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Can the Multimarket Competition Theory explain why manufacturers are reluctant to adopt e-commerce? The case of the French household appliances' manufacturers

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Can the Multimarket Competition Theory explain why manufacturers are reluctant to adopt e-commerce? The case of the French household appliances' manufacturers

Abstract

With more than 51 billion € turnover in France in 2013, the e-commerce continues to grow, both in volume and number of players. While economic theories suggest that manufacturers should integrate intermediation functions as soon as they are able to perform at a lower cost than external operators, few French manufacturers are engaging in e-commerce.

In this research, we explore why the household appliances manufacturers do not launch e-commerce sites. Our results suggest that, according to the multipoint competition theory, they do so in order to avoid coercion from the French traditional distribution system.

Keywords: strategic marketing, multipoint competition theory, cross canal, manufacturer/ distributor relationships

Introduction

All around the world e-commerce is gaining popularity. In 2013, around 4.1 billion consumers from all regions found their way to the Internet and the majority of them purchased goods and/or services online for a total amount of \$1,242bn; in comparison with 2012, this represented an increase of 23.6%. With total B2C e-commerce sales of €335bn, the United States is still the clear leader in the world, but the emergence of second-ranked China is remarkable. Behind these two countries, UK (€114bn), Japan (€110bn) and Germany (€67bn) complete the top 5 countries for e-commerce (Global B2C E-commerce Report, 2014).

In 2013, the French B2C e-commerce sales were around €51bn, representing an increase of 13.5% as compared to 2012. This distribution channel now accounts for 8% of the French non-food trade, its weight even exceeding 10% in some areas (FEVAD, 2014), whereas the growth of e-retailers is higher than the market average with 20,000 new sites in 2013 (Zdnet, 2014).

Retail chains still hold major e-commerce sites. However the e-commerce is also an opportunity for brands: e-commerce offers manufacturers both a lever for their image and a source of information about their customers; furthermore, integrating this new distribution channel helps promoting customer relationship management (Payne and Frow, 2004 Vanheems, 2009).

Economic theory suggests that intermediation functions tend to be incorporated by the manufacturer as soon as they can perform it at a lower cost than external operators (Filser et al. 2001: 259). In the tourism sector, carriers such as Air France and hosting facilities such as Accor are at par with pure distributors (FEVAD / Médiamétrie, 2014). Producers also integrate this new channel. The L'Oreal Group launched in 2013 an online sales site where it sells its beauty and makeup products, offering consumers an enhanced and personalized user experience.

Some sectors, however, appear reluctant to engage in this direct sales channel. In 2010, in the sector of household electrical appliances (small and large household appliances and other technical and electronic products), only 12% of industrial possess a commercial site. When asked at that time, the head of a retail chain reported, "*the electronic distribution by manufacturers is a real issue. I think our competitors tomorrow, are the marks. (...) Our largest competitors in 2020, it will not be the pure players; this will be the brand through various distribution channels.*"

The low commitment by the household electrical appliance manufacturers in the e-commerce has led us to question "the brakes preventing industrial to engage in e-commerce."

The paper is structured as follows: (1) a brief literature review, (2) the methodological approach, empirical results ((3), (4)) and discussion.

1. Channel management

The distribution channel has been the subject of much research in recent decades. Below, we present the issue of interdependence within the distribution channel and a brief review of more specific studies on the impact of the Internet.

Distribution channel: interdependency and conflict management

Distribution channel is a source of competitive advantage for industrial and source of conflict between manufacturers and retailers (Cliquet et al., 2006, Coughlan et al., 2006). Authors state that the distribution channels are systems consisting of actors dependent on each other. Interdependence must be managed and the notion of power is the appropriate way to handle this interdependence (Coughlan et al., 2006:197). Rooted in psychology, the approach of French and Raven (1959) suggests that power can be evaluated through five sources: the reward, coercion, expertise, ability to confer prestige and legitimacy.

Theories of power and dependence (eg Dahl, 1971; Emerson, 1962) shed light on the conditions that can lead an actor to gain power over another to act on his strategy. Power is exercised when a member of the channel adopts a behavior that prevents another member to achieve its own objectives (Stern and Heskett, 1969). The sources of conflict are described as being related to: the incompatibility of

institutional objectives, disagreements in defining areas of expertise in the channel, differences in the perception of the realities of the members (Rosenberg and Stern 1971).

The existence of a strong market power in the economic system leads to the creation of another position of power that contrast or neutralize it (Galbraith 1952): this is the concept of counter-power. In the relationship between suppliers and retailers, the retailers choose to use their counter-power when ordering - or not - the products to a particular firm.

Internet a source of conflict in the distribution Channel

In the manufacturers / distributors relationships the Internet has been de facto a potential disturbance factor. Analyzing the potential impact of e-commerce at the turn of the century, Aboubekr and Rivard (2002) considered that, in the context of the opening of a retail website by suppliers, distributors can decide for retaliation and exercise their power of coercion by limiting their support to the brand (low exhibition area in the store, reduced or no promotional activities, etc.) or by dereferencing the brand. Recent studies of franchise networks suggest that franchisors inhibit the opening of a commercial site afraid of the reaction of their franchisees (Chanut and Bonet, 2009; Kaufmann, Ratchet and Achabal, 2011). In the tourism sector, while the company Nouvelles Frontières wanted to market an offer on the Internet, a major conflict has been triggered by franchisees (Isaac and Volle, 2011).

The theory of multimarket competition and the distribution channel perspective

The theory of multimarket competition (TCMP) offers opportunities for analyzing power relations between firms and especially their competitive interdependence. Originally Edwards (1955) developed the concept of mutual forbearance to explain why some companies that compete simultaneously in several territories were not aggressive towards each other. The theory of multimarket competition refers to particular situations in which firms compete simultaneously in several territories (Jayachandran, Gimeno and Varadarajan, 1999). These places can be geographic ones; in other studies different product categories have been considered as various markets. In a configuration where competition between firms exists in several markets, the success of one business strategy is dependent on the business strategy of its competitors (Ghertman, 2004). Multimarket competitors may develop a tacit agreement whereby each firm recognizes the interest of other territories, leading to the creation of tacit "spheres of influence" (Edwards, 1955). For a mutual forbearance to appear there must be reciprocal asymmetry of spheres of influence (Bernheim and Whinston 1990; Evans and Kessides 1994).

Recent empirical studies demonstrate the relevance of this theory on the airline market; Gimeno (1999) shows that the level of competition between the players on the same "hubs" is deliberately reduced for fear of reactions of competitors on other points of competition. This policy seems to have a positive economic impact, "strong arguments supporting the positive correlation between mutual forbearance on an airline and the company's performance on the line" (Gimeno and Woo, 1999:255). The theory of multimarket competition was used to analyze marketing actions in the cosmetics sector (Amine and Bensebaa 2005); in this research the various markets were not geographical but were defined in terms of product categories.

The theory of multimarket competition has been tested empirically in situations where competitors were operating at the same market level. One may ask whether this theory can also be relevant for a competition that occurs between companies that are at different levels of the distribution channel. Does mutual forbearance as described in this theory apply to the situation where manufacturers and distributors of household appliances compete for e-commerce?

2. Methodology

In order to understand if the theory of multimarket competition may explain the low involvement of French manufacturers in the e-commerce we choose to use qualitative methods (Yin, 2012). Our comprehensive approach is based on two collections of additional data. The first study aimed to identify the obstacles and motivations of manufacturers to engage in e-commerce for their own account. The second study aims at analyzing a particular case study: the launch of a merchant site by a

major manufacturer marketing its products in France: Fagor Brandt. Collecting data from different sources allows us to triangulate the data relating to a same phenomenon (Yin, 2012).

The first data collection was carried out with industry experts, sales managers and retailers. Semi-structured interviews were conducted with four experts of the distribution (consultants or researchers) five sales managers of the electrical appliance industry and three retailers (see detailed sample in appendix 1).

The case study relates to the “Thomson.fr” e-commerce site. It has been analyzed from its launch by Fagor Brandt in December 2010 to its closure in June 2011. Fagor Brandt launched its e-commerce site in an area where manufacturers seem reluctant to do so. This makes this event a singular case as defined in La Ville (2000) and Moriceau (2004). This singular case was investigated by collecting (a) the articles on Fagor Brandt between 2010 and 2014 in the trade press and business press, (b) reports to Fagor Brandt shareholders over the same period, (c) market data and (d) an interview with a key executive active at Fagor Brandt at the time the e-commerce site was launched.

The interviews were fully transcribed, double coded and analyzed. Studying the content of press articles led to identifying analyzes made by journalists and experts; finally market data helped triangulate expert analyses. We report successively the results of the analysis of the interviews, and the analysis of the case Fagor Brandt.

3. Empirical results

3.1. Obstacles to engage in e-commerce

Our exploratory study with both experts in the distribution and manufacturers of household electrical helps identify three types of barriers to the integration of a commercial site for manufacturer: lack of resources, lack of attractiveness of the channel and the risk of conflict with other distribution channels.

Lack of resources

E-commerce requires resources for the development of e-commerce and daily logistics. In technical products, consumers are very sensitive to delivery and after-sales service, which involves the implementation of a complex and costly back office in which some manufacturers are not willing to invest. The experts interviewed express this:

« All these brands do not have adequate logistics network to deliver their products to consumers and to ensure after sales service. Yet technical products and particularly appliances are anxiety-provoking for consumers who want above all to be sure to be delivered and repairs made as soon as possible » (Expert 4)

Two manufacturers bear witness to the relevance of that consideration in their decision not to engage in e-commerce

"It's mainly because of a lack of resources, it is not in the company's strategy to dedicate teams to that channel" (Manufacturer 1)

"We try to do our best on the manufacturing side and we do not have resources left to sell online." (Manufacturer 4)

The manufacturer brand may lack attractiveness

Engaging in e-commerce compels to attract consumers on the basis of a single brand, or umbrella brand and a limited number of brands. By offering only a limited number of categories, the manufacturer site is often less attractive than that of a multi-brand distributor.

" What can a manufacturer deal with traditional distributors; what legitimacy to open a commercial site for a manufacturer? In addition, the shopper is not going to go to the site of a manufacturer to buy a single category of product, if it does not find an advantage. "(Expert 3)

Potential conflict with retailers

The manufacturers regularly consider the integration of the distribution function, but risks are often considered more important than profits. In the market for electrical household dominated by some upstream suppliers and downstream by a powerful specialized retail chain, the status quo was preferred to the risk of conflict.

"The initiatives are limited but nevertheless the question arises. Indeed, every year, during their strategic reviews, the major manufacturers are questioning whether to go to e-commerce or not, but they often conclude on the fact that they might get beaten up (by distributors) " (Expert 1)

"The distribution is powerful; the attempts that have been made by manufacturers to implement their own retail website have always been counteracted by the retailers ... " (Expert 3)

"This sector is particularly calcified because upstream there was an oligopoly, very solid at the industrial level, with a large handful of large suppliers and downstream, a distributor holding the market with an iron fist, Darty. This allowed everyone, manufacturers and retailers, to thrive for many years. The situation was not even confrontational, it was the "peace of the brave" and manufacturers did not open stores, they have not even seen the Internet opportunity to sell directly to consumers... In fact they did not want to disrupt the balance in which each had its account. Getting angry with your main distributor is to risk of cutting a very important part of your market. I think that beyond the enlightened self-interest, there is also the balance of terror that helped solidify the game completely " (Expert 2)

All sales managers working in the electrical appliances sector confirm this analysis

"We had a retail website before the merger with Brand2?; it generated tensions with distributors "(Manufacturer 1)

« And what would the distributors say? ...I think it is for major brands. For our brand, we see more risk than potential benefits "(Manufacturer 4)

"Our arrival in direct sales is accompanied by a physical outlet (that is our international strategy), the opening of the our store has been the subject of considerable tension with distributors (...) Luckily we had the chance that some Apple store opened over the same period. Moreover, at that time, our innovations were market share (...) When you put in the balance what you can win and what you can lose, ... well if you're a major player you go there when you're big enough ... "(Manufacturer 5)

While e-commerce calls for a restructuring of industrial sectors, our research confirms that exist always well-known barriers to manufacturers commitment to the distribution function still exist: lack of resources, insufficient assortment within the brand resulting in a lack of attractiveness to consumers, and potential conflict with distributors.

Are manufacturers fears for retaliation by the retailers overstated? Below, we analyze the vision of managers of major retail chains regarding the market and the manufacturer / distributor relationships.

3.2. How do retailers see the market for household appliances?

Retail managers interviewed analyze the market and manufacturers / distributors relationships consistently with traditional representations.

On the market for household appliances, « 80% of the market is made by 30% of suppliers» (Retail 1); « if you take the TV market, four brands account for 80% of the market, you find the same products everywhere » (Retailer 2). This context is characterized by strong interdependencies between suppliers and distributors.

In this context, distributors remain vigilant about the relationship with the supplier. They are looking for manufacturers who « help (us) at all levels, whether quantitative or qualitative, while attaching great importance to the qualitative part» (Retailer 2); « we have a grid with a score of key points that allows us, once or twice a year to measure the quality of suppliers based on this scorecard » (Retailer 1). Their attention focuses on the relationships that each vendor has with the other retail chains. In the case of a disagreement related to promotion performed on a brand B by a competing distributor, the

reaction will be strong « *we can reduce the assortment and reduce orders, (...) it is sure that a supplier who made a big hit with another retailer, it will not be retained* » (Retailer 3).

Conversely, the question of the Internet channel is not unanimous among the managers interviewed. Some see this channel as an open opportunity for a small number of brands, such as Apple, and "*do not consider them competitors*" (Retailer 3). On the contrary, other retailers consider the manufacturers involvement in Internet as a priority issue: "*electronic distribution by manufacturers is a real issue. I think our competitors tomorrow are the marks. (...) Our largest competitors in 2020 will not be the pure player; it will be the brand through various distribution channels*" (Retailer 1).

Faced with this diversity of views of retailers on the issue of manufacturers commercial sites, it is interesting to study Fagor Brandt initiative. In 2010, the company launched a commercial site for one of its brands, which was no longer marketed in France for several years.

4. Case study: the launch of “Thomson.fr” commercial site by Fagor Brandt in 2010

In the area of household appliances, Fagor Brandt is the first major player to have attempted to use e-commerce as internal growth. As such, tracing the history of this launch can bring a unique light on motivations and obstacles encountered by manufacturers to integrate e-commerce. We present below a brief chronology of the site launch Thomson.fr, by describing the context and presenting the facts as reported in the press at launch time and as analyzed by the experts interviewed; we also use market data from household appliances over the period when of the merchant site has been active.

Fagor Brandt was born in 2005 following numerous restructuring in the sector of household appliances. Founded in Paris in 1902, Brandt mainly manufactured light arms up to the nationalization of this activity in 1950. From the years (50), the company developed the household appliances - in which it had diversified before the war -. In a fast growing equipment market, Brandt growth has been a combination of organic growth and brand acquisitions (Vedette in 1961, the household appliances business of Thomson in 1966). In 1982 the firm was nationalized, and will remain for ten years. In 1992 the group was sold to Italian Elettro Finanziaria; the new group takes the name of Brandt. 1992 is the first of a series of transactions after which the large household appliances Brandt group is taken over by the Spanish Fagor in 2005. At that time, the French market represents 60% of Fagor Brandt turnover; five of its seven brands were marketed in France (Brandt, Dietrich Fagor, Sauter and Vedette); the firm had a leading position in the French market for large electrical appliances with a market share of 14%. In 2008, the economic crisis causes a 45% drop in the Spanish market; the company freezes its investments, delays the launch of innovative products and loses leadership in France (Usine Nouvelle, 2011 Yvernalt, 2013). In 2009, the group lost nearly 20 million euros and the French subsidiary in turn encountered difficulties.

At that time the group decided to revive the Thomson brand, in order to bring "French products" designed and manufactured in France on the Internet. Fagor Brandt then declared to the magazine Usine Nouvelle: "*We want to avoid duplication and competition with traditional networks. For this reason the brand will be available on the Internet.*" (Usine Nouvelle, 2010). Fagor Brandt saw Internet as a source of growth and decided to launch the site Thomson.fr. Using a brand that was no longer available in France since 2005, the group wanted to "*reduce duplication between channels.*" The Thomson.fr site offered various services: credit solutions, various warranty options, and after sales service. In its communication, the group highlighted the benefits of "direct relationship" and best price (Michel, 2011). Fagor Brandt refused to specify the amount invested and its business objectives, but it ensured being able to manage a sales logistics unit. "*We are already experimenting a similar site in Germany for a year, and an online sales site for our staff in France,*" (Usine Nouvelle, 2010). In reality, a top executive of Fagor Brandt tells us: "*With Thomson, we had a brand that belonged to the group's portfolio, the mark was not distributed in France or in other European countries. We thought we would initially market the brand in Germany and Austria via a website operated by us, and then we would see (...) France, it should have happened much later. But then the shareholder wanted to accelerate. At one point we estimated that we could do twice as much as in Germany, while keeping the same fixed costs, the shareholder has wanted to go faster.*" As soon as the site went online, the operation has been widely reported in the press. Some retail chains said they had been vaguely aware and express their perplexity and annoyance: "*They compete frontally*" says a retailer. Analyzing the

evolution of the assortment of Fagor Brandt Group brands in key traditional distribution channels shows a strong reaction of stores (see table below).

Retail chain	Number of references Oct-2010	Number of references Nov-2011	Variation
AUCHAN	17.9	17.2	-0,8
CARREFOUR	35.1	6.6	-28,5
CORA	24.3	23.3	-1
CASINO	6,4	5,3	-1.1
LECLERC	10	10	0
GSA	93,7	62,4	-31
CONFORAMA	60,4	61	0,4
DARTY	84,7	70,1	14,6
BOULANGER	69,7	56,5	-13,2
GSS	214,8	187,6	-27,2
GSA & GSS	308,5	250	-58,5

Table 1: Evolution of the presence of the Fagor brands / by retail chain - Source: IFR / GFK

Between December 2010 and December 2011, marks of Fagor Brandt Group lost 58 references, a decrease of 19%. This decline is focused on three brands: Carrefour for general retailers, Darty and Boulanger for specialized retailers. For Carrefour, the interviews indicate that the decline in the brand assortment is also due to their disengagement of this product category in 2011. Conversely, experts confirm that they interpret the decreased number of Fagor Brandt references in Darty and Boulanger stores as an action of these retail chains intended to show their dissatisfaction.

On 12 May 2011, the departure of CEO and Managing Director is announced. A few weeks after the Thomson.fr site is closed.

Facts that were reported in the trade press, and whose logic is confirmed by the managers and the experts show a strong reaction on the part of retail chains during Thomson.fr site launch. This reaction resulted in a very significant drop in references sold by retailers and a significant decrease of the promotion in several general stores. The end of this episode seems to mark the end of the period of conflict between the manufacturer and distributors.

5. Contributions and limits

Our study confirms different types of obstacles for the integration of direct marketing on the Internet by manufacturers in the electrical appliance industry: lack of resources to develop what can be considered as a new activity, lack of brand attractiveness given the traffic needed to operate a merchant site and finally fear of a potential conflict with distributors.

Analyzing the launch and closure of the site Thomson.fr once again illustrates the difficulties of distribution channel management. In addition to this, we believe that the reluctance of household appliances to engage in e-commerce can be illuminated particularly advantageously by the theory of multipoint competition.

Our exploratory study indicates that:

- (1) One of the main obstacles to the integration of e-commerce industry is the potential conflict in the channel. « *Manufacturers did not take advantage of Internet channel because (...) in fact they did not want to disrupt the balance. The risk, if they came out of this modus vivendi, was to disrupt the balance, while not knowing the chain reactions it may cause* "(Expert2)
- (2) The first manufacturer who engaged in marketing products on the Internet, although having developed new products under a brand that no longer existed in the French market, has undergone major retaliation in the traditional distribution channels controlled by large retailers.

We can therefore consider that the traditional retail chains in France - especially the large specialty stores of household appliances sector - consider the Internet channel as part of their "sphere of influence" and that a manufacturer action on this channel is seen as a competitive attack to which distributors respond immediately on their main sphere of influence.

Our study is restricted to the domestic electrical appliances, resulting in limited generalizability. However, our results suggest that, for the sake of stability of their distribution system, manufacturers are implementing actions to enable retailers to differentiate, thus causing a restriction of competition between channels; this proves consistent with the theory of multimarket competition.

So far, empirical studies to confirm the theory of multimarket competition were conducted among direct competitors pertaining to the same industry: airline companies (Gimeno, 1999), cosmetics manufacturers (Amine and Bensebaa 2005). Our results suggest that the TCMP could be extended to a new context: the competition between two different levels of the distribution channel, manufacturers and distributors.

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Appendix 1 : Survey sample

Interview	Position	Company
Expert 1	Senior consultant	Kurt Salmon
Expert 2	Professor of Economy	Univ. Paris 8
Expert 3	Executive Officer	I.F.M.
Expert 4	C.E.O.	IFR / GFK
Manufacturer 1	Sales Vice President (France)	Packard Bell
Manufacturer 2	Executive manager	Fagor Brandt
Manufacturer 3	Sales Vice President (France)	Panasonic
Manufacturer 4	Marketing & Sales VP (France)	Daewoo
Manufacturer 5	Key Accounts Director (France)	Sony
Retailer 1	Sales Manager for technical products	Auchan
Retailer 2	Category manager	Carrefour
Retailer 3	Sales Manager for non food products	Cora