

# Structure of Channel Management and Agency Theory: Relationship Marketing Approach for Fast Moving Consumer Goods (FMCG) Business

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## Abstract

This article aimed at identifying, describing, and obtaining deep understanding about channel management to reveal the characteristics of relationship-marketing theory. As such, it utilizes the agency theoretical perspective which is occasionally used in prior relationship-marketing research. The research uses qualitative method based on phenomenology theoretical-design and constructivism philosophy to observed fast-moving consumer goods business phenomenon within transactional buying-selling process in the channel management structure. Such design will be applied through the mechanism of distribution channels in traditional trade. The result identifies three positions of distribution channels within the agency theory perspective: (1) relationship between principal, distributor and promotional agencies in an efficient contract position, (2) relationship between distributor, wholesaler and retailer in the position of the realized outcomes, and (3) relationship between wholesaler, retailer and the end-users in a pay-offs position. The findings viewed as a constructive way in describing the re-design model structure of channel management from the agency theoretical perspective. As such, the research revealed three characteristics of relationship marketing; exclusive contract, direct competitive, and temporary contract approach. This research implies that the agency theoretical perspective will emerge as a new and prosperous theoretical perspective in the field of relationship marketing research in the future. It might be argued that managers in applying any relationship marketing approach are advised to stay focused on improving the quality of relationships among the partners covered by each channel-group. Further, it is expected that future research in the field of marketing management, particularly on relationship-marketing research, to utilize the agency theory as their theoretical strands.

**Keywords:** Channel Management, Agency Theory, Relationship Marketing Theory, Behavioral of Buying-selling, Theoretical Basis, Fast Moving Consumer Goods (FMCG)

## 1. Introduction

Business to business (B2B) and / or business to consumers (B2C) researches in marketing can not be separated from relationship marketing theory approach (Alvarez et al., 2011). Some literatures have described relationship marketing that includes the process of marketing activities to create, maintain, enhance, and value relationships with customers through a long-term shift of transactional marketing (Morgan and Hunt, 1994; Kotler and Armstrong, 2013; Zineldin and Philipson, 2007; Sashi, 2009). The first research on relationship marketing was conducted in the 1970s, but it emerged into marketing literature in the 1980s (Rao and Perry, 2002; Theron, Terblanche and Boshoff, 2008). Previous researches from time to time had already paid serious attention related to the development of the concept regarding with relationship between buyer-seller, specifically : Dwyer, Schurr and Oh (1984), Morgan and Hunt (1994), Ganesan (1994), Williams and Attaway (1996), Gronroos (1997), Garbarino and Johnson (1999), Jap and Ganesan (2000), Rao and Perry, 2000, Parsons (2002), Zineldin and Philipson (2007), Theron et al. (2008), Sashi (2009), Alvarez, Casielles and Martin (2011), Song, Su, Liu and Wang (2012), Tareq (2012), Mazhari, Madahi and Sukati (2012), Aminu (2012), Roman and Martin (2014), and Trihatmoko, Harsono, Wahyuni and Haryono (2016a and 2016b). This research is a follow up of Trihatmoko, et al. (2016a) and (2016b), and Trihatmoko (2016) on FMCG industry in Indonesia. Furthermore, this research activity is also aimed at the development of science in the field of economics and management conducted by a team of academicians who are members of a research cluster consisting of Trihatmoko Economic and Management Development (TEM-D) and Governance Research Program (GRP).

Basic argument that relationship marketing theory is an interesting phenomenon from the point of view of relationship practices built by buyers and sellers as fellow business partners is found by observing various studies above. However, within the framework of relationship marketing in previous research, researchers have not explained about how actually each subject of their research is related to the partner. Meanwhile, the relationship between partners in channel management consists of various parties, namely supplier partners, buyers and internal and other external partners (Morgan and Hunt, 1994). This indicates that channel management involves various parties (partners) who almost certainly have different interests between them. Ultimately, these differences of interest will result differences in complexity or sensitivity to each characteristic of relationship marketing approach.

This research is important to be conducted so that every research related to relationship marketing, B2B and B2C have clear theoretical basis and argument that can be accounted academically. Research conducted by Trihatmoko et al. (2016a and 2016b) has explained the marketing of FMCG using or through conventional channel management in Indonesia. Research recommendations resulted by Trihatmoko et al. (2016b) also explained that their research results had brought implication in marketing area as proposition on relationship marketing and agency theory. The problem is that until now, relationship marketing research is still very limited in using agency theory perspective as a perspective in understanding the related phenomenon. On this basis, further observation is needed about; (1) how are the relationship between principal and agent, and other partnerships covered by channel management structured in the agency theory structure? and (2) how does relationship marketing theory relate to the concept of B2B and B2C?

The purpose of this paper is to identify, describe, and obtain deep understanding about how channel management utilizing the agency theory perspectives to uncover relationship marketing-related phenomenon. This research will have benefits as new knowledge regarding channel management, relationship marketing and the agency theory. Through this process, it is expected that theoretization of relationship marketing using perspective the agency theory will have implications for every B2B and B2C research. The research results are also expected to be useful for practitioners, especially in FMCG industry in setting marketing strategy through channel management in traditional trade field. The advance of the channel management concepts within relationship marketing from the view of the agency perspective, especially the behavioral aspects of B2B and B2C approaches is the originality and uniqueness of the study. It might be argued that such a result will contribute to the literature on relationship marketing from the agency theoretical perspective.

## **2. Literature Review**

Agency theory have been utilized in cross-disciplinary research, such as economics, finance, accounting, organizational behavior, politics, and sociology (see Lukviarman, 2016). Nevertheless, according to Bergen, Dutta and Walker (1992) the use of this theory perspective is relatively slow in its adoption and development in the field of marketing-related studies. Agency theory is better known after the seminal article by Jensen and Meckling (1976) related to corporate behavior in the framework of managerial behavior, agency costs and ownership structure through the dominant positive agency theory approach used for various research in the field of financial management. As also explained by Lukviarman (2016) that in this period, various studies in the field of governance showed development by the emergence of the branches of agency theory literature that refers to the conception of the agency relationships. Meanwhile, agency theory in marketing management perspective was developed and introduced by Bergen et al. (1992). Nevertheless, the perspective used by Bergen et al. (1992) still refers to 2 (two) major parties related to

agency theory framework; principal and agent. Further, as found in Jensen and Meckling (1976), the perspective of Bergen et al. (1992) in understanding the agency problem is also expressed in the form of contractual relationship.

Bergen et al., (1992) is a pioneer of agency theory in marketing management. Conceptual framework of Bergen et al. (1992) uses two types of agency approach approaches: (1) The problem before the principal establishes an offer to the agent over a precontractual basis. (2) The emergence of problems after the principal and the agent agrees to establish relationships within the postcontractual. Both of the phenomena above, as described by Jensen and Meckling (1976) are a consequence of imperfect contracting, that the current contract is not entirely contained in detail related to future events. The building of agency theory as introduced by Bergen et al. (1992) derived from studies of previous marketing research results related to employee agency theory that examined various marketing issues: (1) salesperson management; (2) supplier controls and coordination; (3) promotional decisions and other market phenomena. Furthermore, Bergen et al. (1992) suggested that agency theory: (1) implicates an attractive opportunity for marketing researchers, but the agency theory's perspective usage is still relatively limited or has not received attention; (2) promising future application areas covering the aspects of international marketing, industrial purchasing behavior and issues covering advertising agencies.

In the development of agency theory can be said that the expectations of Bergen et al. (1992) has not yet come to its fruition. Through the search results of various literatures related to relationship marketing up to decade now indicate that research in that field is not or not yet using agency theory as the basic framework. For instance, researches conducted by Morgan and Hunt (1994), Ganesan (1994), Gronroos (1997), Garbarino and Johnson (1999), Jap and Ganesan (2000), Rao and Perry (2002), Parsons (2002), Zineldin and Philipson (2007), Theron et al. (2008), Sashi (2009), Alvarez et al. (2011), Song et al. (2012), Tareq (2012), Mazhari et al. (2012), Aminu (2012), Ramon and Martin (2014), and Trihatmoko et al. (2016a and 2016b). Indeed, Trihatmoko et al. (2016b) has begun to reveal agency theory, but is still limited to the efficient contract essence between principal and agent. With this basis, this study aims to understand how phenomena associated with relationship marketing are understood through agency theory perspective.

Agency theory uses an incomplete contracting metaphor to describe a delegation relationship between one of the working partner (principal) for another (agent) (see Jensen and Meckling, 1976, Bergen et al., 1992). Efficient contract is one of the possible outcomes for the principal considering the constraints faced situationally as well as a consequence of a set of efforts to maximize the utility of each element between principal and agent (Bergen et al., 1992). However, as described in the following literature review, indicates that not all partners within their framework of employment necessarily use the contract metaphor.

Referring to the structure of agency theory and channel management as well as the phenomenon of intercompany activities in the FMCG industry indicates that the relationship between principal and distributor partners (as agents within the agency relationship framework) is built using cooperative contract agreements (Trihatmoko, et al., 2016b). In addition, principal and distributor parties also make contract with third parties, such as promotional agencies and other advertising agencies to support the marketing of their products. In addition to providing an overview of the meaning of cooperation between principal partners, distributors, wholesalers, promotional agencies, and other partners, the results of this study also attempt to explain the phenomenon of relationships among these partners. This initial indication is based on an illustration of the pattern of implementation of

the sales promotion program and the allocation of resources as stated by Trihatmoko et al. (2016a).

In this regard, Aman and Hopkinson's (2010) and Trihatmoko (2016) study explained that the relationship between distributors and wholesale distributors was done without the use of contractual ties. Theoretically it is estimated that the relationship between distributors and wholesalers was built on mutual trust or trust relationship followed by the gentlemen agreement between the agreed parties. The framework of Trihatmoko et al. (2016a) illustrates the relationship quality that in this case, degree of trust between the distributor and the wholesaler is built on an ongoing basis as both of them have financial, social and structural benefits. In addition to explaining the meaning of relationship without contractual bond between distributor and wholesale distributors, the results of this study also attempt to explain the phenomenon of relationship between the two partners.

Based on the literature review above, there are indications that various channel management phenomenas are potential to be understood through agency theory perspective in an effort to develop the concept and application of relationship marketing theory from different angles. Therefore, this research activity is conducted by using qualitative method in order to succeed in giving renewal of relationship marketing. Through qualitative method approach, it is expected that the result of observation can summarize various aspects that are unique and can not be produced through other approach. Finally it is also expected that the results of this study can enrich the field of relationship marketing scholarship from a different point of view.

### **3. Methods**

This research uses qualitative method by phenomenology theoretical design that is FMCG business phenomenon within transactional buying-selling process in channel management structure (Proctor, 2005; Creswell, 2009; Jonker and Pennink, 2010; Saldana, 2011; Creswell, 2013; Gupta and Awasthy, 2015; Taylor, Bogdan and DeVault, 2016). Preliminary data were collected through field observations about the phenomenon of business and marketing mechanisms at several distributor companies in Solo City, Central Java Province, Indonesia. The deepening of business mechanisms among partners is detected through, for example, corporate legal documents, letters and sales transaction invoices and so on.

Observation results are followed through in-depth interviews and discussions with marketers from various companies for the FMCG business. Interviews were conducted on informants from five FMCG principal companies in national and multinational companies. The objective of the interview is to know the phenomenon of resource allocation related to promotional agencies. This step is done as confirmation and simultaneously validate the data before finalization of the interpretation of each data (Fatchan, 2011; Creswell, 2013; Gupta and Awasthy, 2015).

Data interpretation for this research is constructivism philosophy that is based on the marketing mechanism at traditional trade (Saldana, 2011; Creswell, 2013; Hammersley, 2013; Gupta and Awasthy, 2015). The results of the observations are processed by the researchers in a narrative way and also described, because the nature of this research is to rebuild a model (Gupta and Awasthy, 2015). The understanding of channel management from the view of agency theory in this research was adopted from previous research of Trihatmoko (2016). The excerpt of agency theory and channel management building from Trihatmoko (2016) is intended as the basis of analysis to reveal the theory in detail, ie marketing relationship theory. This can be done in a qualitative study that theories and concepts are built from the bottom and abstracted upward or bottom-up.

#### 4. Results

Trihatmoko (2016) revealed that the cooperation among partners in FMCG industry consists of; (1) the relationship between the principal and the distributor is built using the cooperation contracts set forth in the distributor agreement document; (2) the relationship between principal and distributor with promotional agencies using temporary cooperation contract that is poured in the work contract; (3) the relationship between distributors and other suppliers such as wholesalers, retailers and institutional or special outlets are built without the use of contractual ties.

The results of the study identify that in each distributor agreement, it is stipulated that the distributor will market the product by providing various infrastructure exclusively for their principal. The exclusivity also provides a limitation that the distributor is not allowed to market the products of its principal competitors. To that end, the results of the study formulated that the relationship between principal and distributor characteristics is based on exclusive contracts.

In an effort to support the penetration of product distribution between principal and distributor to do temporary cooperation with the promotional agencies. The results revealed that each distributor company entered into a cooperation contract, for example with a motorcycle team, sales promotion girl, product display team at wholesale and team attribution of product promotion in stores. Cooperation between principals, distributors and promotional agencies is temporary, based on the urgency of principal party objectivity. The contract scheme between distributor and promotional agencies is regulated or based on the approval of the principal. The phenomenon, that the burden of promotion promotional agencies activities become the burden of the principal, while the distributor as the recruiter and the control of the activities of the promotional agencies. Based on the description, it can be formulated that the relationship between principal and distributor with the promotional agencies is characterized with contractual temporary.

The results reveal that all distributors are in contact with wholesalers and retailers, institutional and special outlets as end-users of a marketed product. The opposite meaning, that wholesalers and retailers, and end-users build relationships with all the suppliers or distributors whose products compete with each other. The relationship between them has been going on for years without a contract. The phenomenon of relationships between partners is thus a meaning or called direct competitive of relationship marketing.

Trihatmoko (2016) study also identified and positioned relationships among FMCG industries partners into the channel management and agency theory structure (Table, Appendix 1). The description of Table provides the meaning that the relationship between principal and agent, and other partnerships covered by cahnnel management are structured in the agency theory structure, namely: (1) Relationship between principals, distributors and promotional agencies in the effecient contract position; (2) Relationship between distributor, wholesaler and retailer at realized outcomes position; (3) Relationship between distributors, wholesalers, retailers, promotional agencies and end users in pay-offs positions. The conceptualization of agency theory and channel management structures on transactional and relationship among FMCG industry partners can be illustrated collaboratively (Figure 1, Appendix 2).

The textual and structural descriptions in Table and Figure 1 are the basis of the research analysis to construct the following structural descriptions of the premises and propositions of this study. Therefore, the structure of agency theory and relationship marketing in Trihatmoko (2016) research leads to the formulation of premises: (1) Pa: Each type of

business group leads to differences in the characteristics of relationship marketing; (2) P<sub>b</sub>: Relationship marketing between partners consists of three characteristics : in the form of exclusive and temporary contracts, and direct competitive; (3) P<sub>c</sub>: Direct competitive of relationship marketing encourages temporary contracts to other partners; (4) P<sub>d</sub>: Temporary contract between partners aims to support partners who are in the position of direct competitive of relationship marketing; and (5) P<sub>e</sub>: Each relationship marketing characteristic will have consequences for buying-selling transactional products between buyers and sellers, both B2B or B2C.

Based on the above premises, the results of this study propose the following proposition relationship marketing, and constructively presented in Figure 2.

- P1: Type of business and customers will differentiate the characteristics of relationship marketing.
- P2: Direct competitive and temporary relationship marketing contracts mutually support the relationship between partners in situationally.
- P3: Differences in the characteristics of relationship marketing will have implications for the behavioral concept of buying-selling in B2B or B2C.

**5. Discussion and Implications**

The results have identified and described the positions of each partner in the channel management structure in agency theory positions. These findings contribute directly to complementing agency theory built by Bergen et al. (1992) and explained the relationship between partners established by Morgan and Hunt (1994). Specifically, there are relationships between: (1) principal, distributor and promotional agencies in an effecient contract position; (2) distributor, wholesaler and retailer in the position of the realized outcomes; and (3) wholesaler, retailer and the end users in a pay-offs position.

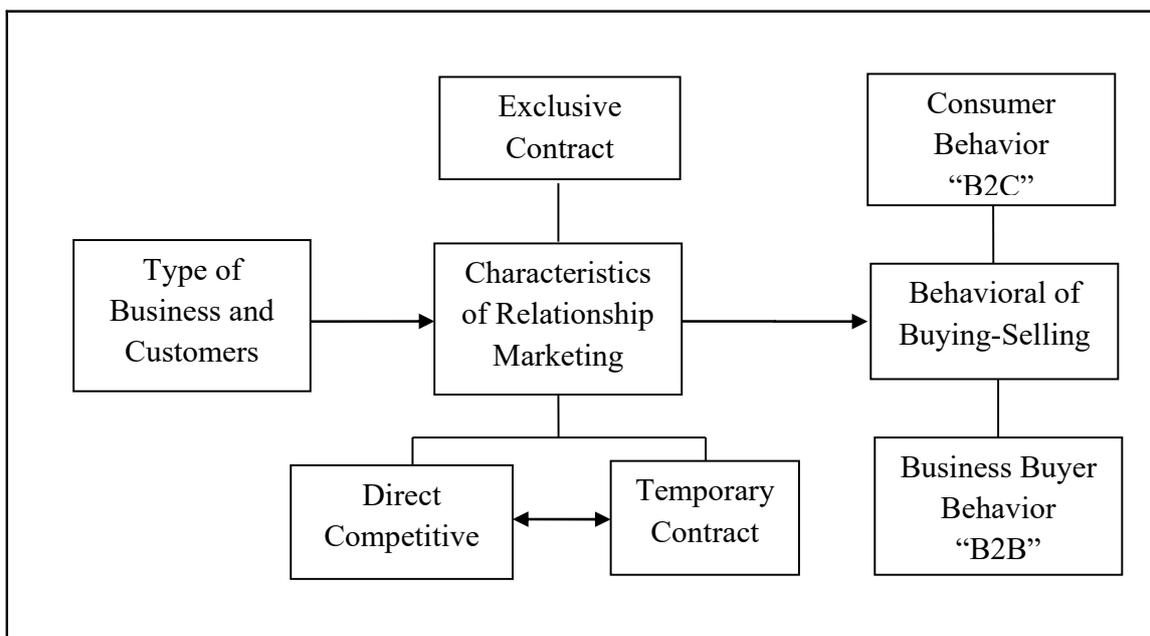


Figure 2. The Relationship Marketing Theory

Theoretization of agency theory and channel management structures on transactional and relationship among industry partners FMCG has proposed the relationship marketing theory proposition. The theoretical results indicate that the behavioral concept of buying-selling specification will depend on: (1) Type of business and customers; and (2) the characteristics of relationship marketing. This finding has implications for the relationship between agency theory and relationship marketing theory as expected by Bergen et al. (1992) that agency theory promises the field of application in the future that includes aspects of international marketing, industrial purchasing behavior and issues that include advertising agency.

Nevertheless, from now on agency theory perspective will emerge new term that is exclusive and temporary contract of relationship marketing, and direct competitive of relationship marketing. These finding reconfirm to: (1) Trihatmoko, et al. (2016b) that the relationship between principal and distributor partners is built on cooperative contractual agreements, as well as principal and distributor partners also contracts with third parties; (2) Aman and Hopkinson (2010) and Trihatmoko (2016) that the relationship between distributor and wholesaler partner conducted without using contract ties. Thus, this finding differs from agency theory by Bergen et. al. (1994) and Jensen and Meckling (1972) that agency theory uses a contract metaphor to illustrate a delegation of one partner working for another.

The results have identified that the relationship between each partner is created by buying-selling transactional for products. Buy-selling transactions start from the producer or principal and intermediater to the end-user consumer. Therefore, these findings also have implications that the behavioral concept of buying-selling theoretical basis is agency theory. This theoretical implication is in accordance with the estimates and expectations of Lukviarman (2016) that the emergence of branches of agency theory literature that refers to the conception of the agency relationships, namely in the field of marketing management.

## **6. Conclusion**

The results shows that in agency theory structure, the position of relationship between: (1) principal, distributors and promotional agencies in an effecient contract position; (2) distributors, wholesaler and retailer in the position of the realized outcomes; (2) wholesaler, retailer and the end users in a pay-offs position. The results of the study also identify that the relationship between each partner has different characteristics according to their role in channel management, namely exclusive and themporary contract, and direct competitive. Based on these findings, the first conclusion can be drawn: (1) the relationship between partners covered in channel management, each having a different position in the perspective of agency theory structure; and (2) the difference in position in the agency theory structure is caused by the difference in type of business and customers among partners in establishing relationships.

The results of this study illustrate that the type of business and customers determine the characteristics of relationship marketing, and the characteristics of relationship marketing will have implications on the concept of every behavioral building of buying-selling. These findings lead to the second conclusion that any behavioral conception of buying-selling will have constructive differences caused by differences in types of business and customers, and the characteristics of relationship marketing.

## **7. Recommendations**

First, the research results have identified that relationship marketing consists of three characteristic approaches; exclusive and temporary contract of relationship marketing, and direct competitive of relationship marketing. Therefore, any study of relationship marketing

is recommended to provide notes as a limitation of its research whether the exclusive or temporary contract of relationship marketing, or direct competitive of relationship marketing. The goal is that any relationship marketing building does not cause overlap between one concept with another.

Second, the results of this research have implications for agency theory and relationship marketing theory in buying-selling transactions between partners in channel management in terms of B2B and B2C. Based on these implications, the study of business buyer behavior and consumer buying behavior is used to quote explicitly that the theoretical basis is agency theory. It is intended that every concept of business buyer behavior or consumer buying behavior becomes clear that is in the efficient contract, realized outcomes, or in a pay-offs position.

Third, the research results identify that each partner in the FMCG industry channel management structure is in the realm of relationship marketing theory, according to its characteristics. Managers in applying any relationship marketing approach are advised to keep targeting efforts to improve the relationship quality among partners included in channel management. Moreover, managers are advised to innovate to make a breakthrough to improve relationship quality with group of business partners who have direct competitive nature in relationship marketing. The goal, so that each marketed product successfully superior to compete toward the target consumer or pay-offs position.

## **8. Limitations and Areas for Further Research**

This research is limited to relationship marketing for FMCG in Indonesian traditional trade. Relationship marketing research for non-FMCG and / or modern trade provides an opportunity to discover different or new characteristics of phenomenon relationship marketing. This research uses qualitative methods, so that the results of this study can not be generated in accordance with the characteristics of the research approach. Therefore, the research using quantitative methods has the opportunity to perform empirical testing of the proposition (P1-3) of this study as a research hypothesis.

Although this study limits the discussion using agency theory approach in the field of marketing management for FMCG, however, this limitation is also an opportunity to develop a broader agency theory in marketing, especially related to relationship marketing, so that it is no longer dominated only by researchers in the field of other science. Furthermore, the results of this study are expected to encourage researchers to explore agency theory as a theoretical perspective in the field of marketing management for businesses and other types of non-FMCG products.

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## Appendix 1

Table Identify the Transactional and Relationship among Industry Partners FMCG

Structure			Channel Management	
No.	Agency Theory Variable	Type of Business and Customers	Transactional of Goods	Transactional of Services
1.	Efficient Contract	B2B Intermediater Customers	Principal to Distributor	Promotional Agencies to Principal and/or distributor
			Distributor to Promotional Agencies	-
2.	Realized Outcomes	B2B Intermediater Customers	Distributor to Wholesalers and Retailers	Promotional Agencies to Wholesalers
			Distributor to Promotional Agencies	-
			Wholesalers to Retailers	-
			-	Promotional Agencies to Retailers
			-	-
3.	Pay-offs	B2C Consumers and Others Organizational	Distributor to End Users	-
			Wholesalers to End Users	-
			Retailers to End Users	-
			Promotional Agencies to End Users	-

Source: Trihatmoko's research report (2016)

Appendix 2

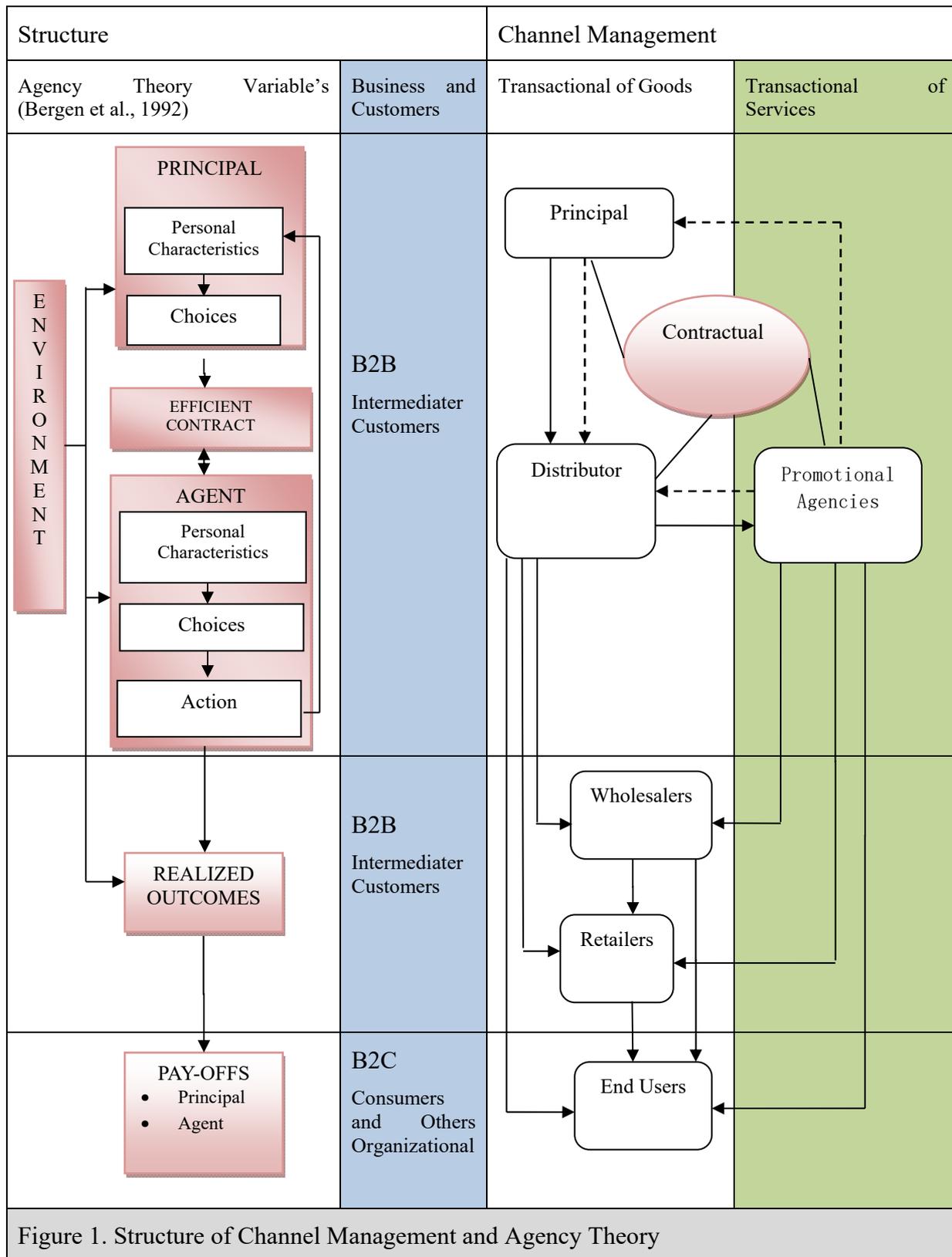


Figure 1. Structure of Channel Management and Agency Theory

Source: Trihatmoko's research report (2016)

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