

THE DEVELOPMENT OF DISTRIBUTION CHANNELS FROM TRADITIONAL TO MODERN TRADE: A CASE STUDY OF THE THAI OLYMPIC FIBRE CEMENT CO., LTD.

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ABSTRACT

This research aims to describe the aspects of distribution network (Piercy & Cravens, 1994; Todeva, 2000; Uzzi & Dunlap, 2005) of the construction material merchandisers in Thailand, to gain the better understanding in differences and similarities of modern trades and traditional trades (Rosenbloom, 2010; Weill, Malone, D'Urso, Herman & Woerner, 2005). Eventually the identifications of factors influence the business model transformation were the results of the data analysis (Amit & Zott, 2012). B2B strategic suggestions in relationship marketing perspective (Ford, Gadde, Håkansson & Snehota, 2011; Håkansson & Snehota, 1995; Wheelen & Hunger, 2010) were the consequences of the study conclusion.

The distribution networks of construction materials in Thailand describe by sales type such as retails, wholesales, project sales and modern trade sales or by product brand from manufacturer and Portland cement factory which own each other brand, the different network have their own regulation but mostly network in the country have no more strong regulation to enforce the customers therefore the brand, product substitution, channel overlapped and conflict were plenty in the market. The differences and similarities of two trading model were have their strong point such as the close relationship with long term coordination in local area of traditional trade or the system back and front office of modern trade which make each model survived in the heavily competition environment. In the changing world of business, the proliferation of customers' needs was the main factor that affects the firm to transform itself to increase the competition capabilities, changing in customer expectation, the buyers with more knowledgeable and many branches diversification to the major cities were the factors of business model transformation. The distribution market of Lao's construction materials should develop the business model in briefly years depending on the socialism government to open for the capitalism in future. Some firms in Lao were developed themselves with extant resources. The two strategic types of transformed and transforming modern trade concentrated on the relationship marketing which was the way to maintain the customer loyalty and to modify the suitable business relationship between the company and the customer. The evaluation and the contingency plan were contained in this thesis.

Keywords: Relationship marketing, distribution channel development, transformation factor, relationship strategy, construction material merchandiser, Thailand, Modern trade, Traditional trade

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Introduction

Today, the modern trade of the construction material merchandiser appears everywhere. The traditional trade merchandisers improve their operation to resist the aggression in many business facets. This effort of the primitive firms affects the interaction with the suppliers whether the positive or negative results, the manufacturers improve the abilities to reduce the effect from these transformation factors. Since 1995, the first modern trade outlet has established in Rangsit which named HOMEPRO (Homepro,2014). The competition in this industry starting to become severe fighting, the local player transforms to a local modern trade (Taechamahaphant, 2014), a big entrepreneur invests in the branch diversification nationwide and a market leader forces its dealers to change the business approaches. While the business competition environment changed, the innovation leader company is sticking in the successful story of new product introduction to the market. The differentiation in customer relationship (Porter,1980) is neglect, a familiar cooperation, friendly interaction and close relation disappear. Customer satisfaction, commitment and trust from the business customer are reducing whereas the rivals are increasing. In this study, the researcher has been working on the need to develop the marketing strategy that implements to the two forms of trading with B2B marketing and relationship marketing. Transformed and transforming modern trade are 2 business models which changed the business practice into system although the local players and plenty construction material merchandisers had developed the firm into professional aspect. One key success of the business achievement is a relationship of a long period to create a challenged thing to maintain and it is difficult to return. This essential success factor is the interesting subject to study, how important or necessary of the business relationship" (Ford, Gadde, Håkansson, Snehota & Waluszewski, 2010) with the

changes in distributing channel transformation and how the managers operate this relation to succeed the organization target.

Research objectives

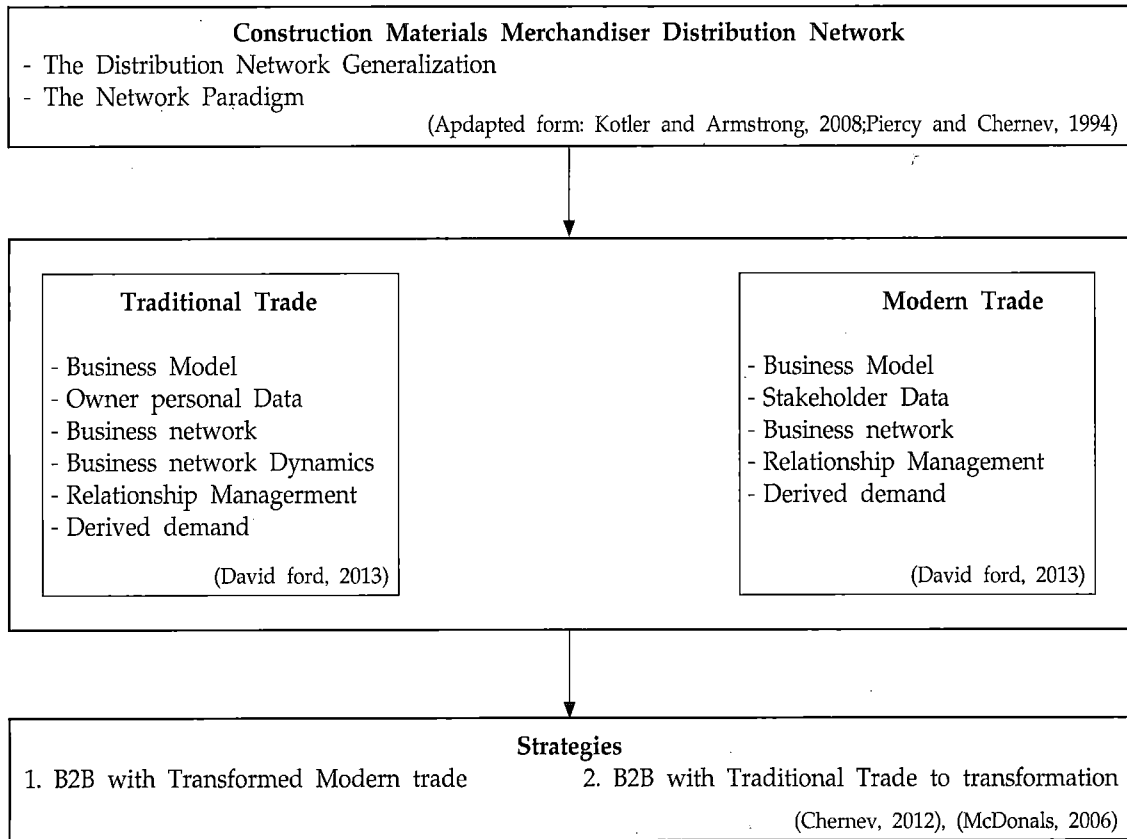
1. To study the distribution network of the construction materials merchandiser in Thailand
2. To understand the differences and similarities of the business model between the traditional and modern trade in the construction materials merchandiser in Thailand.
3. To identify factors influencing the transformation of the traditional merchandiser to the modern trade in the construction materials industry in Thailand.
4. To lie a Business to Business strategic plan to encourage traditional trade with transformation to modern trade.
5. To draw a Business to Business strategic plan to modern trade.

Research Contributions

The research aims to study the expectations and the perceptions of the distribution network of the construction materials merchandiser in Thailand towards transformation of the business model and the new role that the organization will handle as follows:

1. The better understanding of the distribution network of the construction materials merchandiser may lead the improvement of the companies in response to the transformation of the customer's nature of the business.
2. This study was expected to provide factors influencing the transformation of the traditional merchandiser to the modern trade in the construction materials industry in Thailand.
3. This study anticipated to organize the strategic plans to maintain customer loyalty of the transformed customers.

Conceptual Framework



Methodology

The semi-structure interview forms were the devise of this qualitative research with the qualitative documents by the investigation of the public documents. The population of this study were 1,038 outlets of The Thai Olympic Fiber-cement customers and 625 employees of the company as of March 15, 2014. The samples of this research were 10 external respondents including 2 Laotian customers and 15 employees of the company in the high-level management to operation level whose duties related to sales and marketing department. This research study collected and analyzed the data from March to September, 2014. The purposefully participants selection was the first sampling method then snowball sampling used until the data saturated. The unofficial face-to-face interview and telephone interview were used to collect the data from the subjects nationwide and Lao. The interview forms could be separated into 2 formats: external and internal semi-structure

interview forms containing 5 parts with the same topics. The individual data questions, the distribution channel network of construction material merchandiser in Thailand questions, business model question, relationship management question and the marketing strategies questions were the composition of semi-structure interview forms. The researcher gets the content validity with 5 experts' to ensure that the questionnaire measurement can cover all the contents therefore the data were collected until they were saturated.

Literature Reviews

Business marketing is marketing products or services to other companies, government bodies, institutions and other organizations (Dwyer & Tanner, 2006). The development or changes of one party in the network affects others with interconnection. The activity links, resource ties and actor bonds are the substances of business relationship (Hakansson

& Sneohota, 1995) which has different aspects of characteristics, continuity, complexity, symmetry and informality. The relationship of business firms should be considered in three aspects: the relationship as a device to increase efficiency, to achieve innovation and to influence others. The business relationship was as an asset or the portfolio of firms and the relationship as the problem of the company (Ford, Gadde, Hakansson & Sneohota, 2011).

Research Findings and Conclusion

This study illustrates 2 different aspects of distribution channel network of Thailand construction material merchandiser from 2 kinds of respondents. The internal respondents separated the distribution network by sales type such as retails, wholesales, project sales, modern trade sales and direct sales. The internal respondents said mostly distribution network in Thailand have only business relationship and their channels were overlapped which affected to easily substituted in brand. Each distribution network had their own identification, the obvious character was the difference of profit gap which the market leader set the standard sales prices or some players placed the high margin sales. The business regulation and punishment of every distribution network was the indicator for the relationship between the network focal and member therefore the loyalty customer of distribution network was the last concerned from them.

The external respondents described distribution network by product brand from manufacturer and Portland cement factory which own each other brand. External respondents described the characters of distribution network from right to selling product from the manufacturer; the authorized agent would get the privilege in their selling area without new authorized dealer from the company unless the old one was closed or the company policy untraceable. Generally the network members are able to sell another product from the rival in the same industry means no strong regulation forced the distribution channel to be a single brand dealer. Nevertheless, only the industry leader enforced their dealer with many business rules and punishment which

discomfort some dealer and obstruct the new customer to be the network member. The last 2 descriptions of construction material merchandisers network in Thailand were the independently in business management which many participants concerned and each distribution network was divided from the level of each customer group, the market leader approached the higher customer group and the follower committed with the lower group.

The differences and similarities of the business model between the traditional and modern trade in the construction materials merchandiser in Thailand from the research are summarized into 2 parts of different aspects of the study. The results showed six similar aspects in the differentiation of the business model from internal and external respondents as customer relationship, systematic management, marketing tactics, systematic responsibilities, selling price and credit sales. These were the six strengthen points of each model such as the closer customer relationship was the strength of traditional trade which have the long coordination with their local customer; as a result to sell in credit term with regular customers. The systematic management was the strength of modern trade model which operated the large firm without difficulty. The five similar results from the research with internal and external respondents presented that there are no more similarities aspects of two business models, top three most concerned topics were products, price war, and location. The products results show each business model sell the same thing that influences the market cannot escape the competition in price war so to avoid this competition environment, the manufacturer and channels should be segment the products by each target group separately. Famous place of commercial attract the large or small players in the market so the small and medium firms should find the new location to other fresh opportunities if there are the new face challengers with the large one.

Over 80 percent of respondents from 2 fields' research showed the consistent result of the proliferation of customers' needs be the most influence factor of business model transformation after that two

factors did not affected as expected. The changes in customer expectation from more knowledge about the products and market were lead the distributors to develop their business style and followed the market trend intimately. Many branch diversification of public modern trade drive the local players to transform themselves into any model which suitable to their resources or capabilities.

A brief observation between interviews in Lao showed various information about Lao distribution channel and selling system. 100 percent of Lao's participants described the construction material distribution networks in Lao should be authorized from the products manufacturer, it was the cause of every distribution channel commit the selling products with the manufacturer's brand and the similar percent showed there were simple in brand substitution. 50 percent said there were plenty of channels overlapped with the rivals. As the member of TOFC's network, they should follow the company policies as well as the important thing was that they must sell SHERA and Hahuang products, 100 percent of Lao residents said that 100 percent of Lao respondents clarified the distribution network of TOFC was a monolithic multi-channel which means the company authorized few dealers to access the whole market with every target group, the categorization by demographic factors was the simple one method of 50 percent commented. In the competition analysis facet, 100 percent of Lao respondents said the product substitution was plenty in the market whether the Chinese, Vietnamese or Thai products should compete in Lao market ; however, in the different target group. As the results, easy market entering by 50 percent of opinion, many foreign products were popular with Lao people especially Thai products as they were the most recognized to Lao. Cross country competition was one of the environment businesses that directs Lao business competition from 50 percent opinion. All of Lao participants were a retails shop and 50 percent were wholesales.100 percent said the most benefits of being the TOFC's network member was the innovation products which should offer their high end customer in the country and 50 percent said

branding of the TOFC should made them easier to present to their consumers. A hundred percent showed that they have independently operation their firm because the company should not intervene any processes and they were the authorized dealer of SCG whereas 50 percent of them were the Diamond authorized dealer as well. The reason of being another authorized dealer because that brand was well known in Lao. Half percent of Lao participants said they satisfied TOFC more than the rivals likewise 50 percent said that they preferred equally by the closer coordination was the key that 50 percent provided. 100 percent showed that the delivery process was the main trouble whilst 50 percent said that lack of products stock was the problem as the member of TOFC's network. These interviews show the results that the business model of modern trade in the construction materials merchandiser in Lao was not explicit but the stream of development around the country made them learn more about the modern trade business model. Differences of outlet features were the clearest outlook of Lao participants, 100 percent mentioned about remarkable display in the shop, selling process and the systematic management. The cost of management and the large capital were the description of modern trade in 50 percent opinion. 100 percent of Lao respondents said the external pressure was the main factors of business model transformation then they paid most attention on it. TOFC must provide the substantial policy and helpful facilities to Lao customer with 50 percent opinion.

Research Recommendations

First recommends the business to business strategic plan with transformed modern trade with the relationship marketing theory that has many relationship aspects to improve and maintain the business relationship between two parts in the network. The corporate strategy is to set up the new department as the market research and development department and reorganize the sales and marketing departments to work around the customer relationship. The division strategy for sales department is to establish a new division as the Localize modern

trade division to look after these groups of customers and to develop the customer's information center. Moreover, the functional strategies, the researcher presents 3 parts of the functional strategy along the objectives as follow. Business relationship continuously maintains by the business pioneer party and business successor seminar to build up the chance of TOFC's employees in every level related to the customer interaction to meet face to face and make the closer relationship with their customers. The reformation of complexity in the task connection system and create the symmetry in the organization between the company and target group by systematize the customer interaction and set up the new sales department to operate with target group. Finally, the informality relationship was necessary so the high level executive's visiting plan with target group should setting up like the research result before that 40 percent of external participants said that they wanted the TOFC's owner or any high management employee to visit, 50 percent said that the personal coalition was the one way to build relation with the customers. The most evidence with business relationship of TOFC's distribution network was the private relation with TOFC's employees by close coordination as 50 percent of customers answered. The 60 percent of external participants showed that the customer seminars were the most effective activities to build the relationship and 40 percent informed that the private meetings were appropriate. Internal participants' opinion illustrated the nationwide seminar has been built the relationship from 60 percent opinion and 87 percent said the nationwide special occasion party was the most effective marketing activities. Nearly a hundred percent pointed the relationship 140 with TOFC can make the added value to the firm but it should be adjusted in some manners said by 60 percent. The second strategy to the transformed modern trade is to create the business role model within target group member for encouraged interaction between actors in the network as 20 percent of internal participants shown. The 60 percent of external participants said private relationship between network members were practicable. The main supporter of

local marketing with target group is the interaction between activities of network members. 40 percent of customers presented the collaboration in business development was a choice to make the relationship with the company and 50 percent said the market data interchanged was appropriate to their business. 20 percent of external participants and 27 percent of internal respondents said the company should be the local co-advertising. The region or sales area interchanged data seminar to share the business knowledge between network members in the target group to raise the interaction between resources of network member likes 60 percent of external respondents said they have the relationship between together in the network, 40 percent showed that the data exchange was beneficially and 30 percent would like the company to support the data in the market. Eventually, the strategy to the transformed modern trade are the development of DNA and CRM system to match this customer group need, co-creation with the shop display and training the shop counselor and co-invention the new products with target group. All of the strategies are the business devices which 60 percent of external and internal respondents illustrated. The 67 percent internal participants said the company gave the importance to customer relationship by DNA promotion and CRM department set up, 53 percent made the relationship with the customers by introduce the innovation products, 40 percent represented the level of relationship with the co-developer partner and 27 percent illustrated the relationship would make more value added to the business by to be one part of new products developer ,80 percent said outstanding display and 40 percent preferred product counselor for the marketing activities to modern trade. The 90 percent of external respondents said they obtained the positive results from relationship with the company in terms of improving the product knowledge in the opinion of 40 percent, 60 percent said they should be the business partners of TOFC, 20 percent said they should be the business co-creators, 10 percent clearly shown the new product co-develop, 60 percent said outstanding display and 30 percent preferred product counselor were the

marketing activities to modern trade. Set the possible interesting benefits and obvious punishment specifically the target group for established the new concerned customer group. As 40 percent of internal respondents shown the new customers prioritize was necessary to the company, 53 percent said TOFC did not have business regulation which the dealers independently operated the firm but many times the company's policies were impracticable likes 20 percent external participants said the company has powerless enforcement the network members. Second recommendation is the business to business strategy with the traditional trade to transformation, the corporate strategic is to setting up the new department as the market research and development department and reorganize the sales and marketing departments to work around the customer relationship. The division strategy especially the sales department is to establish a new division as the Localize modern trade division to look after these groups of customers and develop the customer's information center. And the functional strategic statement, the researcher presented 3 parts of the functional strategy as follows. The nurture and enhancement of business relationship between the business pioneer and the successor with the company are applying the characteristics of business relationship theory which divided its characteristics into three manners: continuity, complexity, symmetry and informality. The first strategy is the business pioneer party and business successor seminars to build up the chance of TOFC's employees in every level that related the customer interaction to meet face to face and make the closer relationship with their customer. As 60 percent of external respondents suggest the customer seminar was appropriate marketing activities and 60 percent of internal respondents presented the business knowledge seminars to agent was the most effective marketing activities. The reduction and management of relation complexity within company and dealers was the business advisor to develop the business model to modern trade or SHERA home solution business model which matched the dealers' business approach to the company's policy, these strategies should arrange the symmetry of relationship in the

same way. SHERA home solution center concept and the systematically management were the two ideas that 33 percent of TOFC's employees offered to their customers and 27 percent suggested the information technology system. 70 percent of customer requested the company's advice and 20 percent agreed the SHERA home solution center concept with 20 percent wanted the tangible policy to obviously path of model development. Finally, the informality of relationship was necessary so the high level executive's visiting plan with target group should setting up like the research result before that 40 percent of external participants said they wanted the TOFC's owner or any high management employee to visit, 50 percent said the personal coalition was the one way to build relation with the customers. The most evidence with business relationship of TOFC's distribution network was the private relation with TOFC's employees by close coordination as 50 percent of customers answered. The 60 percent of external participants showed the customer seminars were the most effective activities to build the relationship and 40 percent said the private meetings were appropriate. Internal participants' opinion illustrated the nationwide seminar has been build the relationship from 60 percent opinion and 87 percent said the nationwide special occasion party was the most effective marketing activities. Nearly a hundred percent pointed the relationship with TOFC can make the added value to the firm but 60 percent said that it should be adjusted in some manners. The second strategy to the transforming modern trade focuses on the process characteristics of business relationship as interaction between actors, activities and resources of the member in relationship. It is to create real time interaction system via IT system between company and customer to raise the efficiency of coordination such as factory stock, logistics and sales process. 53 percent of internal respondents showed that the routine task should make the customer relationship effectively, 47 percent emphasizes the importance on customer relationship by the sales routine task in contrast to the result of relationship that TOFC's employees said there were in moderate level from