, major writings on distribution channel have focused on functions of channel intermediaries, types of distribution channels and general areas of channel strategy with

relatively scarce empirical materials on channel choice determinants for multinational corporations in developing countries like Nigeria. This is the gap this study sought to fill.

Review of related literature and our case study has highlighted the importance of well planned intermediary's selection and choice in conferring competitive advantage, particularly in the areas of effective distribution of products in order to achieve better market coverage; lower distribution cost and improved profit margins.

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