ISCTE ◈ Business School
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Optimization of Fast Moving Consumer Goods (FMCG) Marketing Channels in China: a case study

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Thesis submitted as partial requirement for the conferral of the degree of

Doctor of Management

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July, 2015

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Abstract

The operation conditions of marketing channels, regarded as the crucial external resources of enterprises, directly influence the market position of a company. Good marketing channels are significant links for enterprises to perceive market change and adjust enterprise behavior and decisions.

This thesis seeks to clarify and define various factors influencing marketing channels optimization by using fast moving consuming goods (FMCG) as the focus of the research topic and by taking Rainbow Company as an example, based on data of an actual marketing channel operation and deep research on the case company. On this basis, the concept and basic framework of marketing channel optimization of FMCG enterprises has been considered from the perspective of channel relationship selection and marketing channel integration, considering the influence of direct online marketing models on traditional marketing channels. Finally, it has put forward the implementation strategy of marketing channel optimization from three aspects, building strategic alliance of marketing channels, putting more effort in developing a network channel and in strengthening regional marketing team construction by applying relevant theories and concepts of marketing channel optimization.

Key words: FMCG enterprises; marketing channel optimization; marketing dual channels; channel relationship; channel evaluation

JEL classification: M31

Resumo

As condições de operação dos canais de marketing, considerados como recursos externos essenciais das empresas, influenciam diretamente o posicionamento de uma empresa no mercado. Um bom canal de marketing constitui um elemento muito significativo para que as empresas se apercebam das mudanças ocorridas no mercado e possam ajustar os seus comportamentos e decisões em conformidade.

Esta tese procura clarificar e definir os diversos fatores que influenciam a otimização dos canais de marketing a partir do estudo de caso da empresa Rainbow Company e adotando, como base de pesquisa, o caso de produtos de rápido consumo (FMCG "fast moving consumer goods"). Deste modo a tese definiu o conceito e o enquadramento básico da otimização de canais de marketing sob a perspetiva da seleção de relacionamentos e da integração, considerando a influência de modelos de marketing direto online sobre os canais de marketing tradicionais. Por fim, e tendo por base as teorias e conceitos relevantes, a tese desenvolveu uma estratégia de implementação da otimização de canais de marketing sob três perspetivas: construção de alianças estratégicas; reforço do desenvolvimento de redes; e reforço do desenvolvimento de equipas de marketing regional.

Palavras chave: FMCG enterprises; marketing channel optimization; marketing dual channels; channel relationship; channel evaluation

Classificação JEL: M31

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On January 15, 2015

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Chapter 1: Introduction

1.1   Research background

1.1.1   Market background

With the rapid growth of Chinese economy over the previous three decades and the constant improvement of national income level, the purchasing power of domestic consumers is increasingly being reinforced. Fig. 1.1 shows that the annual average times of purchasing five selected fast moving consumer goods (FMCG) in China from 2007 to 2012 has increased year by year. Under this background, the market volume of FMCG in China is constantly expanding, presenting an ever stronger market growth potential.

Fig. 1-1 Annual Average Times of Purchasing Five Fast Moving Consumer Goods (FMCG) in China from 2007 to 2012
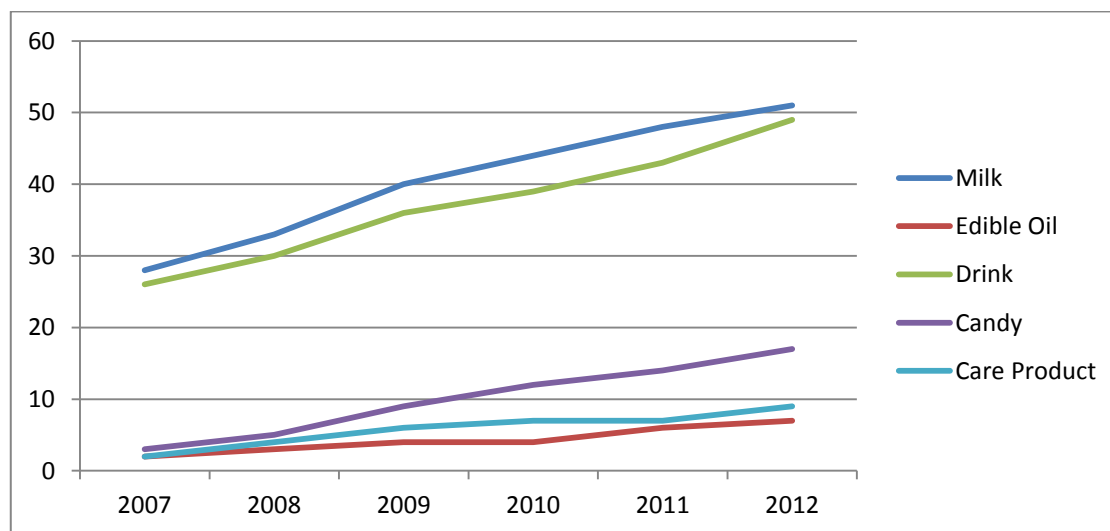
Source: China Statistical Yearbook 2013

Relevant statistic data (China Statistical Yearbook 2013) indicates that, since 2000, the Total Retail Sales of Consumer Goods in China remains at a growth rate above 12%, and that of FMCG in China maintained a market growth rate of 9%-10%. Even if China has been influenced by the financial crisis and the negative effect of a sluggish world economy in 2008, FMCG in China still maintained the market growth rate at 8.1%. In addition, the 2013 annual research report of Shanghai FMCG Research Center has predicted for 2014 a market growth rate of FMCG in China is of 8% to 9%.

Viewed from the consumption structure, on the one hand, the sales of the secondary market (prefecture-level cities) and tertiary market (counties and county-level cities) of FMCG in China have taken up over 60% of the national sales and maintained a stable growth in recent years. On the other hand, the potential of the enormous consumer demand of the fourth market (countryside, town, village and other rural markets) for FMCG has not emerged yet. Currently, the consumption level of this market only takes up about 40% of the secondary market and, in the case of insect control products the consumption level represents a mere 25% (2013 annual analysis report of China Household Necessities Industrial Association). With the acceleration of Chinese urbanization and the promotion and implementation of the national "three rural" (village, agriculture and farmer) preferential policy and the constant and stable enhancement of the income level of rural residents who represent two thirds of the national population, the market volume of FMCG in China will keep expanding.

Viewed from the perspective of consuming intentions, Nielsen's survey report issued on February 19, 2014 in Beijing indicates that the Consumer Confidence Index of China in the fourth quarter of 2013 hit another new high by 111 points, the highest point over the last five years, ranking the fourth in 60 nations and regions covered by Nielsen's global survey for Consumer Confidence Index. Meanwhile, this survey report also indicates that the consuming intention of Chinese consumers in the fourth quarter of 2013 reached 47%, the highest point since the second quarter of 2012 while employment expectation rose to 75%, reaching its highest point since the second quarter of 2012. Obviously, the constant enhancement of consuming intentions and the recovery of employment expectation have driven the upsurge of Consumer Confidence Index in China and reinforced the motivation of merchants for FMCG in China transforming the powerful consuming confidence into real purchasing power.

Both the expansion of total consumption and the optimization of the consumption structure for both urban and rural residents in China has put FMCG into a golden development period. The economies in rapid development and their enormous market potentiality are irresistible.

Viewed from the industry aspect, with the integration of world economy, more foreign FMCG companies move to China rending the market competition fiercer. On the one hand, the foreign-funded enterprises directly snatch the market share of China's mainland market, enlarge the investment intensity year by year and squeeze the living space of domestic FMCG brands in China through their international famous brands and mature management modes. On the other hand, in order to rapidly snatch the market share and share the benefit brought by the rapid growth of the Chinese consumer goods economy, the number of foreign companies that enter the FMCG market in China through merger has gradually increased since 2000.

Based on the 2013 research report of Shanghai FMCG Research Center, there were over 70 main mergers in the domestic FMCG industry in 2009 with a total value exceeding 50 billion yuan (6.8 billion Euro). Most of these mergers involved foreign-funding.

While merger scale expands, its requirements have become more rigorous. Actually, in China, a merger is usually required to have an absolute equity holding while the merging object must be a high quality enterprises in the industry with a future benefit for the merger expected to exceed 15%. There are a large number of enterprises in China's FMCG market, but just a few enterprises ranking first in the industry take up a larger market share and possess a comparable enterprise strength such as Mengniu Diary, Ely and Bright Diary in the diary industry and Wahaha and Robust in the bottled water industry. Once one of these industry leaders chooses to cooperate with foreign investment, such decision will have a great influence on other competitors. Obviously, foreign funds in large-scale have changed the competition pattern of FMCG in China.

Viewed from the industry chain, FMCG enterprises in China increasingly depend on retail dealers in the downstream of the industry chain. The retail industry in China has undergone a rapid development in nearly 10 years with the proportion for sales of retail enterprises in total retail sales of consumer goods rising year by year, and having increased from 13.6% in 2000 to 41.2% in 2012. Correspondingly, the market position of retail enterprises is also reinforced. Among retail enterprises, the sales of supermarkets and hypermarkets take up 84.9% of those in the entire retail industry (China Statistical Yearbook, 2013).

FMCG are characterized by having a low unit price, fast turnover and high homogeneity and their marketing environment requires large consumer flow and favorable marketing atmosphere. Therefore those marketing circulation channels represented by supermarkets and hypermarkets are the first choice for FMCG manufacturers.

In the current stage, the channel relationship between FMCG and the retail industry in China is mainly reflected in two aspects:

The first is multiplicity – the same retail dealer has different transaction statuses when facing different manufacturers or dealers. Likewise, FMCG manufacturers or dealers also have different transaction statuses when facing different retail dealers. Given that the profit mode of FMCG manufacturers in China mainly derives from the size effect and the homogenization phenomenon of products, manufacturers depend more on "price war" and on snatching efficient marketing channels from the competition. Therefore, generally, as for the choice of FMCG manufacturers, supermarkets and hypermarkets usually dominate the

market.

The second is dynamics – the channel relationship between FMCG manufacturers or distributors and retailers also varies with market competition and industry development. Comparing the trend change in the number of enterprises in the food processing industry, food manufacture and drink manufacture with the number of retail enterprises (refer to Fig. 1-2), we can see that the growth rate of retail enterprises is faster than that of the above three kinds of FMCG industries in the period from 2005 to 2012. Especially in 2011, while the number of enterprises in the three kinds of FMCG industries presented a negative growth, the quantity of retail enterprises still kept growing. This faster growth rate of enterprises in the retail industry is beneficial for the FMCG industry and will improve the negotiating power of FMCG manufacturers or distributors during their transactions with retailers.

Fig. 1-2 Growth Trend in the number of FMCG Manufacturers and Retailers from 2005 to 2012
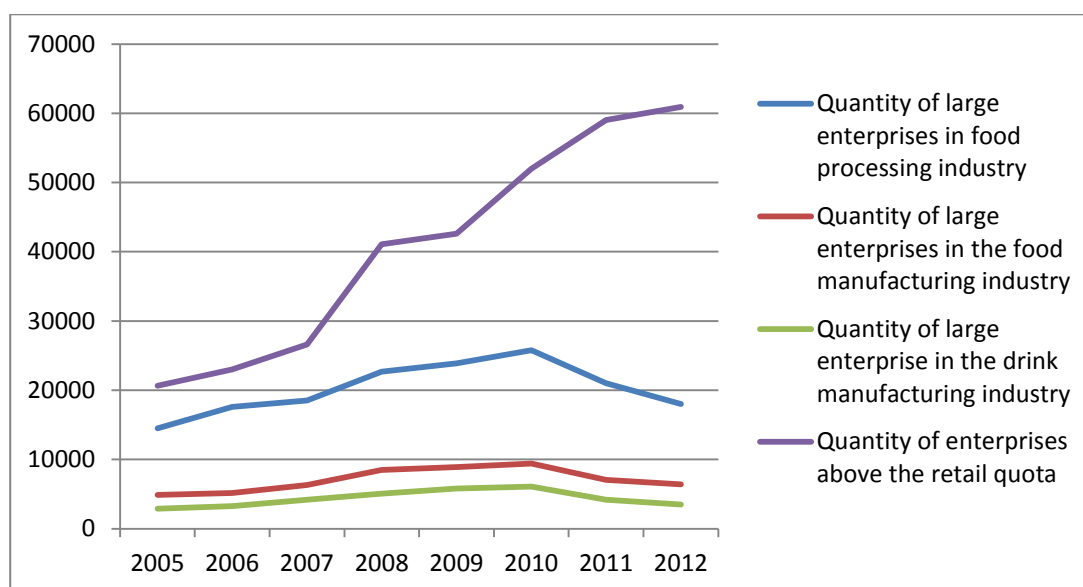
Source: China Statistical Yearbook 2013

The FMCG industry in China has gradually transformed from a seller's market to a buyer's market from the previous system of planned economy into a highly mature and fully competitive marketization status. Viewed from the marketing development and reform of FMCG in China, the process is divided into three stages (Zhang Jing, 2009):

- The first stage started from the 1980s to mid-1990s. The marketing channel in this period mainly depended on the traditional wholesaler and wholesale market, with advertisement as the main marketing means, and market conditions being demand over supply;

- The second stage started from mid-1990s to the year of 2001. In this stage the transformation from seller's market to buyer's market was gradually completed, as a result of an oversupply of FMCG enterprises which caused them to value more sales and start

4

building marketing channels. Over this period, multiple marketing modes coexisted, such as the direct marketing mode of Coca-Cola, the joint venture mode of Wahaha Company and the platform-based marketing mode of Pepsi Cola. Their fundamental purpose was to realize the connection with retail terminals by building up a marketing network system so as to achieve the expansion of sales and obtain more market share.

- The third stage is from 2001 to the current period. In this period, FMCG has become the industry with the highest marketization level in China. As the FMCG market has become highly mature through fierce competition, the pursuit of marketing innovation and brand innovation has become the main marketing strategy. Meanwhile, with the diversification of retail trades and the emergence of large chain shopping places, different marketing terminals have mushroomed. In order to adapt to the change the FMCG industry has focused not only on transforming traditional marketing channels but also on bridging marketing channels by emphasising the collaborative promotion of individualized design and integration of marketing resources.

Undoubtedly, the FMCG industry in China has stepped into a "meager profit era" and the market is more and more competitive in the current stage. The profit space constantly shrinks and operation costs constantly rise. It is hard to maintain the traditional strategy which strives for market share through price competition. Meanwhile, it is also required to seek opportunities in new trades like online retail and O2O modes (Online To Offline). Statistic data show that online retail maintains its rapid development in China as Fig. 1-3 shows.

Fig. 1-3 Online Shopping Condition in China from 2006 to 2012
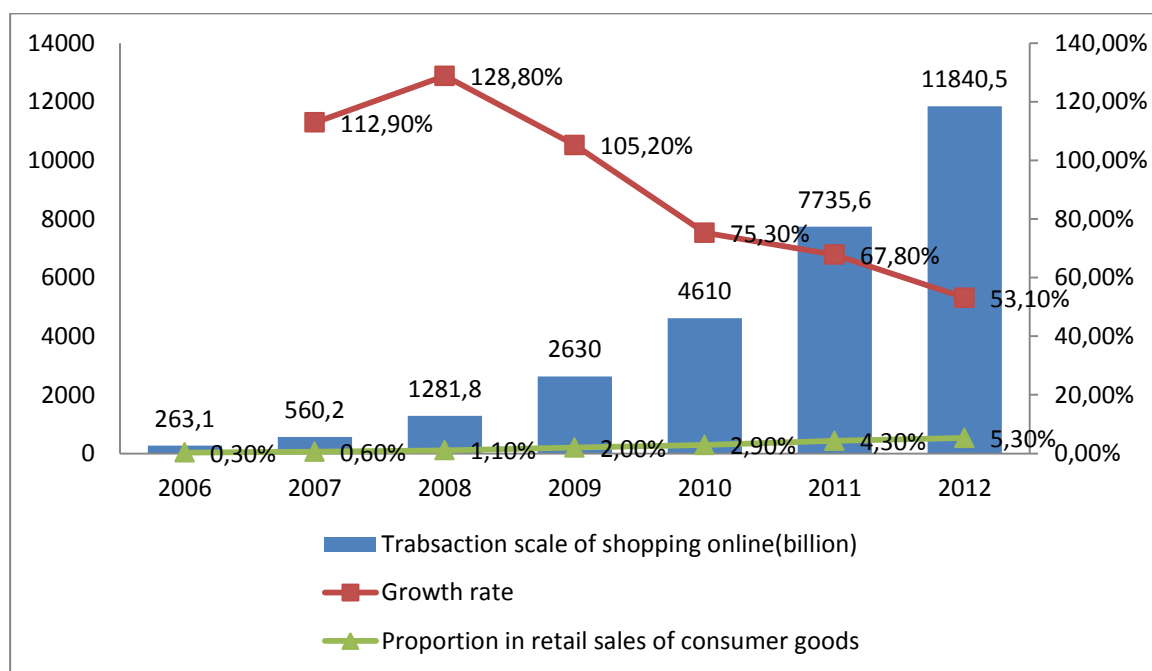
Ssource: China Statistical Yearbook 2013

Fundamentally, the advent of the Internet-based economy is changing the existing transaction pattern and the transaction relationship among enterprises, intermediate dealers and consumers, to make the members in the traditional chain channel evolve into a ring-type relation where mutual endless communications occur (refer to Fig. 1-4), and the scope of influence of enterprises, intermediate dealers and consumers could be rapidly enlarged through Internet interaction.

Fig. 1-4 Interaction Channel Mode under Internet-based Economy
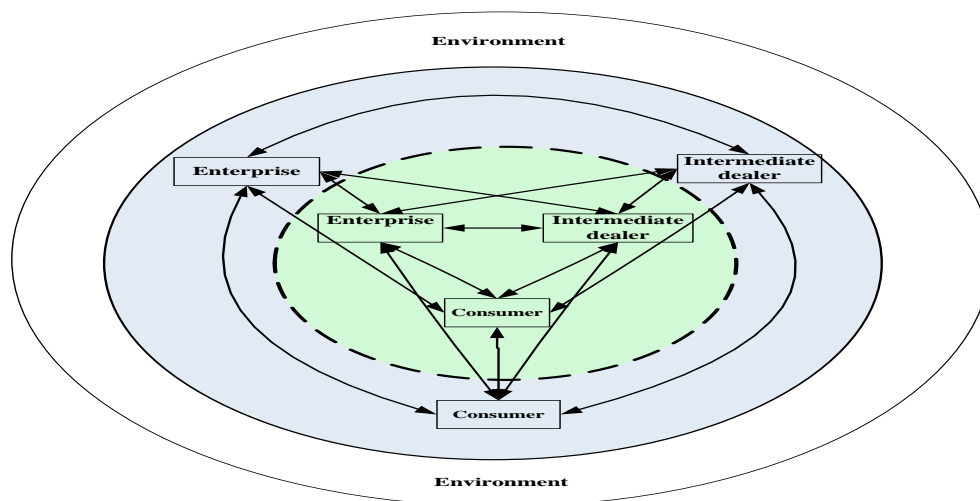
Source: Author

Under this environment of online interaction, how can FMCG enterprises in China continue to use traditional channels for distribution, while simultaneously using online marketing channels and avoid the negative interactions with intermediate dealers that arise from the use of online channels?

1.1.2 Channel features and existing problems of China FMCG

Considering that FMCG belong to a class of products characterized by conveniency of purchase, their features of short turnover period, strong product substitutability, high frequency of consumption and wide range of consumer groups determine that their marketing channels are usually multiple-channel distributors where retailers occupy important positions. At the same time, the coexistence of multiple channels emerges.

The particularity of China's market also determines the unique features of China's FMCG channels, mainly reflected in:

(1) Significant difference in regional consumption habits. China's history is formed through migration and mutual integration of multiple nationalities. Due to the impact of national habits and cultural differences, differences in regional consumption habits and

consumption level make consumption structure of the market very diversified;

(2) The consumption demand of China's market is multiple and complex. China has a large national territory and an enormous population. There are generally three kinds of different markets based on the division of administrative regions: a primary market composed of directly-controlled municipalities and provincial capitals; a secondary market formed by prefecture-level cities with obvious regional features; and a tertiary market composed of county-level cities and counties as well as by multiple village markets at the town-village level. Among these markets, the village market has a huge consumption potential;

(3) Restricted by the national macro-control and economic and technical market entry in each region, it is hard to succeed in implementing undifferentiated marketing strategies throughout the country, which leads to increased channel management costs. The effective control on channel members is also a knotty problem for FMCG enterprises.

The particularity of China's market puts forward higher requirements for the resource integration and configuration capacity of FMCG enterprises and makes the establishment of unified distribution networks an arduous task where the following aspects must be considered:

1. Restricted by the market environment and enterprise resources, it is hard for most FMCG enterprises to set up a national marketing network. They usually choose a regional market of strategic significance, build it predominantly and disseminate nationwide accordingly. The main branded enterprises in the Chinese FMCG industry mostly adopt this strategy.

2. More often, the exclusive distributors at prefecture-level play the role of suppliers for logistics and capital flow. Considering the extensity of the market and the fast turnover rate of FMCG, even regional exclusive distributors fail to directly face consumers. It is then required to convey products to consumers through city and county-level channel members. The central duty of regional exclusive distributors is mostly reflected in striving for the returned profit in annual sales of enterprises in logistics and fund source with less favorable price difference.

3. The huge market volume of China determines that even less market share obtained in the regional market can bring surplus profit for enterprises, so the channel terminals are in fierce competition. Generally speaking, the establishment of marketing channels will be trapped in the contradiction of carrying out long-line marketing for promotion as well as implementing short-line marketing for intensifying channel control

4. The rapid development of China's FMCG market brings high uncertainty of competition, with overwhelming brand substitution practices, while the transaction relationship among product manufacturers, distributors and retailers is unstable.

The above mentioned particularities of China's FMCG markets and the special requiremenst of marketing channels make leadership-type enterprises with national brand advantage in the FMCG industry usually to adopt composite channel modes, that is, multiple product circulation modes, including direct-marketing stores, distributors, and even direct selling, as shown in Fig. 1-5.

Fig. 1-5 Composite Channel Mode Structure
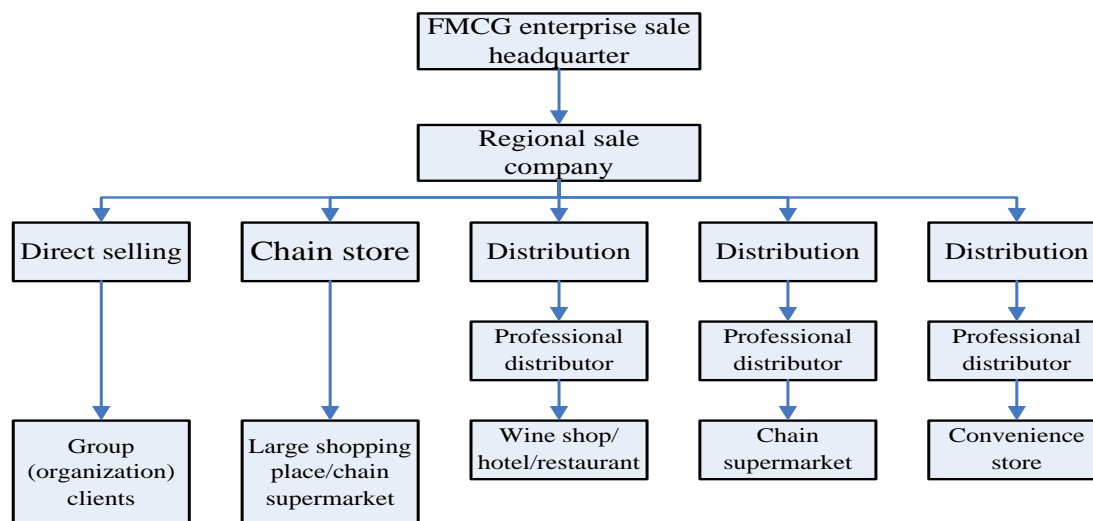
Source: Author

The composite channel mode structure is characterized by the following two aspects: the first is to respectively design and develop the corresponding channel mode targeted at each retail trade to achieve effective coverage and classified management; the second is to choose professional distributors to face different retail trades in the distribution system.

It can be said that the composite channel mode reflects the complexity of the market environment and is the outcome of enterprises using channel innovation to confront the market competition. Undoubtedly, channel selection increases the difficulty of FMCG enterprises in formulating their channel strategies. In summary, two main problems need to be solved. The first is how to correctly set the support point of the marketing channel under multiple retail trades and what kind of circulation mode should be adopted to give full play to the entire maximum efficiency of the whole channel; the second is how to effectively avoid the conflict with the management of channel which is specifically reflected in:

1. Viewed from the exterior, the "homogeneity" conflict exists among manufacturers of similar products using different retail trades, which increases the channel cost of enterprises in the FMCG industry;

2. The "longitudinal" conflict is intensified between FMCG manufacturers and channel distributors. The pure transaction relationship exists between most FMCG enterprises and

channel distributors, lacking the "win-win" concept;

3. The conflict among distributors at different levels is aggravated in the same marketing channels system, namely the so-called "internal consumption of the system". For example, vicious price competitions and "falsification of goods" often occur among distributors at different levels.

1.2 Research purpose

From the research background in the previous section we can conclude that the marketing means of China's FMCG industry have gone from a preliminary marketing stage period centered on product and advertisement to a growth period centered on scale and sale, then to the current mature period centered on marketing and brand innovation after development and reform for 30 years. In the meanwhile the channel strategy has been changing with this development. On the one hand, the reform of marketing channels has varied with the change of marketing means; on the other hand, the constant change and adjustment of marketing means have actually determined the change of marketing channels.

In summary, along the reform of the marketing channels in China's FMCG industry, the following several factors have driven fundamental changes:

1. The formation of a buyer's market: After the 1990s, China's FMCG market began to complete the transformation from seller's market to buyer's market. As a result, the problem of product homogeneity is serious and aggravates the competition among enterprises driving manufacturers to seek highly efficient and   more economic marketing channels.

2. The enhancement of industry concentration: This is mainly a reflection of the competition pattern of China's FMCG in the national primary and secondary markets that has evolved among several leading branded manufacturers since 2000. These leading branded manufacturers have nearly the same ability in product research and development, production and marketing. To form differentiated competition advantage, the cooperation relationship among manufacturers, channel distributors and retailers needs to be straightened out to seek for competitive advantages in the entire value chain ranging from product research and development, design, production, marketing, transport and after-sales service.

3. Expansion of large chain retailers: Since 1999, large chain shopping places in China have entered a rapid development stage and large shopping places promptly took advantageous positions in marketing channels through chain operation, purchase scale, the offer of a complete variety and price advantage. "Discourse power" is constantly reinforced,

in direct conflict with traditional regional marketing agencies and price mechanisms.

4. The large-scale entry of foreign-funded manufacture enterprises: The foreign-funded enterprises seek cost advantage through localization strategies while relying on stronger technical advantages, which aggravates the competition in China's FMCG market. Some foreign-funded enterprises with international brands effectively control the large shopping places of the primary and secondary markets within a short time and become the most powerful competitors of domestic enterprises.

5. Rapid development of Internet-based economy: The rapid development of e-commerce modes like B2B (Business to Business), B2C (Business to Customer) and O2O (Online to Offline) makes it possible for manufacturers and final consumers to establish the most direct transaction channel. Under the traditional marketing mode, the channel agents could obtain the marketing advantage through geographical relationship, but in the era of Internet-based economy, the advantage is being replaced by a series of new advantages produced by the pattern of information exchange enabled by the Internet. Meanwhile, the interactive information exchange pattern of Internet possesses efficient, prompt and comprehensive advantages that can replace multiple transaction links in traditional marketing channels and transform the complicated relationship produced due to the insufficient and incomplete information exchange into a mutually beneficial, appropriate and sufficient single relationship. Therefore, the online marketing mode is having and will continue to have a far-reaching impact on the channel reform of FMCG market.

Obviously, the external environment, the market competition and other channel elements of China's FMCG industry have changed constantly in the past 30 years mirroring the rapid development of China's economy. Meanwhile, emerging business modes depending on Internet technology pose new challenges to marketing management whether in theory or practice, and also provide new channels for FMCG industry.

In order to adapt to the constant change, FMCG enterprises are required to formulate channel strategies and build up marketing channels suitable for the current condition of enterprises, integrate channel resources, constantly optimize their marketing channel structure and adjust the channel relationships with channel distributors at all levels. Besides, out of consideration for enterprise resource restriction and efficiency, it is hard to adopt a composite channel mode to face all the challenges of the external market environment.

Considering this problem, the purpose of this thesis is to select a leading branded enterprise within China's FMCG industry with typical significance as a research object and, using its data, apply a theoretical approach to the optimization of marketing channels. The

research will seek to consider the sustainable development of FMCG enterprises, analyze the market and the competition environment, build up a channel integration framework, and integrate existing resource advantages of FMCG enterprises. The final purpose is to provide a broad thinking pattern and guidance for the optimization of marketing channels in the particular case of FMCG enterprises.

1.3   Research expected contricution

The expected contribution of the thesis is reflected in the following three aspects:

1. This research uses actual marketing data to analyse the factors influencing the optimization of marketing channels, so that the relevant conclusions reached could provide guiding suggestions for enterprises. Meanwhile, the research subject in the thesis is a typical FMCG enterprise and its marketing mode is also representative to a certain degree. Hence, the research result may be of important reference value to the production enterprise of identical products.

2. On the basis of existing traditional KA (Key Account, referring to chain hypermarkets) shopping places of the case company and distributor marketing channels, different channels are analysed along with the development trend of Internet-based channels, including the co-existence of traditional marketing channels and online marketing channels. This may provide other companies with information to enhance the optimization of their marketing channels.

3. Considering the rapid development of China's economy and its size, research has experienced difficulty to keep pace and studies in this area are still scarce. This thesis aims to contribute to add knowledge to this field.

1.4   Research content and framework

The thesis selects a typical company (selection criterion is shown in Section 4.1) in China's FMCG industry as the research subject, with a view to clarifying the market competition, discovering the function and change relationship of relevant elements in marketing activities and evaluating the operation efficiency of the existing marketing channels. The aim is to seek an approach to optimize marketing channels and contribute to the transformation of China's FMCG industry from solely adopting traditional marketing channels which main management objective is "economy, adaptability and feasibility" to new

marketing channels which management objective is "systematicness, dynamics and cooperation".

The thesis is divided into eight chapters as follows:

Chapter 1 introduces the research background, the research purpose as well as the content and framework.

Chapter 2 gives an introduction to the relevant theories for optimizing marketing channels including the concept of marketing channels, dynamic factors for their development and evolution, as well as it provides a framework for improving and optimizing marketing channels. It also reviews the optimization literature for domestic and foreign marketing channels, introduces the main research concepts and relevant research achievements in the field and summarizes the research clues for optimizing marketing channels and direction on channel optimization.

Chapter 3 introduces the main research methods adopted in the thesis: the case research method is introduced in detail.

Chapter 4, 5, 6 and 7 constitute the main body of the thesis.

Chapter 4 introduces the background of the case company and current conditions of its marketing channels, as well as its development history. It expounds and analyzes factors influencing channel optimization, current condition for marketing channels of the company and the existing main problems.

Chapter 5 and Chapter 6 deal with case research. Chapter 5 subdivides and describes the current marketing condition of the case company so as to form the clear corresponding relationship between products and service of the company and each target market and the positioning strategy of target market of various products. Chapter 6 starts from the reality base of regional distribution for the case company, first analyzing the selection strategy for the channel relationship of the company in markets of different levels, and then seeks to determine the thinking pattern and basic framework for optimizing the company's marketing channels from the perspective of adjusting channel function and integrating marketing channels.

Chapter 7 puts forward the proposed solutions. Optimization measures for marketing channel of the case company are put forward, including: constructing a strategic alliance of marketing channels, enlarging the development intensity of online marketing channels and enhancing the marketing team construction of the company.

Chapter 8 is the summary and research prospect of the whole thesis. It summarizes the main research work, the main conclusions and research shortcomes and further proposes the

perspective and direction for follow-up research.

The structure framework of the research is shown in Fig. 1-6.

Fig. 1-6 Research Framework

Chapter 1 Introduction
Introduce research background, research significance, framework, expected value and contribution of the dissertation.

Chapter 2 Relevant Theories and Literature Review

Chapter 3 Research Method

Chapter 4 Case Text, Current Condition and Problems of Rainbow

| Overview of Rainbow Company | Current condition for the marketing channels of Rainbow Company | Macro-factors and micro-factors influencing channel optimization |

Chapter 5 Case Analysis and Research: STP Strategy for the Domestic Epidemic Prevention Product of Rainbow Company

Chapter 6 Case Analysis and Research: Optimization Design on the Marketing Channels of Rainbow Company

Chapter 7 Solutions: Optimization Measures for Marketing Channels of Rainbow Company

| Construct the strategic alliance of marketing channels | Enlarge the development intensity of online marketing channels | Enhance the marketing team construction of the company |

Chapter 8 Research Limitations and Prospects

Source: The author

Chapter 2: Theoretical Framework

The thesis This thesis focuses on the topic of marketing channel optimization of FMCG in China. Therefore, this chapter mainly reviews theories related to enterprise marketing channels and literature related to marketing channel optimization. It also reviews the main features of China's FMCG enterprises, so as to provide theoretical guidance for the research purpose.

2.1 The concept of marketing channels and motivation for development and evolution

2.1.1 Definition of marketing channels

Marketing channels, in short, are specific channels or paths through which goods and services are transferred from producers to consumers. Marketing channels are also known as trade channels or distribution channels. The definition of marketing channels by marketing authority Philip Kotler (2011) from the perspective of property rights is that: "Distribution channel refers to all enterprises or individuals that obtain the ownership of good or service when such good or service is transferred from producer to consumer, or those who help transfer the ownership of that good or service."

Marketing channels are "a set of inter-dependent organizations" (Zhuang Nan, 2007), which means that marketing channels not just enable one enterprise to do well in the market, whether it is a manufacturer, distributor, hypermarket or retailer but also that each and every member of a channel should depend on other members to work. The operation of marketing channels is a process rather than just an event, and it often takes time to transfer the product ownership from manufacturer to consumer. The purpose of a marketing channel is to meet the demands of terminal users in the market, whether they are consumers or purchasers of terminal enterprises whose purpose is to use and consume the products or services being marketed.

In short, marketing channels play an increasing important strategic role in helping a company to fully survive and succeed in the target market, whether this company sells products or services.

2.1.2 Motivation of development and evolution of marketing channels

Marketing channels play an important intermediary role in the distribution of products and services. Demand and supply factors can be analyzed to answer questions on why marketing channels exist and what promotes marketing channels to change.

From the perspective of demand, manufacturers are generally engaged in the mass production of a limited variety of products on a large scale while customers need various kinds of goods. Therefore, goods and services provided by manufacturers with limited production capacity are naturally different from various demands of terminal users; middlemen in the marketing channel can simplify the work and behavior of searching for target markets and target customers and adjust classification differences of products and services between the manufacturer of the goods and the customers.

From the perspective of supply, the normalization of transactions can optimize operating costs. Furthermore, the building-up of a marketing channel can form a stable and normal transaction behavior, thus facilitating the formation of a standard product and service. In addition, marketing channels reduce the frequency of trade required by exchange between products and services. For example, given five manufacturers and ten retailers purchasing products from each manufacturer, the necessary frequency of contact is at least 50. But if the manufacturer sells products to retailers through a wholesaler, then the necessary frequency of contact would be reduced to 15. Obviously, the distributor plays an important role in reducing contact frequency and improving the efficiency of the channel transaction in the marketing channel.

Generally, distributors have the following three advantages to support their roles (Kotler 2011):

Firstly, rapid distribution can be achieved. On the basis of certain sales management, distributors can allocate the products of manufacturer to sales network systems controlled by them, accurately and rapidly, in a short time through their own rapid distribution team and distribution network.

Secondly, distributors have the market relationships required by fast distribution. On the one hand, accumulation and refining of regional operation experience for many years make it possible for regional distributors to grasp the actual conditions of the industry and the market of a given region and carry out rapid and effective presentation and promotion campaign for products that meet local market demands under the support of corresponding supporting

facilities of sales services; on the other hand, due to the business reputation and comercial relation accumulated for many years in the regional markets, products sold by these distributors can easily earn the trust of target customers in regional markets, which in turn facilitates the sales promotion of product.

Thirdly, time-space effect of products can be fully exerted. Distributors bridge the distance between the manufacturer of products and services, and terminal users in the marketing channel, promptly and conveniently delivering the products produced and services provided by manfuacturers to customers to meet customers' demands, which in turn facilitates further market demand expansion, extends time-space effect of manufacturers' products and services, reduces manufacturers' operating costs in marketing channel and improves the income level of manufacturers.

In general, most manufacturers lack the financial and human resources to carry out direct marketing, while those with the capacity tend to focus on their main business, increase investment to strengthen their core competitive edge so as to obtain more market gains instead of adopting the development strategy of "vertical integration" to build up their own marketing channel (Lu Zhiqing,2003). Hence, it provides wide survival and development space for distributors in the marketing channel.

2.1.3　Tendency of development and evolution of marketing channels

On the whole, with the social development and progress, the development evolution trend of marketing channels presents the following characteristics:

(1) Consumer market construction will be centered on the operation of the marketing channel (Zhou Yi, Liu Fengjun, 2003; Guo Pei. 2005).

The consumer market includes common consumers and enterprise terminal users. For each member within the marketing channels, only when the products or services they jointly market are accepted and purchased by customers in the terminal market can their efforts pay off. In the face of market competition of supply of most products over demand in the market, it is extremely important that all channel members focus on terminal users to meet consumers' demands to the greatest extent and improve customer satisfaction.

（2）Trend to flatten management with regard to the structure of marketing channels (Li Rui, 2009).

With the development and application of information and network technologies, and the

improvement in efficiency and benefits in all links of marketing channels, main channel members expect and boost the flattening development of marketing channels. For manufacturers, too long marketing channels will drive away their consumers farther, leading to more difficult access to consumer information and weaker control in the whole marketing channels. For manufacturers, the flattening of the marketing channels not only helps to strengthen their control over the channels as a whole and improve the position of manufacturers in the channels, but also contributes to a better understanding of consumer information, which facilitates the design and improvement of products or services, and ultimately promotes the effectiveness and efficiency of the entire marketing channels (Peng Leiqing, 2004).

（3）Change in the pattern of marketing channels from a simplified one to a diversified one (Zhang Chuang, 2007; Pu Xujin, 2007).

Traditional marketing channels rely on grocery stores and kiosks to sell products. However, with the socio-economic progress and development, modern marketing channels with supermarkets, convenience stores and chain stores as main participants have emerged. In recent years, due to the rapid expansion of Internet users, as well as the advantages of large amount, rapidness and interaction of information transmitted through Internet, e-commerce is increasingly becoming the new channel for all types of enterprises to expand their marketing businesses.

2.2 Analytical framework of improvement and optimization of marketing channels

Whenever the high operating costs of marketing channels are caused owing to the establishment of a specific product or of a specific manufacturer or to the necessity of changing amarketing decision, it is necessary to improve and optimize marketing channels. In the opinion of Anne T. Coughlan (2001) the basic idea for improvement and optimization of marketing channels includes five steps, namely, market segmentation, market positioning, determination of the target market, channel improvement and channel optimization and implementation, as shown in Fig. 2-1.

Fig. 2-1 Framework of Improving and Optimizing Marketing channels
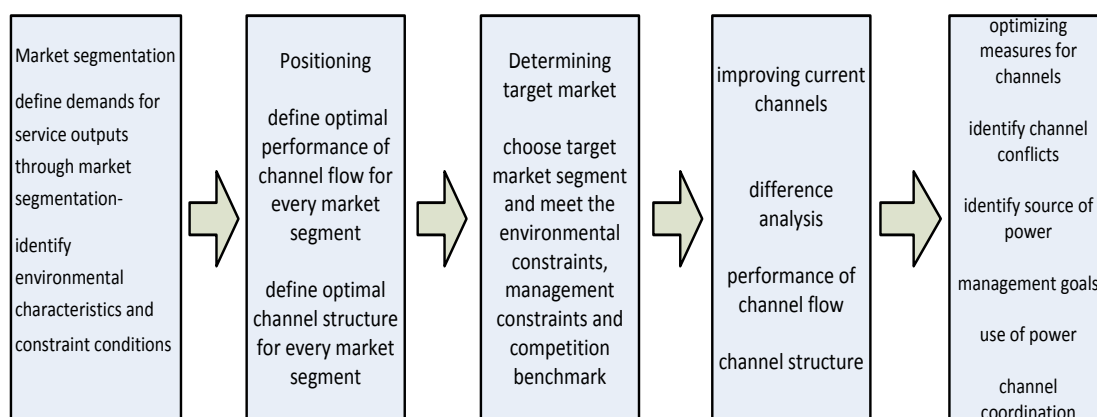
Source: The author adapted/expanded from Anne T.Coughlan (2001)

The first stage of marketing channel improvement and optimization is market segmentation. Service and product demand can be defined and the environment characteristics and constraints of an enterprise can be identified through market segmentation, thus defining optimal channel flow performance and optimal marketing channels structure for each segmented market, positioning and selecting a target market from the perspective of an optimal channel flow performance and constructing and improving existing marketing channels in the target market.

In the implementation stage of marketing channels improvement and optimization, focus shall be placed on resolving channel conflicts, realizing channel coordination, clarifying the source of power and power evolution trend of members in the marketing channel as well as in the mutual relation among channel members by understanding possible and potential channel conflicts, and working out cooperative mechanisms of marketing channel members on this basis. This includes two aspects. One is that manufacturers shall review and identify the type of channel conflict and be able to prevent and solve such problems; the other is that the existing structure of the marketing channels shall be analyzed and evaluated with instruments related to channel flow performance according to the demand on products and service of customers in the target market so as to work out measures for improvement and optimization.

In order to have a deeper understanding on the research and analysis framework of improvement and optimization of marketing channels, four important concepts - channel flow, channel structure, channel power and channel conflict - shall be further explained.

2.2.1   Channel flow

Eight channel flows are active in the specific structure of marketing channels and they

include all activities or functions (Liu Lin, 2014) from product manufacturers to distributors and retailers and products and services required by terminal users, as shown in Fig. 2-2.

Fig. 2-2 Channel flow
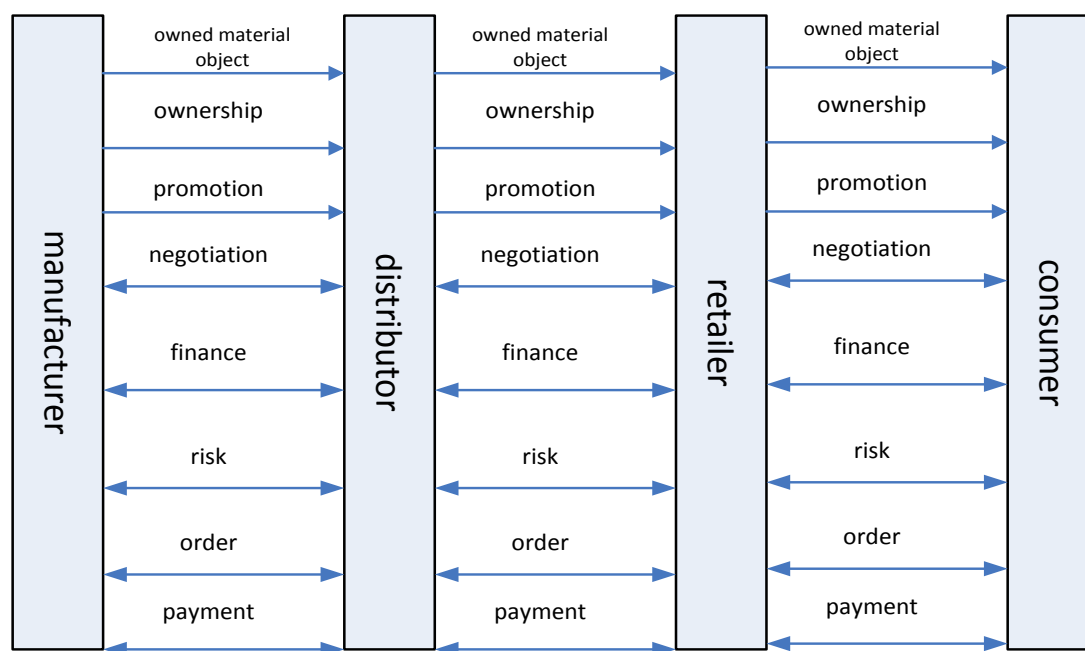
Source: The author adapted/expanded from Liu Lin, 2014

This figure shows that some flows, such as the belonging and ownership of material objects, flow downstream along channels and some flows, such as ordering and payment, move upstream from terminal users. In addition, some channels such as risk and negotiation are conducted in pairs among members. Taking channel information transfer as an example, retailers can share with manufacturers information about the sales trend and changes of market demand through EDI (Electronic Data Interchange). When information is sufficiently and appropriately used by marketing channel members, enterprises can make more effective management on these eight channel flows appropriately and accurately theoretically. For example, through integrating market demand data of retailer and distributor, it is possible to improve accuracy of sales forecasting, thus satisfying the demand of terminal users, reducing inventory level distributed in each channel link and decreasing the operating costs of the marketing channel. For example, if product and service demand of terminal consumers can be delivered to producers accurately and rapidly through retailers and distributors, manufacturers can share market information with distributor, thus improving promotion effects, enhancing the whole marketing channel's capacity of responding to market demand and promptly providing products and services.

The channel flow as well as its business operation and realization mode vary with

enterprises (Liu Pingping, 2013). From the perspective of specialization and professionalization of the channel operation, to achieve the efficient operation of the marketing channel, not all channel members are required to participate in each kind of channel flow. With regard to the mode of action of the channel flow, the actual operation level of each type of channel flow is related to the performance of other channel flows. For example, the inventory held by a channel member can be reflected in the finance flow simultaneously. If the inventory does not flow for a long time and does not move towards final sales direction, the operating costs of the channel tend to reflect cost occupied by current capital. In addition, when the channel flow is assumed by a certain channel member it can be assumed by other channel members under the premise of Pareto optimality, and the necessity for the existence of the channel member disappears. In other words, the premise for eliminating a channel member is satisfied.

2.2.2 Marketing channel structure

Generally, the marketing channel structure can be described according to the length, width and breadth of marketing structure (Du Yan, 2009) .

With regard to the length structure of marketing channels, marketing channels structure, also called hierarchical structure, is defined by levels of middlemen in purchase and sale links. According to the number of hierarchies, a marketing channel can be divided into zero-hierarchy channel, primary channel, secondary channel and tertiary channel (Rosenbloom,2011).

Table2-1   Category of Length Structure of Marketing Channels

Zero-hierarchy marketing channel	Manufacturer- customer
First-hierarchy marketing channel	Manufacturer- retailer-customer (consumer market)
	Manufacturer- agent (distributor)- customer(market for industrial products)
Second-hierarchy marketing channel	Manufacturer- agent (distributor)-retailer-customer
Third-hierarchy marketing channel	Manufacturer- agent -distributor-retailer-customer

Source: The author adapted/expanded from Bert Rosenbloom,2011

The width structure of a marketing channel is generally divided into intensive distribution channel, selective distribution channel and exclusive distribution channel. (Du

Yan, 2009). This defines the channel structure according to the number of middlemen in each hierarchy of the marketing channel. Generally, such factors as market properties of manufacturer product, market characteristics of target market, distribution of target customer and marketing strategies of manufacturer have important impact on the width structure of the marketing channel. According to this they may be classified as intensive, selective or exclusive. Intensive distribution marketing channels refer to situations where manufacturers select as many middlemen as possible in the same hierarchy of marketing channels to distribute their own products based on the principle of "quantity first". Selective distribution marketing channels refer to situations where, in a certain hierarchy of marketing channel, manufacturers select a limited number of or as few middlemen as possible to distribute their own products based on the principle of "quality first". In turn, exclusive distribution marketing channels refer to situations where manufacturers only select one middleman to distribute their own products on a certain hierarchy of marketing channel.

In fact, the breadth structure of marketing channels reflects a combination mode of various marketing channels adopted by the manufacturer, and embodies a diversified thought for choice of marketing channels. In practice, many manufacturers tend to use combined marketing channels to distribute their products (Jiang Yicong and Yuan Yizhou, 1999).

The marketing channel patterns can be divided into three basic ones: vertical marketing channel pattern, horizontal marketing channel pattern and composite marketing channel pattern (Du Yan, 2009).

1. Vertical marketing channel pattern is a marketing system composed of manufacturer, middleman and retailer during delivery of product and service to terminal customer. The guiding idea of integration operation or joint operation is adopted in the pattern to achieve centralized, unified and professional management for channel members and channel business activities, and the interests of all members in the channel system are coordinated through managing business activities of all members, establishing contract cooperation mechanism and straightening out all ownerships in various links of channel operation to achieve maximization of the overall interest of the marketing channel and multi-wins. According to the closeness of relationship among channel members, it can be divided into management type, agreement type, and cooperation type. The relationship of channel members under cooperation is the closest.

2. Horizontal marketing channel pattern: If all economic interest subjects in the market without direct business correlation in the same hierarchy adopt horizontal integration to make

full use of their own market advantages and resources, the marketing channel system established by them is horizontal marketing channel pattern. The channel pattern makes full use of complementary advantages or regional market advantages of products to fully operate, thus creating 1+1>2 synergistic effects. With regard to specific representations, it can be horizontal marketing channel pattern formed by manufacturer or horizontal marketing channel pattern formed by middleman, such as promotion alliance. Generally, participants of horizontal marketing channel pattern are enterprises of the same or related industries.

3. Composite marketing channel pattern, also called multiple marketing channel: The said "composite" has two meanings: on the one hand, the manufacturer sells products with the same trademark through several marketing channels; on the other hand, the manufacturer distributes products with different trademarks through different marketing channels. The former one leads to fierce competition between different marketing channels, and the latter one requires higher channel management capacity.

The strengths and weaknesses of structure types of different marketing channel patterns are respectively summarized in Table 2-2, Table 2-3 and Table 2-4.

Table 2-2 Comparative Analysis of the Strengths and Weaknesses of Channels with Different Length Structures

Name	Strengths	Weaknesses
Zero-hierarchy marketing channel	Low operation cost, fast capital turnover, easy control over activities of market channel, obvious promotional effect, timely market information access and strong control over products	High cost in storage, transportation, high salesman cost and management cost, dispersed network and small market coverage
First-hierarchy marketing channel	Minimum association of channel members and shortest distance of product and service transimission in marketing channel, and higher efficiency by comparison to that of zero-hierarchy marketing channel	Limited market coverage
Second-hierarchy marketing channel	Distributors own the customer resource of retailers and takes main functions of distribution, which make professional level and efficiency of operation of marketing channel be improved	More difficulties for manufacturers to control of channel, more complicated marketing relations vunerable to channel conflict.
Third-hierarchy marketing channel	An expanded market coverage of products, distributors mainly providing service to retailers which is suitable for enterprises with large market coverage	More difficulties for channel control and coordination, more complicated channel relations, difficult access to information and more channel conflicts

Source: The author adapted/expanded from Rosenbloom, 2011

Table 2-3 Comparative Analysis of the Strengths and Weaknesses of Channels with Different Breadth Structures

Name	Strengths	Weaknesses
Intensive distribution marketing channel	Large market coverage, rapid market expansion speed, high customer contact rate, and strong support of channel	More difficulties for manufacturers to control channels, high cost of marketing channel operation and separated distribution and promotion
Selective distribution marketing channel	Relatively easier control over channels for manufacturer, a certain market coverage and high customer contact rate	Fierce competition among resellers to increase choice difficulties for middlemen
Exclusive distribution marketing channel	Strong channel control, and suitable for selective commodities, luxuries and limited daily necessities	Small market coverage

Source: The author adapted/expanded from Du Yan, 2009

Table 2-4 Comparative Analysis of Strengths and Weaknesses of Different Marketing Channel Patterns

Name	Strengths	Weaknesses
Vertical marketing channel pattern	Achieve centralized, unified and professional management of channel members and channel business activities, reduce channel costs and improve the overall competitiveness of channel members and marketing channels.	The ability to respond market demands is weak and there is information delay.
Horizontal marketing channel pattern	Give full play to advantages of complementary products and market resource to obtain synergistic effect of 1+1>2.	Hard to build a stable cooperation mechanism and relation coordination is difficult.
Integrated marketing channel pattern	Adapt to the diversified requirements of customers, obtain more and much more accurate market information, and expand market coverage and sales and enhance the efficiency of marketing channels through differentiated strategies.	Easy to produce channel conflicts and fleeing goods which increase channel costs; much more complex channel system and harder channel management

Source: The author adapted/expanded from Du Yan, 2009

2.2.3 Theory of marketing channel power

Marketing channel power refers to the influence of a channel member on another channel member who belongs to the same marketing channel yet with different hierarchies. The fundamental problem of marketing channel power is the source and exertion of the power (Kotler, 2011).

1. Source of channel power

There are mainly two opinions on source of channel power. There is one view that channel power derives from six kinds of power, namely, reward power, compulsive power, legal power, referent power, expert power and informational power as pointed out by French and Raven (1965) and Visser (2000). Another view is that channel power derives from inter-dependence of channel members (Nevien, 2008). Power can also be divided into economy-based power and non-economy-based power according to the control of channel power by the manufacturer. If a channel member has the capacity of scale production and the control of rare resources for the channel (such as human resources, capital and market relation) in the marketing channel, the channel member holds the dominant position in transactions with other members. Such dominance reflects economy-based power of the channel, including the control of rare resources in the channel (Hunt, 1974).

2. Exertion of channel power

There are five representative viewpoints with regard to the exertion of marketing channel power (Stephen Keysuk Kim and Ping-Hung Hsieh, 2006).

(1) The marketing channel members assume channel functions, and the need for professional management originates from the inter-dependence of channel members.

(2) The degree of inter-dependence of channel members directly influences the power of channel members in the channel. If a member relies more on another member, the latter has correspondingly stronger channel power.

(3) Exercising frequency and exercising quality of economy-based power are directly related to the approval of other affected channel member. The higher the exercising frequency and quality of economy-based power is, the lower the satisfaction of marketing channel members will be; conversely, the exercising frequency and quality of non-economy-based power are in direct correlation with satisfaction of marketing channel members.

(4) The exertion of channel power is two-sided. The channel power can change the channel operation activities from one member to another which may bring about two results. It may be beneficial to the entire marketing channel system, or only to a certain channel member; it may create value increment for the channel, or it may also weaken the channel value. In fact, exercising channel power has the function to reallocate channel value.

(5) A severe imbalanced dependence between members may cause severe uneven channel income distribution. Such asymmetrical channel inter-dependence will directly cause

reduced commitment among channel members, enhance mutual sense of non-trust, thus leading to channel conflict.

2.2.4 Channel conflict

In essence, marketing channel conflict is just a result, and the opportunistic behavior of channel members is the reason for channel conflict (Gao Weihe, Huang Pei and Wang Zhenguo, 2006). In case of opportunism, it is inevitable that channel conflict will happen which will reduce economic remuneration obtained by channel members, while it weakens confidence and satisfaction of channel members in channel cooperation. (Wuyts Stefan and Geyskens Inge, 2005). Marketing channel conflict can be represented in two ways. Firstly, a certain channel member damages or threatens interests of other channel members to obtain scarce resources of the channel; secondly, a certain marketing channel member damages or threatens interests of other channel members with a view to obstruct or interfere with the realization of channel operation objectives of other members or its effective operation (Stern, 2001; Sun Wei, 2006). The classification of channel conflict according to morphological differences of the marketing channel structure is widely accepted and followed. Palamountain (1967) divides channel conflict into vertical marketing channel conflict, horizontal marketing channel conflict and cross marketing channel conflict.

The three-variable model, "conflict reason", "conflict level" and "conflict result" built up by Larry J. Rosenberg and Louis W.Stern (1971) are early analysis models designed to understand the conflict process in the marketing channel, as shown in Fig. 2-3.

Fig. 2-3 Model of Marketing Channels Conflict

Reason of conflict	Channel structure	level of conflict	behavior reaction	result of conflict

Source: Larry J. Rosenberg and Louis W.Stern（1971）

The simple causal relationship indicated in this model is that: channel conflict results from a certain degree of conflict among channel members; these conflict factors are not only related to cooperation mechanisms of operation of marketing channels but also to the marketing channel structure itself; factors leading to channel conflicts in a specific channel structure indicate a certain degree of conflict level; different conflict levels reflect different degree of conflict results through interactive behavior reaction of channel members. Meanwhile, channel conflict results can in turn intensify or weaken the original causes that

led to channel conflict. In addition, the formation, transmission and evolution of channel conflict are a dynamic process and in this process, the conflict develops from the potential state to perceived state, then feeling state, then to the final behavior state. The most effective way to measure the level of a channel conflict is to observe the frequency of dispute and conflict intensity (Li Xianguo, 2005).

Louis W. Stern (2001) puts forward that marketing cost is a key factor to determine the channel structure. With the constantly increasing operation cost of traditional marketing channel, the manufacturer tends to select to open online direct marketing (Adrian Payne & Pennie Frow, 2004). Therefore, the manufacturer is not only the supplier of traditional retailer but also direct competitor of the retailer and the channel conflict is inevitable (Tsay & Agrawal, 2001; 2004). According to the research of some scholars (Tsay & Agrawal,2004; Netessine & Rudi, 2006; Cattani & Gilland, 2006; Tan Wenxi, 2007), the marketing channel pattern of the manufacturer is mainly related to operation of the supply chain in the e-commerce enviroment. In general, there are three patterns of single direct online marketing, single traditional retail channel and dual-channel of traditional retail and direct online marketing (Fang Qiang, 2009).

Research results by scholars on the causes of marketing channel conflict are summarized in Table 2-5.

Table 2-5 Main Views on Marketing Channel Conflict and Their Representatives

Representatives	Main points
Robert W. Little 1968	The channel conflict results from channel propagation errors, inconsistency of channel operation objectives of channel members and respective channel functions, and errors appearing during joint decision-making process by channel members.
Michman, Sibley 1980	Different results represented by the marketing channel conflict are closely related to different types of marketing channel power, and especially compulsory power will intensify the channel conflict, while non-compulsory power (reward power, legal power, referent power and expertise power) can ease the conflict.
EI-Ansary, Stern 1972	Elements of channel conflict include external market environment, industry standards, the nature of the organizational structure of leading enterprises, channels patterns and channel positioning of channel members, consistency of operation objectives and different understandings on current condition.
Bert Rosenbloom 2011	Marketing channel conflict is essentially caused by the following seven basic reasons: role opposition of channel members, scarcity of inherent resources, differences in perception and expectation of channel members, inconsistency of decisions and objectives of channel members, and service and communication barriers, etc.

Joel R. Evans 2001	Marketing channel conflict is mainly due to the inconsistency between operation objecive of channel members, in particular inconsistency of objectives of the manufacturers and middlemen, which is embodied in 16 aspects including pricing, purchase and payment conditions, and shelf display requirements, storage and distribution, etc.
Philip Kotler 2011	Four factors resulting in channel conflict are: inconsistent objectives of members, perception difference of channel members, ambiguous tasks and power, and high dependence of channel members.
Zhu Yutong, 2004	In microscopic aspect: a lack of clear recognition of channel network; a lack of reasonable planning for the marketing channel network; a lack of integration of channel network information flow. In macroscopic aspect: a lack of logistics distribution sytem supporting channel network; channel strategic alliance yet to be formed; a lack of demostration effect and diffusion effect of channel network.
Zhu Xiujun, Qi Yi . 2002	Fundamental reason of channel conflict is bounded rationality of subject behavior of channel members and inconsistent and even opposite interest objectives of channel members; short-term interest-oriented behavior of distributor is the main factor to induce channel conflict.
Chen Tao, Zhao Jun 2004	Channel conflict results from two aspects: First, the manufacturer; second, external market enviroment of the manufacturer.

Source: The author based on the relevant literature

In general, though scholars' analysis of the causes of marketing channel conflict differ, it is generally recognized that the main causes leading to marketing channel conflict are inconsistent targets among members of marketing channels, different cognitive levels of external market environment, different channel perception levels, and different channel operation modes of channel members belonging to different professional fields.

2.3   Literature review on optimization of foreign marketing channel

Foreign study on marketing channel optimization can be roughly divided into three aspects: channel optimization causes, channel optimization mechanisms and channel optimization modes (Du Yan, 2009).

（1）Study on causes of marketing channel optimization and optimization mechanisms.

There are mainly three aspects in the research: first, the changes in channel performance and channel cost lead to channel reform and optimization. Quinn (2005) holds that the appropriability and uncertainty of channel assets and scale economy are the main factors that induce channel reform and optimization. In turn changes of channel involvement and channel functions result from channel integration, channel agglomeration and channel standardization.

Channel integration is required to first decide whether commodities will be "manufactured by enterprises or purchased from the market", namely, to decide whether to adopt direct channels or indirect channels. Anderson (2000) points out that under the circumstance of high transaction costs, it is necessary to invest a large amount of specialized assets, and then enterprises tend to adopt the structure of direct channel. The fundamental impetus for the outsourcing of channel functions is non-scale-economy of channel activities (Mallen, 1973); while channel performance and channel expenses are important reasons for the formation and existence of channel middlemen and the complex distribution channel systems (Michman, 1990).

Second, the marketing channel system is influenced by changes in the system and the environment requires constant adjustment and adaptation. Rosenbloom (2011) points out that the existence of a marketing channel system is just a process of adaptation to the environment. Stern (1987) and Rosenbloom (2011) respectively emphasize the influence of environmental variables outside the channel and behavioral variables of channel members on the marketing channel system. Wilkinson (1990) emphasizes that marketing channel system has balancing and self-organization capabilities, and he also holds that the marketing channel system is dynamic and self-regulating so as to confront the volatility and uncertainty of the environment. On this basis, Grewal and Dharwadkar (2002) studied the synchronization and adaptability between marketing channel system and economy and society. Most scholars believe that the structural evolution and change of marketing channels are closely related to the level of economic development and the development level of the commodity market (Mallen, 1996).

Third, changes of the relationship between "power–dependence" within the marketing channels inherently promote marketing channel optimization. In the west, the analysis of marketing channel behaviors centers on the three variables: dependency, channel power, channel cooperation / conflict. The study of Robert A. Robicheaux (1994) shows the fact that dependence is positively related to power. In addition, compulsory channel power leads to conflict and reduces the willingness to cooperate, while non-compulsory power works the other way around (Ruekert, 1984). The marketing channel structure, its management and control are closely linked to each other (Weitz, 1995). This makes any expression of the controlling desire and controlling ability result in changes in marketing channels.

（2）Study on the optimization of marketing channel pattern

Marketing channel includes traditional, vertical and horizontal patterns from a structural point of view (Kotler, 2011), and corporate pattern, relationship pattern, and market-orientated pattern from a governance point of view (Rosenbloom, 2011). Since the 1980's, theoretic

focus of marketing channel has shifted to the relationship-orientated marketing channel pattern (Wilkinson, 1990). If various relation changes among channel members are deemed as function expression of mathematic relation in the marketing channel pattern, it covers a continuous distribution function of relationships from hybrid governance to strategic alliance in the pattern of relationships in the marketing channel.

Studies on alliance pattern of marketing channel include the essence, objective and performance evaluation of marketing channel alliances. As far as the nature of a channel alliance is concerned, Japa (1999) hold that an alliance is firstly a dynamic balance after evolution of the power of channel members; whereas, Coughlan and others (2001) believe that in essence, a channel management alliance is based on promise and trust of channel members during channel transactions. The study of Nevien (2008) indicates that, as competition intensifies in the market, manufacturers begin to relinquish their "control power" over channels and take other channel members as partners. Stern (1987) and El Ansry (2072) believe that the hidden motive behind a marketing channel alliance is to increase the value increment capacity of the channel while reducing the gross cost of channel operation with a view to enhancing its efficiency.

Research results by foreign scholars on the marketing channel optimization are summarized in Table 2-6.

Table 2-6 Main Views on Marketing Channels Optimization and Their Representatives

Contents	Representatives	Main Points
Channel optimization causes	Quinn, 2005	The changes in channel performance and channel cost lead to channel reform and optimization; The appropriability and uncertainty of channel assets and scale economy are the main factors that induce channel reform and optimization; Channel involvement and channel function change are influenced by the requirements of channel integration, channel agglomeration and channel standardization.
	Mallen, 1973 Michman,1990	The fundamental impetus for outsourcing of channel functions is non-scale-economy of channel activities; while the realization of function segmentation and professional management by channel middlemen can ensure realization of scale-economy of channel activities Changes of channel performance and channel expense are important reasons for formation and existence of channel middlemen and complex distribution channel system.
	Robicheaux, 1994	Changes of the relationship between "power – dependence" within the marketing channels inherently promote marketing channel optimization, and dependence is positively related to power.

	Kabadayi, 2011	Selection of adequate market transaction, inter-enterprise transaction or the mixed mode of both can reduce transaction cost. When transaction characteristics match the marketing channel integration mode, the control cost of transaction can be effectively reduced and the performance of enterprise channel system can be strengthened.
Channel optimization mechanisms	Wilkinson, 1990	Marketing channels system has balancing and self-organization capabilities, and marketing channels system is dynamic and self-regulating so as to fight against the volatility and uncertainty of the environment.
	Ruekert, 1984	Compulsory power leads to conflict and reduces the willingness to cooperate, while non-compulsory power works the other way around.
	Weitz, 1999	The marketing channel structure, marketing channel management structure and control structure of marketing channels are closely linked to each other. So any expression of the controlling desire and controlling ability of marketing channels result in changes in marketing channels.
	Shervani, Frazier 2007	A study model of integrating marketing channel by market transaction characteristics, power of company from the perspective of Transaction Cost Theory. The study shows that when the market control power of enterprise is low, channel integration strategy can effectively reduce the distribution cost of enterprise.
Channel optimization mode	Fein，Japa, 1999	As far as the nature of a channel alliance is concerned, a channel alliance is based on promise and trust of channel members formed during channel transaction. Marketing channel alliance is firstly a state of dynamic balance by development of power of channel members.
	Stern, 1987	The motive to establish a channel alliance is to increase the capacity of increment of value of channel marketing and reduce the gross cost of channel operation, thus enhancing the efficiency of channel operation.
	Nevien, 2008	As competition intensifies in market, manufacturers begin to relinquish its "control power" in the channel over channels and take other channel members as partners.
	El-Ansry, 2001	Put forward the viewpoint of channel alliance that channel relationship may enter into a stage of mutual trust through development of such different stages of life cycle as contact, awareness, expansion, loyalty, recession and dissolution. Alliance is the most effective channel relationship.

Source: The author based on the relevant literature

2.4   Literature review on domestic marketing channel optimization

Domestic scholars mainly carry out the research on marketing channel optimization from four aspects: optimization of marketing channel members, measures and ways for channel optimization, influencing factors of channel optimization and action mechanisms of channel optimization.

(1) Optimization of channel members.

On the whole, optimization for the members of marketing channels can be reflected in many aspects, including adopting new control technology of channel operation, establishing new market transaction behavior, or promoting new development modes of business types (Hu Shaofeng, 2013). Contact depth and breadth of end customers and marketing channels are expanded in the end customer link, and consumption behavior and demand characteristics of end customers tend to be diversified. Abundant consumption levels, multiple consumption selections and enhanced consumption rationality constitute external demands for optimization of channel members. In the link of retailer, the rapid development of Chinese market economy promotes in-depth changes of all kinds of retailing businesses, such as department stores, wholesaling market of integrated goods, exclusive shops, chain stores and large-scale stores. In the evolution process, complementarity and competitiveness of retailing businesses for new and old marketing channels are always the focus of optimization of channel members (He Heping, 2011; Xia Chunyu, 2003). In the link of middleman, adjustment and transformation of channel function and selection of transaction mode by virtue of Internet information technology are two significant changes (Li Xiaoyong, 2007).

(2) Approaches to the optimization of marketing channel

Mainly based on Stern' (2001) and others', Chinese scholars have carried out the design for the optimization of marketing channels following a channel evolution path of "mass market distribution → segment market distribution → sub-segment market distribution → matrix distribution." Combining with the evolution path of American marketing channels, Li Chongguang (2003) has selected the marketing channel of agricultural products as his object of study, and designed a five-stage pattern of marketing channel optimization, namely, "product transportation & distribution →priority of middlemen sales →vertical integration marketing channels → customer-centric marketing channels → marketing channel integration."

In turn, Wang Ying and Wang Fanghua (2006) classified the evolution characteristics of marketing channel patterns according to structural, behavioral and relationship paradigms. Yang Hui (2002) describes the downstream transfer of channel power through the theory of diagonal transfer when analyzing the internal mechanism of channel power transfer. Zhuang Guijun (2004, 2008) holds that the main target of marketing channel control should be the reduction of speculation in marketing channel transaction. He also points out that channel governance structure, channel control mechanism and channel control degree will impose important influences on the marketing channel pattern. Meanwhile, the interdependence level

of channel members and the inter-organizational interpersonal relationship can reduce channel speculation. Zhu Xiujun and Wang Haoyue (2005) discuss the game relationship between the manufacturer and middleman in composite marketing channel patterns and the advantages of the game relationship which are ultimately conducive to form the composite marketing channel pattern with the analytical method of game theory in economics.

    (3) Research on influence factors of marketing channel optimization

Li Fei (2003) thinks there are seven variables in influencing factors of marketing channel optimization, namely, target market variable, marketing cost variable, external environment variable, product property variable, dominant enterprise variable, variable of inter-behavior between manufacturer and middleman.

Some scholars take channel efficiency, channel benefit, marketing channel function, channel technology, customer demand orientation and market competition as six major factors which affect marketing channel optimization (Wang Ying and Wang Fanghua, 2006). However, new business patterns and new technological changes bring the most significant influence on marketing channel, which are the major forces of innovation and optimization of marketing channel pattern (Fan Xiaojun, 2006; Ren Yan 2004). In general, there are extensive and multiple factors that influence the optimization of marketing channels. As for the internal of the marketing channel, channel efficiency, channel benefit, channel function and product orientation will affect channel optimization. As for the external of marketing channel, customer demand orientation, competition status of target market and new technology development of channel drive the optimization of the marketing channel (Zhou Yin, 2011).

At a macro level, the regional economic environment and industry competition as well as extensive application of transformational technologies have big influence on channel optimization. At a micro level, product characters and functions of channel distribution are basic factors that should be considered for channel optimization. Besides, the above influencing factors of marketing channel optimization are interactive. Therefore, while analyzing marketing channel optimization, we must objectively understand and consider the current macro and micro backgrounds as well as the interaction of internal motivations and external forces.

    (4) Research on mechanisms of action of marketing channel optimization

Fan Xinhe (2001) explored the effect of socio-economic development on the marketing channel in the perspective of social selection theory according to which when social productivity reaches a new level, basic conditions of social economy will change thereupon, thus affecting choice preference of enterprises and customers. Therefore, the emergence and

development of a marketing channel are the results of social selection (Pan Huiping, 2005). Lu Zhiqing (2005) worked out a channel transformation mechanism model through analysis of internal and external factors affecting channel optimization, probing into internal and external mutual-effect mechanism of marketing channel optimization. In such model, channel transaction costs, channel power, and adjustment of channel value chain are three important factors constituting internal acting force of channel optimization. They interact and affect each other, forming an internal action mechanism for marketing channel optimization.

Concerning the external action mechanism of the channel, the change in consumer needs consists of external pushing forces for channel optimization, while political and legal, social and cultural as well as the geographical environment make the outer constraints of channel optimization, and the formulation and application of new technologies become the fundamental support condition for channel optimization. Teng Wenbo (2011) has considered how revenue of channel members and total channel revenue are influenced by information collection capacity of network channels under e-commerce environment and then has further analyzed its influence on marketing channel patterns. The research indicates that, when accuracy of information collected through network channels and market fluctuation levels have met certain conditions, Pareto optimization of the marketing channel can be realized through coordination mechanisms.

Although scholars have researched marketing channel optimization from different perspectives and have enriched and expanded theories and research methods of channel optimization, they do not have an overall analysis of the marketing channel and have not formed a research system of channel optimization integrating online marketing channel and traditional marketing channel, and such problem is mainly manifested in two aspects:

Firstly, "taking the forest for the trees": For most researches, a microcosmically-oriented research method is adopted, mainly conducting the analysis based on a partial link of a channel or from micro perspective of certain single theory, lacking a complete research system in respect to influence factors of the marketing channel, particularly a systematic research on mutual influence of channel structure and channel model as well as their influence on channel optimization. The marketing channel relationship selection, channel structure change and channel function adjustment are intimately related. Therefore, it is necessary to establish a logic-clear relationship between relevant factors through empirical research as well as multi-aspect establishment of enterprise marketing channel integrated frame, enriching research content of channel integration.

Secondly, there is a lack of research on the integration of traditional marketing channel

models and online marketing channel modes. Under the Internet-based economy, the external environment that enterprises are in and the purchasing behavior of customers keep changing continuously. The application of network technology has accelerated information factors, production factors and market factors to aggregate to a high degree, increasing dynamic-state complexity and uncertainty of economic activities, diversifying influence factors of marketing channel as well as highlighting the situation of integration of the marketing channel system. Therefore, it is more necessary to comprehensively apply various theories to discuss integration methods as well as operation patterns of traditional marketing channels and online marketing channels.

On this account, it becomes extremely necessary to explore the integration method and operation mode of traditional marketing channel and online marketing channels based on clarifying and defining various elements which influence marketing channel optimization by extending research perspective. This thesis aims at helping to contribute to such aim.

After expounding on the theoretical background, the research method used in this research will be introduced in the next chapter

Chapter 3: Research Methods

Based on the previous review on marketing channel-related theories and literature, this chapter describes the research idea and research method of the thesis, and also explaines data categories, data acquisition sources required by case research as well as data analysis purpose.

3.1   Research idea

This thesis takes Chinese FMCG marketing channel optimization as the subject, centers on the research objectives of describing and depicting the current situation of enterprise marketing channels, clarifying and defining all factors influencing marketing channel optimization, exploring the integration mode of traditional marketing channels and online marketing channels with the purpose to propose an integration framework of composite marketing channels based the analysis of the current situation and   definition of problems. Specific research ideas are as follows:

Firstly, a description and portrayal of the current situation of the marketing channel of the case company is conducted, based on actual operation data, through multi-dimensional analysis and research on aspects including marketing channel structure, channel operation efficiency, operation pattern and characteristics and further clarifying relevant factors influencing marketing channel optimization of the case company.

Secondly, from the perspective of the transformation path of marketing channel of Chinese FMCG, the accelerating factors of such transformation are analyzed, and a marketing channel relationship selection mode is established. According to channel relationship models, enterprises can, under different levels of market situations, based on brand influence levels of their products as well as market occupancy, inspect the capacity of each channel agent to create value increment for downstream channel, and establish channel relationship of different commitment levels with each channel agent. Then, with consideration of co-existence of online marketing and traditional marketing, establish marketing channel integration model of the case company from two dimensions, namely the structural integration within marketing channels and channel functional integration within marketing channels, carrying out composite marketing channel structure designed to cover online marketing and providing a

basic framework of marketing channel optimization of enterprise.

Finally, implementation strategies for marketing channel optimization are proposed in respect of channel control, channel construction and channel development through the collection of relevant information and data of the Chinese FMCG industry and the case enterprise.

3.2   Research method

In order to realize the research objective, the thesis has adopted different methods including literature analysis, empirical analysis and case study, among which case study is the main research method adopted.

3.2.1   Purpose and meaning of case study

Case study refers to a method ofYin research of a certain empirical and substantive topic by following a set of preset procedures and steps (Yin, 2013). Since the 1980s, production and development of many modern management theories and ideas, such as Corporate Culture, Core Competence, Reengineering the Corporation, or Balanced Scorecard have originated from enterprise management practice and been summarized from case study rather than derived from the theory produced in management schools. The importance of case study can be seen from this view point (Ouyang Taohua, 2004).

The case study not only can re-verify existing theory, but also analyze new theory through case analysis and develop new theory in the process of verifying existing theory (Yin, 2013; Ye Kangtao 2006). The biggest difference between case study and pure theoretical research is: case study is an empirical research to investigate current phenomena in real world by using various sources of information when the boundary between phenomenon and its background is not clear. Therefore, according to Yin (2013) the case study method can be chosen when the characteristic reflected by the research object is difficult to be abstractly extracted; the method is suitable for answering "why" and "what is going on" questions. As an experimental research method in social sciences, it is required for case study to carry out deep and comprehensive field investigation on certain complex and concrete phenomena (Sun Haifa, 2004). Case study can find out or explore general rules and the particularity of things, and then derive research conclusions or new research topics through detailed description of what the object of the typical case is and its reason. Thus, case study can accurately explain

the practice of enterprise management as well as differences of behavioral patterns and their reasons.

For all the above-mentioned reasons, the research adopted the method of case analysis to explore the problem of marketing channels optimization of FMCG in China. In order to realize close combination of theory and reality for the research, a leading brand enterprise in the industry of FMCG in China was chosen as the research subject to carry out deep investigation on the basis of collecting, reorganizing and analyzing relevant data. And then, the thesis tackles inherent problems requiring attention during marketing channels optimization of common type of enterprises, and explores the model and approach for enterprises to carry out marketing channels optimization and integration through this specific enterprise case in marketing channels optimization of FMCG in China, under the coexistence of online marketing channels as well as traditional marketing channels.

3.2.2 Types of case study

According to different research purposes, case study can be divided into four types, namely exploratory type, descriptive type, explanatory type and evaluative type (Bassey, 1999; Sun Haifa, Liu Yunguo and Fang Lin, 2004). For Bassey (1999), among the four types of case studies, exploratory case study focuses on putting forwarding assumptions and its main task is (new) theory-seeking; descriptive case study focuses on describing examples, its task is story-telling or picture-drawing; explanatory case study focuses on theory-testing; while evaluative case study focuses on making judgment on specific example. The main purposes and research emphasis of different types of case study methods are shown in Table 3-1

Table 3- 1 Case Study Methods

Case study type	Main research purpose	Research emphasis
Exploratory case study	Seek new insight on things or try to evaluate phenomenon with new viewpoint.	Focus on putting forwarding assumptions.
Descriptive case study	Make accurate description and depiction on the general situation of person, event or scene.	Focus on describing examples
Explanatory case study	Conclude phenomena or research findings and finally make a conclusion and investigate problems with relativity or causality.	Focus on theory-testing.
Evaluative case study	Put forward one's own views and opinions on studied case.	Focus on making judgment on specific example.

Source: reorganized according to researches of Sun Haifa, Liu Yunguo, Fang Lin (2004) and Yu Qin (2004)

In addition, according to different numbers of cases applied in actual research, case study can also be divided into single case study and multiple case study.

Single-case study is mainly suitable for verifying or falsifying problems at a certain aspect assumed by existing theory; it can also be applied for analyzing an extreme, unique and unusual management situation. Scholars preferring the method of single-case study think that it can thoroughly and deeply uncover the background of corresponding economic phenomena to ensure the reliability of the case study. In China, quite a number of scholars have adopted single-case research method. For example Wu Xiaobo (1995; 2009), Wang Fengbin (2008), Yu Kaile and Wang Tiemin (2008) , they all built their theoretical frameworks through single case studies.

In multiple cases study, researchers should make a deep analysis of each case and its theme as an independent entity at first, which is called within-case analysis; depending on the same research purpose and on the basis of mutually independent within-case analysis researchers will conclude and summarize all cases and then come to abstract and penetrate research conclusions. This analysis is also called cross-case analysis. Kathleen M. Eisenhardt (1989) thinks that multi-case study can reflect different aspects of case background in a better and more full-scale manner,   especially when multiple cases lead to the same conclusion, the effectiveness of case study will be significantly improved

Since the year 2000 the FMCG industry in China has evolved from the situation of competition in primary and secondary markets in the nation to contest between a few dominant brand manufacturers which share high homogenization level in respect of product research & development, production and marketing, this reseach has selected one dominant branded manufacturer as the subject of case study in order to, through deep analysis, seek to understand "what happened" and "why it happened", that is, how the macro environment reflects on the company and which action the company takes or should take to transform challenges into opportunities. Corresponding management problems uncovered in the case can be described and reflected in-depth. Based on this, the thesis adopts the single-case explanatory case study method.

3.2.3 Steps of case study

Eisenhardt (1989) thinks that a case study mainly includes eight steps, namely:

(1) Definitely identify problems before research and find out possible leading ideas;

(2) Focus on specific groups according to theories and select suitable population and cases;

(3) Adopt multiple data collection methods and design measurement tools;

(4) Enter case site to collect data, make timely data analysis and keep objectivity of data

collection;

(5) Make data analysis within cases and among cases;

(6) Form research assumptions on the basis of comparison and verification.

(7) Compare new conception, theory or assumption with existing literature;

(8) Finish case study when the explanation to theory meets self-consistent logic.

Yin (2004) thinks that case study shall generally comply with five steps, namely research design, preparation for data collection, data collection, data analysis and writing of research report, in which the basic modes of case study design are:

Step 1: Put forward problem and research purpose according to enterprise case;

Step 2: Make relevant literature review in terms of research problem, deduce and put forward the analysis framework and theoretical propositions or put forward theoretical perspective of the case analysis;

Step 3: Write standard research case;

Step 4: Analyze research case and verify the theoretical propositions of Step 2 or find out new facts and new thoughts generated in enterprise practice;

Step 5: Put forward research conclusion and define topics in the future.

Ouyang Taohua (2004) thinks that when the topic of business administration is studied with the case study method, particular emphasis shall be placed on the research steps. Generally, emphasis on research steps varies with each research objective. If the research objective places particular emphasis on verification or supplementing and correcting theoretical propositions, its research focus shall be placed on Step 2, namely dissertation analysis framework; while for the research objective placing particular emphasis on finding new objective facts or theoretical innovations, its research focus shall be on Step 3. At this moment, theoretical research through literature (Step 2 of case study) can just provide a point of penetration for perspective analysis and case study when we are investigating and surveying enterprises and collecting case materials. Whether new facts and new ideas can be found from the case itself is an important standard to evaluate such case study achievements.

This dissertation formed the theoretical framework and research concepts on the basis of analysis and evaluation of exiting literature according to the five steps of case study method and then conducted case selection, data collection and data analysis to conclude and analyze main research conclusions. Finally it respectively built a selection model for marketing channel relationship and a channel integration model of FMCG in China and extracted corresponding implementation strategies.

3.2.4   Other research methods applied in the thesis

In order to realize the research objective, except case study method, this thesis also applied the following research methods:

(1) Document collection and analysis method.

Document collection and analysis is the main method applied in the early stage of research. Sources of data collection are professional books, domestic and overseas academic periodicals and relevant websites. Application of the method mainly completed the collection of theories related to marketing channels and literature on marketing channels optimization as well as collection and analysis on information of current market situation in China's FMCG industry.

Internal documents of the case company such as annual reports, interviews to responsibles in the company as well as to informants were also analyzed, evaluated and confronted. This was also conciliated with theoretical knowledge, industry development trends and observation of the building-up of marketing channels of Chinese enterprises in the same industry.

(2) Combination of logical deduction method and empirical induction method.

The logical deduction method can derive conclusions according to existing theorems. The thesis applied the method to build assumptions and models; however, the method may cause assumption mistakes and therefore, empirical induction method is required for verification. Empirical induction method can prove the conclusions using results obtained from investigation, but if the data is limited, logical deduction is needed to complement it. In this research the two methods were combined. The theoretical model depicting the selection of enterprise marketing channel relationships was analyzed and derived by collecting, organizing and analyzing existing research achievements in China and overseas. At the same time, in order to verify the reasonability of the theoretical model, the researcher adjusted each parameter of the theoretical model by utilizing obtained experimental evidences through case study in form of visit and deep interview with members of the case company, and then conducted logical deduction by reasoning on this basis. At last the selection model of enterprise marketing channels relationships for FMCG in China was proposed.

(3) Application of comprehensive methods

Influence factors of marketing channels optimization are characterized by universality

and diversity. Channel efficiency, channel benefit, channel function and product orientation affect channel optimization from the inside of marketing channels, while external factors development of the channels such as customer demand orientation, competitive situation of target markets, new technologies promote the optimization of marketing channels. In addition, these influencing factors of marketing channels optimization are interactional. Therefore, it is difficult to describe, depict and analyze enterprise marketing channels comprehensively by a certain single management theory; only combination of multiple management theories from multiple dimensions can really make comprehensive and detailed depiction and analysis of enterprise marketing channels optimization.

3.3 Research data

3.3.1 Data collection and processing

According to Yin's (2013) suggestions the research abides by the following principles during data collection:

(l) Collect data with multiple evidence sources to improve research efficiency. In the research, data and information were collected from multiple data sources and in multiple collection forms through deep interviews with middle-senior management layers of the case company and reorganization of second-hand data. In this exploratory case study, semi-structured deep interviews (see Appendix 1 and Appendix 2 for interview outline and name list of interviewees) were conducted with decision-making level, senior management personnel of marketing and the head of Sales Department. The normal interview time was about 1.5 hours for each. Interviewed senior-level staff of the enterprise have ten years or above serving time in the enterprise, middle-level personnel of departments have five years or above serving time. This ensures that interviewees have a comprehensive and deep understanding of the enterprise condition. After the interview, communication was made with interviewees again via phone, email or re-meeting, so as to supplement information needed and verify record and organization of information. In addition, in the research, second-hand data of the enterprise was collected and organized by claiming and looking up internal documents and data of the enterprise as well as with the help of open information on enterprise website, advertising manuals and industry news.

(2) Detailed records on process of case study and relevant information and data obtained in the process of research were kept for improving research reliability. Case study

data obtained in the research mainly include: actual data and analysis report with respect to enterprise operation provided by the case enterprise, collected documents related to case study and forms, written narrative and materials for analysis generated from interviews with members in the case enterprise; relevant open data of the case enterprise collected on line before and after the interview. This material was classified and encoded for further application in data analysis.

3.3.2 Composition of data

In order to study the research topic – how FMCG enterprises in China optimize marketing channels and establish related theoretical model to provide support for empirical test – the thesis has collected relevant data and documents through various means. The data mainly include the following aspects:

(1) Data from the FMCG industry in China

In order to analyze FMCG industry in China and the environment situation of the case company, China's macroeconomic data collected for the thesis include Total Retail Sales of Consumer Goods and its growth rate in China from 2000 to 2013; average annual purchase frequency of five kinds of FMCG in China from 2007 to 2012; Chinese Consumer Confidence Index from 2009 to 2014; sales structure of China's retail enterprises from 2000 to 2012; China's online sales from 2006 to 2012; data reflecting scale and market sales data of mosquito coils and insecticide industry which are the product lines studied in the case company from 2001 to 2012.

Macroeconomic data of China and data from the FMCG industry mainly derive from China Statistical Yearbooks in the past years and market survey analysis reports of professional research institutions; mosquito coils and insecticide industry data to which the case company belongs derive from statistical data published by China Daily Groceries Industry Association.

These data were mainly used for analyzing the market growth potential, market competition situation and market development tendency of FMCG in China, as well as market development situation and product sales situation of the industry to which the case company belongs.

(2) Operating data of the case company, Chengdu Rainbow Electric Appliance (Group) Co., Ltd.

In order to analyze the development and operating conditions of enterprise marketing channels of Chengdu Rainbow Appliance (Group) Shares Co., Ltd. (hereinafter referred to as Rainbow Company), operating data of Rainbow Company collected in this thesis include: operating data such as sales revenue, total profit, selling expenses and relevant number of employees from 2008 to 2012 in three dimensions: main products, main marketing areas and channel agents at all levels.

The data collected and provided by Rainbow Company constitute the most important support for this research. In order to ensure data accuracy and integrality the following work was done in the process of research: 1) evaluation of the data provided by Rainbow Company to ensure that no important data were lost; 2) comparison and analyzis of the longitudinal data to strengthen its reliability; 3) investigation of Rainbow Company, compare and analyze the data provided by its Head Office with original data provided by each affiliated marketing company and agents at all levels, so as to ensure its accuracy.

Marketing data of Rainbow Company were mainly used for analyzing the operation and development conditions of Rainbow Company's marketing channels; at the same time, basic features and existing problems of Rainbow Company's marketing channels operation can be found through longitudinal data analysis, so as to provide important realistic basis for verifying relationship selection model of marketing channels, determining optimization ideas of enterprise marketing channels and marketing channels integration route.

(3) Operating data of main competitors within the industry

In order to analyze the competition environment of Rainbow Company and operation and the development situations of its main competitors, operating data of main competitors within the industry collected in the dissertation include: productivity data of manufacturing enterprises of domestic mosquito coils and insecticide industry in 2012; productivity and sales of top six competitors in domestic market in 2012 and relevant data of their dominant products with market shares exceeding 10% and in areas in which market shares exceed 15%.

Productivity and sales data of major competitive products of main competitors were mainly provided by Rainbow Company through collating relevant investigation reports. As the main competitors regard these data as enterprise's core secrets, it is difficult to collect them; therefore, collected data may be distorted partially. In order to avoid interference of data distortion on the research, relevant data of major competitive enterprises was collected through Internet and data obtained from different channels were processed through the method of weighted average, where value of weight function was determined through Delphi Method. After crosschecks of relevant personnel of Rainbow Company, processed data are

regarded as being able to basically reflect the operation of competitors. So the thesis will retain the processed data during research.

Business data such as productivity and sales of major competitive products of main competitors are mainly used for analyzing the external competitive environment of Rainbow Company and the competitive position and ability of the company within the industry. At the same time, these data can also be used for comparing and analyzing the control level and efficiency of Rainbow Company's marketing channels by comparing with product data of competitors and combining their marketing channels operation modes, so as to provide references and basis for structure integration of enterprise marketing channels and channel relationship optimization.

(4) Text data

In order to analyze the basic information of Rainbow Company's marketing channels operation, the thesis also collected a large amount of text data including: development history of Rainbow Company, historical data on development and production of Rainbow Company's dominant products, supply and demand and market competition of dominant products in main areas, competitiveness analysis report for dominant products of the company. In addition, interviews with senior management personnel of Rainbow Company were also conducted and organized in text form.

The data in this part are mainly collected according to reports and plans provided by Rainbow Company and interviews with senior management personnel of the company.

Data analysis provided a multi-view research "window" to make it possible for the researcher to analyze and judge the overall situation inside the company. Specifically, Rainbow Company's development process was analyzed as well as its overall operation. The degree to which past marketing strategies influenced current marketing channels strategies were also considered.

The selection of the case company as well as the case itself will be presented in the next chapter.

Chapter 4: The case of Rainbow Company

Based on the "theoretical framework" and "research method" of the previous two chapters, this chapter will have a case analysis of Rainbow Company in terms of marketing channel optimization for FMCG in China. According to procedures of case study, this chapter specifies the basis for selecting the case company. Then it will introduce its general conditions, and conduct data collection and data analysis from product market environment, industry competition, and marketing channel system of the case company. Finally it will identify and analyze the main problems existing in marketing channels of Rainbow Company by combining deep interview and discussion with middle and senior managers.

4.1   Basis of selecting the case company

As the research method in this thesis is the use of explanatory case study with a single case, the selected FMCG enterprise should be representative and should possess the following criteria:

(1) Viewed from a longitudinal perspective the selected company shall comprehensively present characteristics in all stages of marketing development and reforms of FMCG industry in China and shall help the researcher to establish a panoramic analyzes view, which is beneficial for finding out driving factors of marketing channels development and reform for FMCG enterprises.

（2）Viewed from enterprise size, the selected case company shall be the main branded enterprise in the FMCG industry. In the current FMCG industry in China, on the one hand, there is a high industrial concentration and competition in the primary and secondary domestic markets has evolved into competition among a few leading branded enterprises. On the other hand, there is a high homogeneity in product research, production and marketing in terms of the main branded enterprises. This typical characteristics of the industry can be seen in the selected case company.

（3）Viewed from the channel operating mode, the selected company shall have dual-channel operation mode, namely combination of online marketing and traditional marketing. The ultimate research objective of this thesis is to design a mixed type marketing channel structure covering online marketing and work out a basic framework for marketing

channel optimization in the perspective of marketing channel structure and channel function integration on the basis of coexistence of online marketing and traditional marketing. Therefore, the selected exemplary company shall be a FMCG enterprise implementing dual marketing channel operation mode which is Rainbow's case.

(4) Viewed from completeness of data, the selected case company shall be willing to cooperate in the researcher's work, offer real related data and information through research and be promptly available for interview, which accordingly ensures smooth implementation of the research.

Based on the above-mentioned criteria this research has selected Rainbow Company as the research subject for case study.

4.2   Overview of Rainbow Company

The full name of Rainbow Company is Chengdu Rainbow Electric Appliance (Group) Co., Ltd.. Its dominant products are flexible warmer products such as the "Rainbow" electric blanket, electric heating pad, electric heating carpet, electric heating health care appliance for waist, neck and shoulder and family epidemic prevention and health appliance such as "Rainbow" electric heating film type mosquito coils, liquid mosquito coils and disk type mosquito coils (Chen Chun, 2005). There were almost 200 abundant product varieties of colonies in Rainbow Company in 2012 and there were more than 80 patented technologies for dominant products, ranking first in the same industry in China. Rainbow Company is located in Wuhou District, Chengdu. The headquarters cover an area of more than 100 Mu (16.45 acre) with over 2000 employees. The Group sets up branch (subsidiary) companies such as Hubei Zhongnan Electric Appliance Co., Ltd, Chengdu Quanyuan Hygienic Products Co., Ltd, Chengdu Rainbow Daily Chemical Co., Ltd, Chengdu Rainbow Environmental Protection Technology Co., Ltd, Chengdu Rainbow Plastic Co., Ltd and Chengdu Rainbow Life Electric Appliance Co., Ltd and Chengdu Rainbow New Material Technology Co., Ltd which is under construction and is set to be a provincial technical center and flexible warming appliance research institution. Production and marketing volume of the company is 800 million yuan (110 million Euro) and profit and tax is 158 million yuan (21.5 million Euro) in 2012.

With environmentally safe products as the target, Rainbow Company improves product quality consistently and vows to create a warm, comfortable and healthy living environment for the public. Today, the company is furnished with the first-class testing equipment and complete testing means within the industry as well as the most advanced R & D and testing

laboratories. At the same time, the company establishes long-term, stable and close cooperative relationship with China Household Electric Appliance Research Institute, China National Electric Apparatus Research Institute and some academic institutions. It is also a member of the National Household Appliance Standardization Technical Committee and Group Leader of Electrically Heated Blanket Industry Standardization Group. The company has a professional quality management team and an established complete quality management system. Its products reach international advanced level and lead the development trend of the industry. Rainbow is the leading and key enterprise in the electric blanket industry and insecticide products in China.

4.3   Marketing environment analysis for Rainbow Company

The market sales of household epidemic-preventive products, a featured product series of Chengdu Rainbow, have declined year by year since 2008 and market space expansion progress for household epidemic-preventive products is unfavorable. From Table 4-1 we can see that, in terms of household epidemic-preventive product series of Rainbow Company, sales of featured products such as the electric mat and aerosol have declined year by year from 2008 to 2012. In turn, sales of newly-developed products like electric liquid repellent, moth-proofing products and coil-shaped mosquito repellent incense, which take up a small base number of total sales, have also declined year by year. It can be seen from Fig. 4-1 that electric mat, aerosol and coil-shaped mosquito repellent incense are the three main products of household epidemic-preventive product series and their sales in 2012 accounted for more than 77% of total sales. The weight of electric mats in total sales is the largest, almost reaching 47%.

Table 4-1 Sales of Rainbow

Unit: 10000Yuan/10000Euro

	2008	**2009**	**2010**	**2011**	**2012**
Electric mat	12871/1812	12912/1818	11799/1661	11271/1587	10884/1532
Aerosol	5219/734	5150/725	4953/697	4806/677	4778/672
Electric liquid repellent	2240/315	2150/303	2266/319	2359/332	2510/353
Coil-shaped mosquito repellent incense	3180/448	3311/466	3533/497	3623/510	3772/531
moth-proofing products	1230/173	1196/168	1317/185	1358/191	1401/197
Outdoor mosquito-repelling products	172/24.2	164/23	154/21.7	139/19.6	133/18.7

Source: Financial Report of Rainbow Company from 2008 to 2012

Fig.4-1 Financial Report of Rainbow Company in 2012

shares of rainbow products in its total sales(2012)
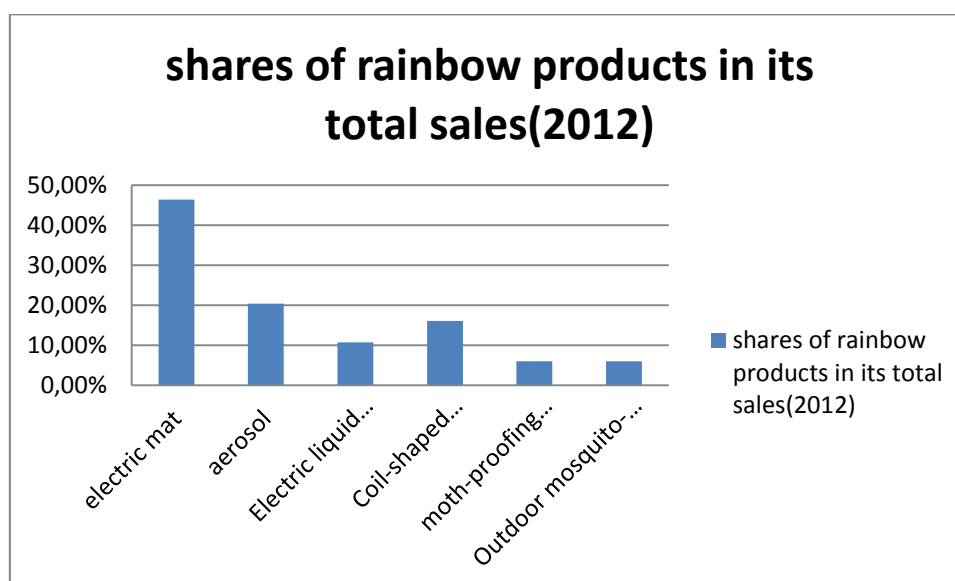
Source: Financial Report of Rainbow Company in 2012

Horizontally, compared with major market competitors, Rainbow Company has a relative advantage over them in electric mats. Data issued by China Household Necessities Industrial Association in 2013 show that the main products of Rainbow Company – insecticide and coil-shaped mosquito repellent incense – have lagged far behind their main competitors such as Gunman and Lanju, as shown in Fig. 4-2.

Fig. 4-2 Comparison of Sale Structure for Main Manufacturers of Three Kinds of Product
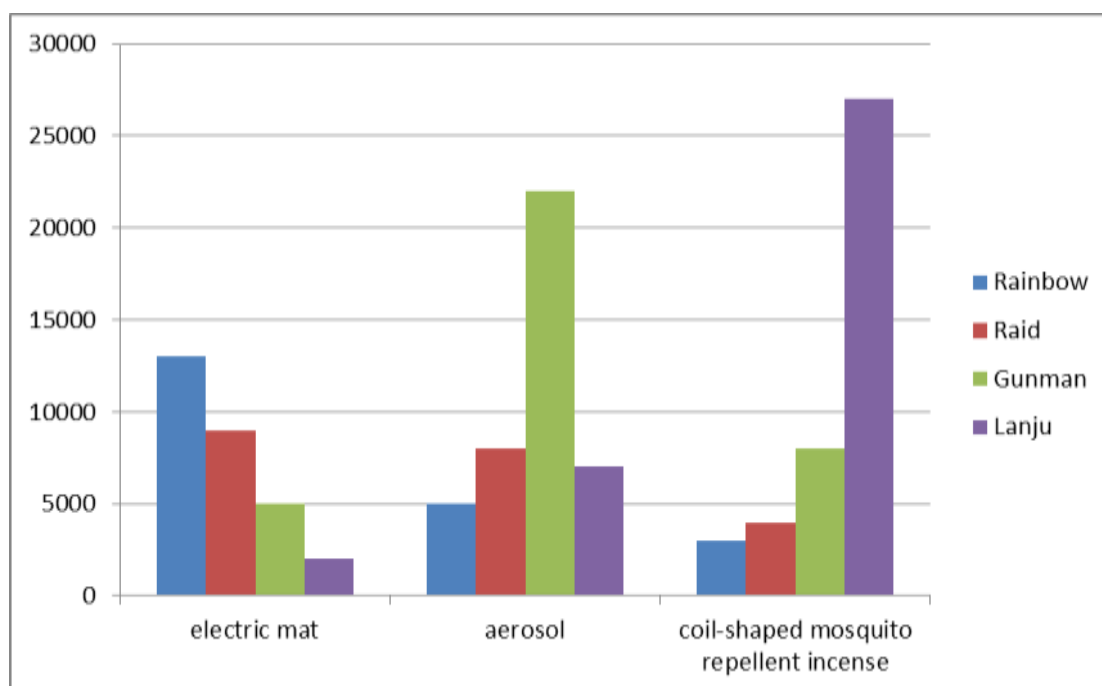
Source: China Household Necessities Market Survey Report in 2013

With the progress of production technology, coil-shaped mosquito repellent incense has

adopted mosquito repellent products containing low smoke and combustion with low oxygen consumption. Market requirements for coil-shaped mosquito repellent incense grows rapidly (such as Lanju's and Gunman's), but sales from Rainbow Company do not increase accordingly and the company's market shares becomes smaller and smaller. Generally, sales data of featured products in terms of household epidemic-preventive products in recent years have shown that sales of Rainbow Company's products are stagnant and some such as coil-shaped mosquito repellent incense even tend to decline. On the contrary, market shares of its main competitors increase gradually and the market size of mosquito repellent and mosquito eradication products grow dramatically rather than shrink.

Data issued by China Household Necessities Industrial Association show that since 2001, accumulated sales of coil-shaped mosquito repellent incense have increased by 120%, reaching 12.8 billion coils in 2012 and sales of electric mat and aerosol have increased by 49% and 73% respectively, reaching 4.85 billion tablets and 140 million bottles (see Table 4-2). In addition, yield scale of national mosquito-repellent incense and insecticide industry reached 19.4 billion yuan in 2012, an increase of 174% compared with 2001. In terms of number of practitioners in this industry, after nearly 10 years of development, there are 14 newly added enterprises with an annual production value exceeding 50 million yuan in the mosquito-repellent incense and insecticide industry in China. After the shuffle stage of fierce competition, the mosquito-repellent incense and insecticide industry in China has survived the declining stage and is stepping into a new stage with fiercer market competition and rapid development.

Table 4-2 Sales of Main Household Mosquito Repellent Products

Product variety	2001	2006	2012
Electric mat	3.233 BLN tablets	4.116 BLN tablets	About 4.85 BLN tablets
Coil-shaped mosquito repellent incense	5.8 BLN coils	8.56 BLN coils	About 12.8 BLN coils
Aerosol pesticide	75 million bottles	110 million bottles	About 140 million bottles

Source: China Household Necessities Market Survey Report in 2013

In fact, the recession of an industry is mainly due to backward technology. While its traditional production technology could not be acknowledged by the market, the mosquito coil and insecticide industry used to experience recession. Mosquito coils produced by traditional and outdated production technologies have high toxicity to human beings as well as produce heavy smoke. They also pollute the environment and cause potential danger to

human health. So, people have to select other substitutes. With the development of new production technology for mosquito coil and insecticides in recent years, people have gradually changed their understanding of traditional mosquito coils and insecticides and accepted new mosquito repellent products containing organic elements.

From the perspective of macro-environment of mosquito coils and insecticide industry, the market capacity will expand gradually in the future mainly triggered by the following factors:

1．The consumption ability of Chinese rural residents increases steadily

With the acceleration of Chinese urbanization speed and promotion and implementation of "three-agriculture" policy，Chinese rural social and economic level has improved continuously and the income level and living standards of rural residents has been promoted substantially. With it the environmental awareness of rural residents is also enhanced.

The number of mosquitos in rural area is several times larger than that of urban areas. So, consumption per person of mosquito insecticide in rural areas is generally bigger. At present, the consumption level in Chinese rural areas of mosquito insecticides is just 25% of that in urban area. It is thus clear that there is a huge potential demand on mosquito insecticide in the future from this areas.

2. Enhancement of total urban demand and differentiation

In general, production differentiation, functionalization and conceptualization with high added value are essential features of urban marketing. In Chinese cities, the consumption concept of mosquito insecticide focuses more on additional function and environmental function of products. At present, the infrastructure construction in first-tier and second-tier cities is on the rise and city appearance has improved significantly. A large number of artificial lawns, city-center gardens, lakes and top grade chambers for relaxing and holidays emerge. Mosquito likes living and multiplying in these places. Furthermore, with consistent improvement of city environment, market requirement for mosquito repellent in Chinese cities will expand quickly.

Therefore, mosquito eradication and insecticide industry will realize sustainable and stable development in the future and the market scale of mosquito eradication and insecticide faced by Rainbow Company will also increase continuously. In addition, based on the following two opportunities, Rainbow Company needs to accelerate market expanding speed, integrate marketing channel resources and seize larger market shares quickly for a better development.

(1) Reinforcement of national supervision

With gradual reinforcement of monitoring from national pesticide laws and regulations and selective examination of the market, counterfeit and shoddy products which used to exist in each level of the market will be eradicated gradually. More standard system guarantees will be provided for fair playing field of mosquito eradication and insecticide market. Low-cost counterfeit and shoddy products in some regional markets will be expelled, which will provide more market expanding space for mosquito eradication and insecticide products sales of Rainbow Company.

(2) There is brand vacuum in tertiary and fourth regional markets

Some regional and small brands dominate in the marketing in tertiary and fourth regional markets (mainly refers to county, town and village markets) at present. Due to poor production strength and outdated production technology, product quality of these local brands is poor. The main competitors of Rainbow Company do not start to seize tertiary and fourth regional markets, where competition will be lower than in primary and secondary markets. So, with the improvement of product marketing network of Rainbow Company nationwide and the establishment of marketing channels, the company shall enter these regional markets in due time to gain the opportunity of quicker sales growth.

4.4   Competitor recognition of Rainbow Company in the industry

There is no doubt that as a branch of seasonal FMCG industry, household hygienic and epidemic-preventive products face a severe homogenization phenomenon and competition among brands becomes more and more fierce. In the beginning of 1990s, household hygienic and epidemic-preventive product is an emerging and high profitable industry. Due to low market access barriers and low requirements for scale economy, many companies were attracted into it. So, an entire household hygienic and epidemic-preventive product industry has developed quickly in this early stage. At that time, the mosquito coil manufacturers which had brand effect capacity nationwide were Cathead and Zebra in Hunan Province. The only producers of electric mats were Rainbow in Chengdu and Lanju in Zhongshan City. No other producer of household hygienic and epidemic prevention articles occupied any significant place in the market.

After nearly 20 years of development, in 2013, there were 227 manufacturers producing household hygienic and epidemic prevention articles according to the pesticide registration certificate statistics issued by the Medicine Inspecting Institute of the Ministry of Agriculture.

Of these manufacturers, there are branded manufacturers targeting the nationwide market such as Guangdong Lanju and Hebei Gunman; there are local brands aiming at regional markets such as Xinjin Xubao; there are manufacturers researching and producing whole household hygienic and epidemic preventive product series such as Jinlu Group in Fujian; there are manufacturers focusing on research and production of certain special products of household hygienic and epidemic prevention articles such as Lizi Company in Zhejiang.

In this thesis, we considered branded manufacturers with market sales over 150 million yuan (20.4 million Euro), whose main products overlap with products of Rainbow Company and products sale target the household hygienic and epidemic preventive product market nationwide as they are the main competitors of Rainbow Company. Viewed from the whole nation, there are six main competitors as per Table 4-3. Subsequently, each one of them will be examined.

Table 4-3 Main Competitive Brands for Rainbow on Household Hygienic and Epidemic-Preventive Products

Brand	Place of Origin	Sales volume on mosquito-repellent products in 2012	Products with market share over 10%	Areas with market share over 15%
Lanju	Zhongshan, Guangdong Province	500 million	Mosquito coil & insecticide	Guangdong, Chongqing, Guangxi, Fujian, Jiangxi & Hunan
Raid	Shanghai	290 million	Mosquito repellent tablet, liquid mosquito coil& insecticide	Shanghai, Zhejiang, Jiangsu, Shandong, Hebei, Beijing &Tianjin
Gunman	Baoding, Hebei Province	310 million	Mosquito coil	North China, Northeast China, Henan & Shanxi
Lizi	Zhejiang Province	360 million	Mosquito coil	Jiangsu, Anhui, Zhejiang, Henan & Hunan
Chilwee	Guangzhou	240 million	Mosquito coil & insecticide	Guangdong, Guangxi, Chongqing, Guizhou & Jiangxi
Smileep	Zhejiang	150 million	Mosquito coil	Jiangsu, Anhui, Zhejiang, Sichuan & Chongqing

Source: China Household Necessities Market Survey Report in 2013

1. Lanju

Founded in 1982, Zhongshan Lanju Daily Chemical Industrial Co., Ltd entered the mosquito pesticide industry when Rainbow Group Corporation did so. Since 1997, Zhongshan Lanju has focused on the research and development, production and management

of home hygiene and epidemic prevention articles. For the 20 years since the company has been established, sales have been increasing by 40% annually. Its four main product series in 2012 were mosquito-repellent incense, aerosol, washing-up liquid and washing powder, of which gross sales reached 2 billion RMB (270 million Euros). Mosquito-repellent incense and aerosol which were competitors of Rainbow Group accounted for 70% sales quota in the south China market. In 2012, Lanju's mosquito-repellent incense sales volume reached 4,200,000 boxes, ranking first in the area (source: official website of Zhongshan Lanju Daily Chemical Industrial Co., Ltd: http://www.lanju.cn/index.asp). Lanju's mosquito-repellent and insect aerosols are recognized as "China's Brand-name Products", and Lanju brand is awarded "China's Brand-name Products".

For the marketing channel, Zhongshan Lanju Company adopted its unique deep distribution mode. It built a marketing network system covering all the markets of different levels through "sample market fostering" and established a channel strategic alliance relationship with more than one thousand dealers and franchises worldwide; meanwhile, it increased its marketing points and continually expanded its effective coverage (items, display and sales promotion). It also offered Lanju's distribution team professional training to strengthen scientific job management and members' cooperation. With such a marketing channel idea, Lanju maintains its absolute leading role in its traditional market with advantages and its overseas markets tend to prosper; especially in Africa and Southeast Asia, Lanju gains a wide popularity. In addition, the company invested heavily in building information systems covering the whole marketing channel in which it takes the lead and all the channel dealers are expected to participate, providing an important technical support for channel resources integration. We may safely say that Zhongshan Lanju is the main competitor of the mosquito insecticide products produced by Rainbow in some regional markets.

2. Raid

Raid pesticide brand was launched by S.C. Johnson Wax, which is distinguished by its outstanding research and development ability and product innovation as an excellent supplier of research, development and management of domestic hygiene items. The company was headquartered in Shanghai in 1987 and officially entered the mainland market in 1992. The domestic hygiene epidemic prevention articles it produces mainly include electric mat, liquid mosquito coils, insecticides, mosquito coils and cockroach-killing agents. The company has many original strategies and methods in such aspects as targeted market survey and consumers' behaviors analysis and has gained a relatively fine reputation among urban young

consumers from which counterparts need to learn. The company's products are prominently competitive in the large chain stores of the primary markets all over the country, taking the lead in the primary and secondary markets of Eastern China and also being the main competitor of Rainbow in this region. However, the company has not entered underlying markets in the counties, districts and townships of tertiary and fourth markets in that it has not had a good grasp of countrymen's consumption customs and consumer psychology.

3. Gunman

The brand was founded by Hebei Konda Co., Ltd. Because the production base is close to Huabei Oil Field and Zhongyuan Oil Field, the aerosol pesticide production resources are well supplied and the company is also the largest research and development production base of aerosol pesticide in northern China. Founded in 1989, the company has been engaged in pesticide products since 1993 and its dominant product series are domestic hygiene pesticide, electric mosquito-repellent incense and electric heated liquid mosquito-repellent incense. With the support of well-known enterprises abroad such as ESSO in America and Eikefet in Germany, the company has developed odorless efficient pesticide of high quality, filling the gap of China's high-end pesticides. In virtue of its high cost-performance ratio, the company once squeezed Chinese ordinary pesticides out of the market and became the biggest pesticide production enterprise in China.

The company built its brand awareness and expanded its marketing channel network in a short time by numerous advertisements from 1996 to 2000 of which the slogan "gunman travels around the world and defends against injustices" was internationally renowned. The company began to invest massive capital to take over primary and secondary markets in China. In recent years, Konda Company (to whom the brand Gunman belongs) has completed an internal company's adjustment in themarketing mechanism and it has adopted an integration strategy to control such markets as North China by learning from Lanju's deeply reselling idea. The marketing channel system structure of Hebei Konda Co., Ltd is shown in Fig. 4-3.

Currently, Gunman's mosquito eradication pesticide products hold the lead in Central China and Northern China and Gunman can be regarded as the most competitive rival in the region.

Fig. 4-3 Marketing Channel Structure of Hebei Konda Co., Ltd
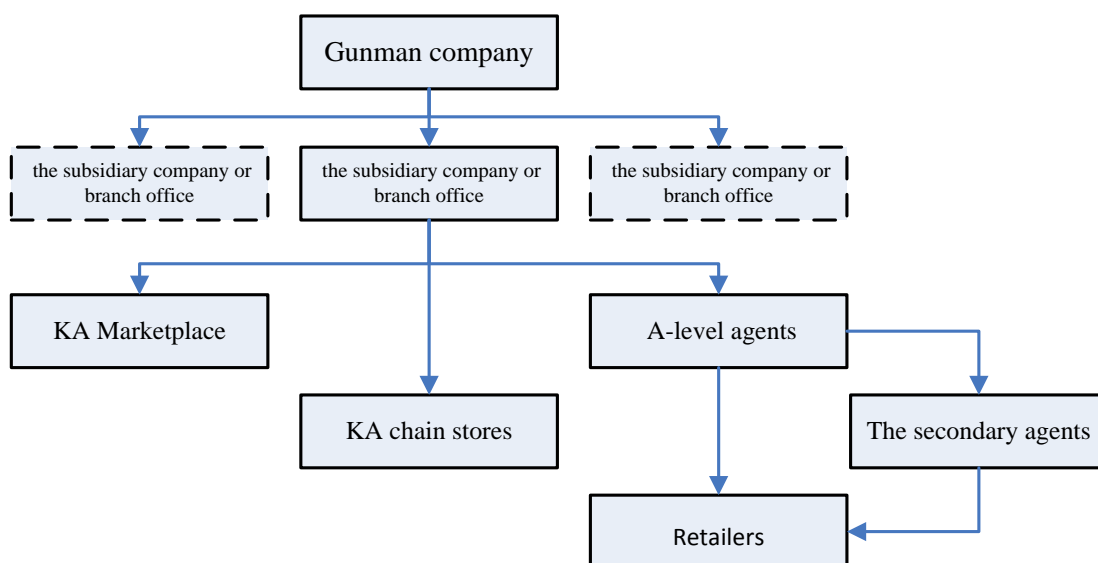
Source: Relevant information on Konda's official website （http://konda.cn.gongchang.com/）and interviews of Rainbow's middle and senior officers.

4. Chilwee

Chilwee is a subordinate brand of Guangzhou Liby Corporate Group Co., Ltd., a large enterprise in China with enormous potentiality which produces household items. The company owns one of the automatically filling production lines of liquid detergent most advanced in the world, only two of which exist worldwide, one in America and the other in China's Liby. Liby specializes in household item series such as skin care products, shampoo, washing powder, soap and detergent whose annual total sales exceed 10 billion RMB (1.365 billion Euros). The company itself has a perfect and powerful marketing channel network, does well in market expansion, has a good knowledge of market characteristics of different levels and constructs a channel system focusing on deeply-reselling (refer to Fig. 4-4).

Fig. 4-4 Marketing Channel Structure of Chilwee's Product Series
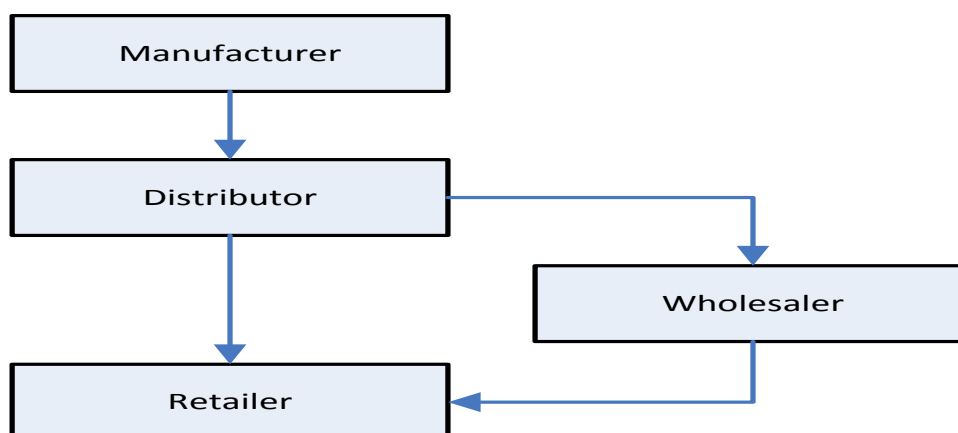
Source: Relevant information on the official website of Guangzhou Liby Corporate Group Co., Ltd (http://www.liby.com.cn/) and interviews with Rainbow's middle and senior managers.

Established in 2004, Chilwee domestic epidemic prevention series has permeated rapidly into the underlying markets like counties, districts, townships and countryside with the help of Liby's perfect and powerful household item channel network system. Chilwee's mosquito-repellent incense and pesticide accounts for a relatively large part in the tertiary and fourth markets in China. In 2011, the sales of the company's mosquito-repellent incense ranked fifth in China with 1.2 million boxes, pesticide sales sixth with 7.5million boxes, showing a drastic development tendency.

Compared with the main rivals, the major problem within Rainbow is that when the market demand and market competition change dramatically, Rainbow is accustomed to handling problems with price reduction strategy and concentrates more on how to motivate primary and secondary regional dealers, ignoring target market's sufficient data collection, editing and analysis. Besides, it fails to conduct systematic analysis according to channel cost and channel efficiency to have a correct evaluation of achievement effect of marketing strategy so that it can integrate and optimize marketing channel resources fundamentally. In the 1990s, Rainbow quickly controlled most of the underlying markets in China and its dominant products had a high market share by virtue of traditional market radiation function. But since 2000, its share in tertiary and fourth regional markets has been nibbled away by the rivals with the main competitors permeating. In the primary and secondary markets in China, the products that Rainbow puts in the market are of no variety and its promotion means are limited. To be competitive in the market, Rainbow has to mobilize its high-quality resources. When it vigorously initiates a price war with the main rivals for the occupancy of the primary and secondary regional markets, Rainbow usually tends to fail to do something else, including maintaining prices in the small and medium size stores in the tertiary and fourth regional markets and underlying markets.

To sum up, Rainbow must adapt to such market changes with regard to market size development and competition in markets, analyze existing marketing channel systems carefully and systematically consider and implement the improvement and optimization of the marketing channel to actively respond to the increasingly competitive market.

4.5   Systematic analysis of Rainbow Company's marketing channel

Before the 1990s, Chengdu Rainbow Company achieved retail terminal permeation all over China by taking advantages of relatively perfect goods delivery system in the context of planned economy and through the state-owned wholesale stations and state-owned supply and

marketing cooperatives. After the transition into market economy, the previous state-owned wholesale companies were basically disintegrated or resold and the business managers who had mastered channel resources in the previous state-owned wholesale companies began to establish independent private-owned enterprises or individual wholesale corporations, continuing to sell Rainbow products as channel dealers. In the process of the transformation, Rainbow Company has gradually formed its unique marketing culture and constructed a channel system mode where stable cooperative relationship is the basis, resources share is advocated and marketing strategic partnership is the pursuit. The marketing channel system structure currently prevailing in Rainbow Company is shown in Fig. 4-5.

Fig. 4-5 Current Channel Structure of Rainbow Company
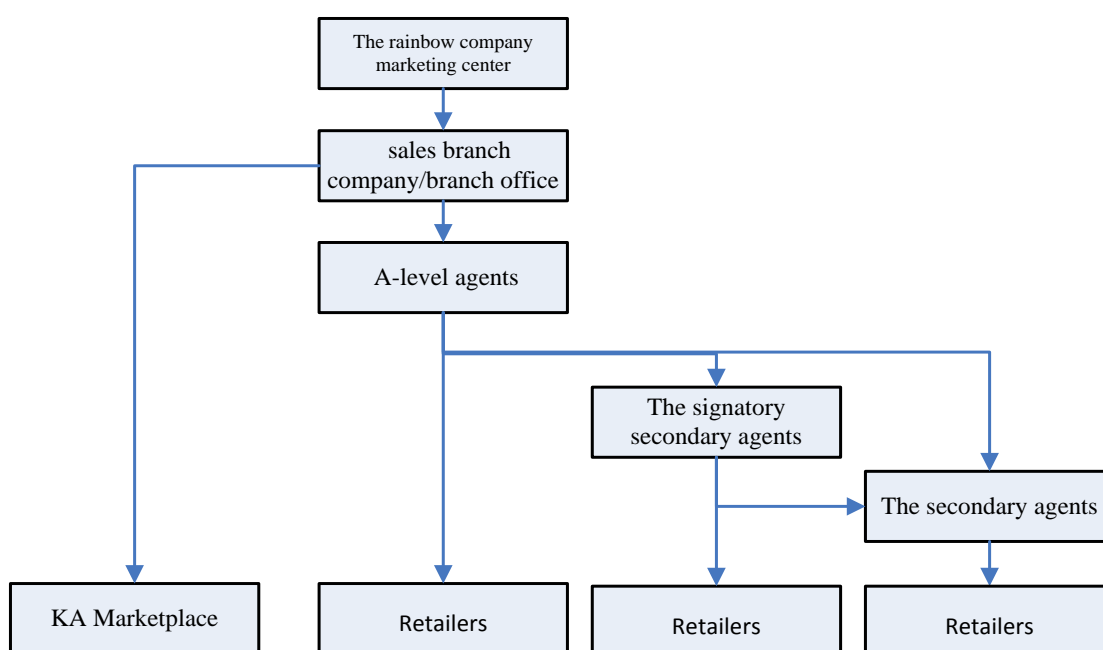
Source: interviews of Rainbow Company's senior officers

Rainbow Company carries out an integrated product marketing system implemented by primary regional agents. Primary regional agents are in charge of development and maintenance of secondary agents who develop retailers; besides, primary regional agents and secondary regional agents can work together for the development of terminal retailers. When secondary agents are armed with complete marketing network, rich channel resources and relatively good brand loyalty, they can be promoted to be secondary contracted agents (potential primary agents) after evaluation of and the approval from Rainbow Company Marketing Center. Meanwhile, to inspire agents to better serve the target market, Rainbow Company gives marketing policy support and strengthens it. To manage channel dealers, Rainbow Company adopts the negotiating level-by-level mode, that is, Rainbow Company,

primary agents and secondary agents negotiate together and after they reach an agreement, they will sign a trilateral agreement which clearly states liquidation price and means of payments among marketing channel members, region marketing targets for all the agents in different channels and the promotion programs in need of Rainbow Company's support. In addition, Rainbow Company makes its own marketing reward provisions for all the agents in different channels.

At present, Rainbow Company has its own marketing subsidiaries (or offices) in the Northeast, Eastern China, Northwest, Central China, and South China. One of the most important functions of these marketing branches is to build a proper channel marketing network in the regional market required by marketing channel flattening.

According to administrative division and level-by-level principle, Rainbow Company divides the country into provincial regional markets and appoints only one primary agent of the provincial regional market; then the primary agent administrates several secondary markets in the region and bears the responsibility of developing and maintaining secondary channel agents, thus a clear regional marketing network structure. Other than that, terminal retailers are categorized for management based on the terminal retailers' sales and its impact on the terminal market. Due to the sales, large chain stores have decisive influences on brand promotion and construction and sales volume of the terminal market. Though large chain stores have powerful negotiating skills with Rainbow Company, the various expenses incurred by marketing in all the channels are relatively high, which deserves much attention. In the actual operation, the relationship that large chain stores establish with Rainbow Company are a direct marketing cooperative relationship and the primary agent or the secondary contracted agent of the region is only responsible for providing products and services. The products and services required by regional retailers are supplied by secondary channel agents.

While researching Rainbow Company, it was found that middle and senior managers of Rainbow Company generally held the view that for the time being, most secondary agents of Rainbow Company lacked professional marketing teams and channel management, and especially most secondary channel agents were insufficient in modern marketing concepts, concentrating their business operation on channel reselling profits and paying little attention to terminal customers' needs and consumption behaviors. If the situation is not improved, it will be difficult for Rainbow Company to adapt to the changes and development of the future marketing channel. It can be said that the drawback of channel agents of Rainbow failing to adapt to market change and competition has appeared. At the same time, this reflects internal problems of Rainbow's marketing channel system, including client relations, target market

positioning, marketing region division, and channel agents' market function positioning.

4.6   Problems within Rainbow Company's marketing channel

To fully tap the real information about Rainbow Company and ensure the conclusion of the case study used in the dissertation is theoretically supported and reflects the general picture of Rainbow Company's marketing channel operation, we invited eight middle and senior managers of Rainbow Company (refer to Appendix 2 for the name list) to have a thorough talk over the Rainbow Company's marketing channel (interview and discussion outlines are in Appendix 1) on the basis of the above case study. Focus Group (Hudson, 2003) is applied to the discussion mode. To begin with, it has to be stated to the participants that the purpose of discussion is not to reach agreement but to express ideas to the fullest; after discussion, participants were asked if they had anything to add. Each interview lasted around 90 minutes and every interviewee was interviewed several times. Combining the information these interviews and discussions provided with the case study, we extracted six factors that influencethe lack of Rainbow Company's marketing channel optimization: lacking marketing strategy planning, vague target market positioning, inappropriate channel member management, lacking channel control, insufficient construction of online marketing channel, backward marketing teams. Each one of them will be analyzed next.

4.6.1   Lacking marketing strategy planning

1. Vague market function positioning and lack of thought of marketing strategies

Rainbow Company is still busy in "selling" and executing such functions as selling, ordering and delivering but neglects its "market" function. "Market" and "marketing" are totally different concepts. "Doing the market" is doing the strategic work, including managing dealers, planning product marketing, maintaining client relations, maintaining and developing regional markets and managing promotion teams while the marketing function should be transferred to the dealers of the region, including such daily issues as reselling, dispatching, promotion plan execution and settlement of retail stores. The marketing function belongs to strategy execution. However, most marketing teams of Rainbow Company implement "the marketing function" on the strategy level, and lack thoughts at "market" level neglecting for example regional marketing strategies.

2. Lacking regional strategy planning

In recent years, while the sales in the regions, except southwest, have been on the rise,

more than half of the company's market capitals have been spent and the sales in the southwest, especially in Sichuan Province have been decreasing (Fig. 4-6, 7, 8). The main reason leading to this is that the company fails to promptly adjust the input into marketing resources, neglects the input into market maintenance and lacks regional market strategy aims when its competitors heavily invest in market development capital for market share.

Fig. 4-6 2009-2012 Sales Changes in all the Regions
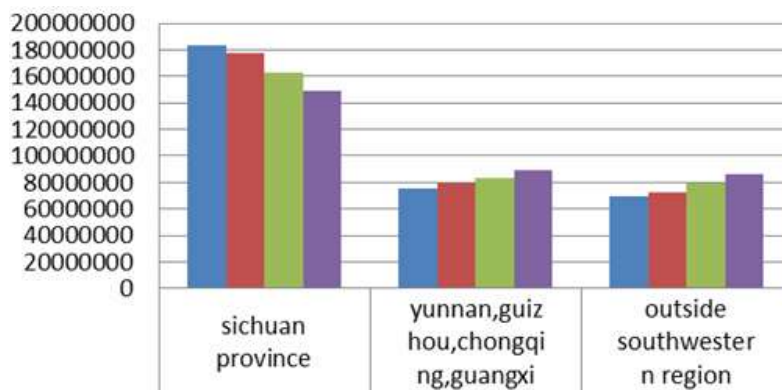
	sichuan province	yunnan,guizhou,chongqing,guangxi	outside southwestern region
sales volume in 2009	183280076	75699512	69715305
sales volume in 2010	177156076	78908350	72750000
sales volume in 2011	163040000	83500000	79000000
sales volume in 2012	148871560	89274104	86423894

Source: Financial Reports of Rainbow Company from 2009 to 2012

Fig. 4-7 2009-2012 Rainbow's market expenses changes in all the Regions

	Market Cost in 2009	Market Cost in 2010	Market Cost in 2011	Market Cost in 2012
SiChuan Province	7161820	7891740	8645220	9386320
YunNan,GuiZhou,ChongQing,GuangXi	7959995	8159723	8430729	8639875
Outside Southwestern region	14824145	16721310	19798606	23573976
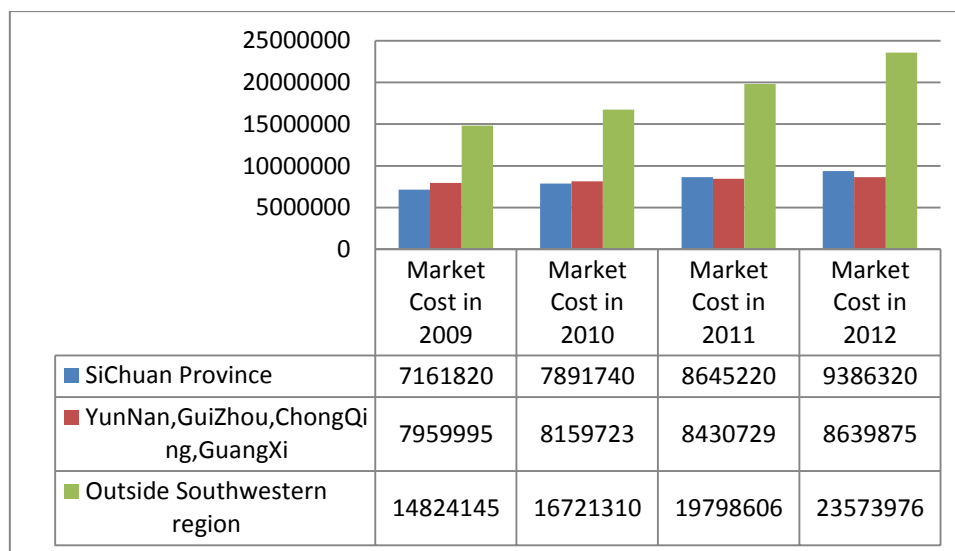
Source: Financial Reports of Rainbow Company from 2009 to 2012

Fig. 4-8 Percentage of Rainbow's Sales and Market Cost in all the regions in 2012
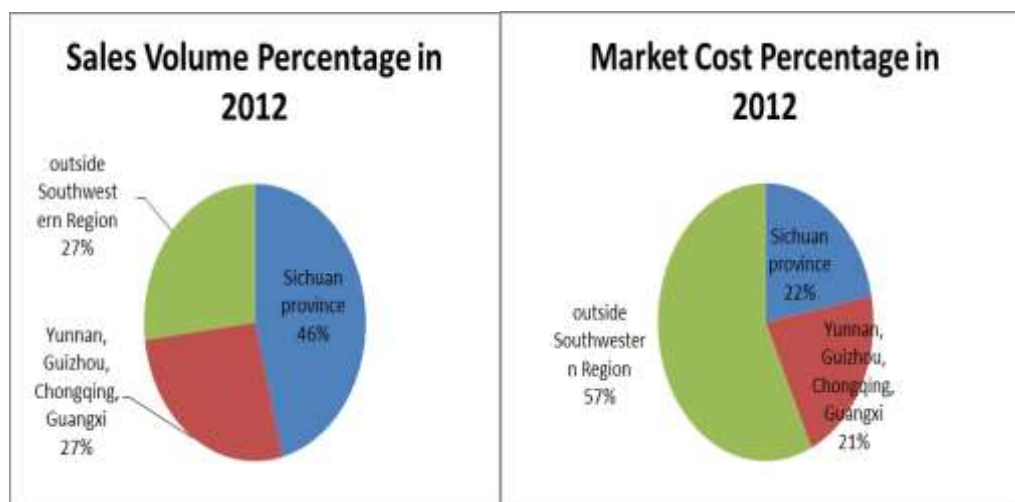
Source: Financial Report of Rainbow Company in 2012

4.6.2   Vague regional market positioning

In terms of comprehensive household products, the two most important issues about marketing network rely on the region coverage and convenient service. Generally speaking, marketing stores can be divided in central city stores, secondary city stores and county and township stores or rural stores based on covered regions and coverage efficiency. In the thesis, we call central city stores and secondary city stores respectively to those in primary regional markets and secondary regional markets. County and township stores or rural stores are called tertiary regional market stores and fourth regional market stores respectively. Obviously, the former two are what competitors crave for because they are the foundation on which each main market brand depends. The latter two usually have many stores with big sales records but their stores are widely scattered, causing high reselling cost. The main branded manufacturers basically consider them underlying markets. In the course of China's planned economy transforming into market economy, it was through the stores of these tertiary and fourth regional markets that Rainbow Company resold its products to most of the underlying markets all over China, building its brand influence to some extent and gaining a relatively big market share. As market economy gradually improves and develops, the overall competition pattern within the same industry has changed radically. Product modes of direct selling and depth reselling have also been applied in tertiary and fourth regional markets. For example, manufacturers of some competitive brands have begun to adopt their products by delivering goods to the countryside or regular visits to resell. However, Rainbow Company still goes its previous way to manage underlying markets mostly in virtue of natural radiation

function of its former traditional wholesale stations. The reason mainly lies in that Rainbow Company lacks clear regional market boundaries. In the same regional market, there are multiple channel agents, thus coverage overlaps. If the reselling cost is relatively low, multi-channel agents will fight for the target market, leading to channel conflicts; if the situation reverses, channel agents will be unwilling to enter the target market, hence causing blank market as we have seen in the theoretical framework chapter.

4.6.3 Channel member management problems

1. Problems in selecting channel members

There are no such strict business procedures of appraise, election, examination and addition on marketing channel member selection in Rainbow Company and the business representative has pretty big power to randomly choose channel members. In that case, the channel forepart management defects guarantees no impartiality and the reasonability of channel member selection with difficulty and the management leak may occur, which results in marketing morality risks.

2. Problems about channel membership level and performance evaluation

In a fixed period (e.g. one fiscalyear or at the end of one product season), the channel member credit, performance level and management conditions are not evaluated and channel is not adjusted actively and promptly according to evaluation status. It is difficult to control channel risk only with post-event makeup behavior without pre-event alarm control means.

3. Problems about channel member's credibility and loyalty

Some regional channel agents put "profit" foremost with low business credit. It is often the case that they temporarily cooperate with whichever manufacturer offers high rebate and good compensation policies, let alone highlight such channel construction issues such as brand and product promotion, client relationship maintenance and customer satisfaction.

4.6.4 Disordered marketing channel management

A typical case is that Rainbow Company has not solved the problem of goods falsification thus triggering channel conflicts.

Rainbow Company's marketing network covers most regions of China. As far as the district diversity is concerned, Rainbow Company gives different discounts and promotion compensations to the middlemen in different regions, from which channel goods-fleeing

issue may occur. Driven by potential benefits due to the price variance among regions, some channel middlemen or even some subsidiaries of Rainbow Company sell products across regions and falsify sales data, disturbing the company's integral price system and leading to conflicts among middlemen, which has negative impacts on Rainbow Company and ruins the company's reputation.

Currently, there mainly exist two types of goods falsifying. One is products fleeing from the non-best-seller section to the best-seller section; the other is that products fleeing from the best-seller section to the new market at a price lower than or equal to that in the best-seller section. Both will destroy Rainbow Company's price system and affect the normal operation of the marketing network system in regional markets. They not only diffuse false sales information, but cause profits loss forRainbow Company and for channel middlemen who are guided by rules and regulations. Besides, it gives some sham and shoddy commodities a chance to enter regional markets and Rainbow Company's trust relationship and cooperation basis with channel middlemen are severely influenced as well as Rainbow Company's image is damaged.

4.6.5　Insufficient development of direct online marketing

In the age where online marketing develops rapidly, Rainbow Company can make abundant achievements resulting from direct online marketing, but for a　company that wants persistent development and increase of its market share and economic income, many problems remain to be solved, namely:

1. Lack of information platform covering all the business of the marketing channel

To develop direct sales through the network, all the resources of the whole marketing system need coordination and integration to enhance Rainbow Company's coordination level of marketing horizontal integration. In the direct marketing through the network, there are multi-segments　and multi-stage information exchanges between terminal clients in the market and sales departments, sales departments and production departments, inner Rainbow Company and agents /big stores. To make all the links coordinate and in line, a national information platform of marketing channel business needs to be established to properly and effectively allocate products and marketing services for reasonable distribution and complement of direct sales through the network and concrete products based on the overall benefit optimization.

2. Lack of scientific positioning for function of direct online marketing and traditional

marketing channel

In the traditional marketing channel, the intermediate agent is an important part. The intermediate agent can play the most effective part in such aspects as meeting market demands and services, and accelerating speed for products to enter the target market. By constructing online direct marketing channel, an information channel where the consumer and the manufacturer can contact each other should be built in the final analysis. At this point, the traditional middleman's function changes fundamentally, that is, he becomes the direct marketing service provision intermediary from the previous middleman of reselling links. Thus, the intermediate agent's reselling superiority in virtue of the geographic advantages and the channel relationship in the traditional marketing pattern is replaced by the interactive communication function of the Internet. Meanwhile, effective information exchanges in the Internet make the multi-links of transactions in the traditional marketing channel unnecessary and the complex changeable channel relations come down to a single relation. Therefore, to develop direct marketing through the network, proper function positioning division of direct sales through the network and the traditional marketing channel should be made and the channel function should be promptly adjusted to achieve the complementing of two marketing patterns and resolve potential conflicts.

4.6.6 Marketing team problems

1. Lack of necessary mobility of overall marketing team

In Rainbow's marketing team, regional provincial managers of Jiangsu, Beijing, northeast China and Henan Province generally have tenures of more than ten years in the locality and some even settled down there. Even regional managers of Hunan, Hubei, Jiangxi, or Anhui are in office for eight years and the provincial managers in the remaining regions serve at least for three to five years. Such allocation and management of human resources lack sound interaction and have the following drawbacks:

(1) A regional provincial manager tends to breed inertia and will not be willing to delve into the market any longer; if he becomes very familiar with the local market environment, instead, he will rely on his habitual thinking and past successful market experience to manage the regional market.

(2) To prevent the situation "whipping the fast and the hardworking" from happening to them, managers are reluctant to try their best to outperform their business and often tread as on eggs; what they pursue is a steady growth step by step, so they lack impetus to stimulate

their business.

(3) If a manager stays at the same position for a long period of time and there is no supervisory mechanism, it is very likely for him to ally with agents privately, which damages the company's interest. Even worse, taking the opportunity of adjusting channel agents, several business representatives will collude with some leaders of the marketing center to set up a company to manipulate the market, directly encroaching on the company's interests.

2. Lack of incentive and supervision mechanism of marketing team

Benign incentive mechanisms and supervision mechanisms have not yet been established in the marketing team of Rainbow Company. In light of incentives, Rainbow has not designed a reasonable position hierarchy to make the marketing team work for the completion of business objectives. In the interviews, the company's decision-makers generally agreed to have at least two administrative staff of the company distributed to the primary regional market for mutual supervision. But the fact is that the staff will not receive guidance and training in the company except that when the annual Second Session of the National People Congress of China opens. At ordinary times, however, provincial managers control the finance resources, material and human resources in the various districts like feudal princes and they exercise their power at will without restraints in the regions they manage, lacking the fundamental supervision and control.

3. Awareness of serious "fragmentation" in the marketing team

In the past, if Rainbow assigned one business representative to take charge of a market, it generally meant that it allocated the financial resources, materials, personnel and other rights to this person, while other supporting ancillary controlling means and measures like business regulation, market guidance, and financial supervision were not often provided. Whether a market can develop or not basically depends on the right person's input into work. After achieving the size of the market, the business representative thinks he has made great contributions to pioneering the market and takes it for granted that he should enjoy commission rewards and not be controlled by the company in such aspects as administrative management and sales management, totally not taking the company's comprehensive investment in the regional market and the company's brand appeals for the regional market into account, thus forming awareness of serious "fragmentation". This particular problem will be discussed in the chapter that follows.

Chapter 5: Rainbow Company's Segmentation, Targeting and Positioning Strategy for Household Epidemic-preventive Products

After describing the research idea for this study, and the relevant factors influencing the marketing channel optimization of Rainbow Company, on the basis of the case study, the manner of integrating traditional marketing channel with online marketing channel will be explored. The purpose is to propose an integrated framework of the enterprise marketing channel and finally put forward a strategy for its optimization. This chapter aims at finding out the corresponding relations between "the right products and services" and "the right target market/clients" before analyzing and discussing a strategy for the optimization of Rainbow's marketing channel. In other words, segmentation, targeting and positioning (STP) concepts (Market Segmentation, Market Targeting and Market Position) will be applied to describe and subdivide Rainbow's current markets to further find a clear and corresponding relation between its products and each target market as well as its positioning strategy.

5.1 Connotation of STP strategy

Marketing master Philip Kotler (2011) proposes that the core of modern strategic marketing lies on STP. In the so-called STP, "S" means segmenting the market; "T" means targeting the market, including market selection; and "P" is positioning market, namely position setting.

The basic idea of STP theory is that the enterprise chooses one or several market segments and conducts market positioning after subdividing all markets according to a certain standard. The market itself is a synthesis that has various levels and covers diverse consumer demands. As far as the enterprise is concerned, no matter how strong its financial strength or how big its scale, it can never meet all the demands of customers in the whole market for the market is complex and has changeable demands. Therefore, what the enterprise needs to do is to select a proper target market within its power according to its own advantages, engage itself in production and marketing activities and conduct marketing aiming at a certain target market. On account of these, the enterprise can take advantage of differences in consumers' expectations, preferences, behaviors and habits through investigating and dividing an overall

consumer group into several smaller ones. The divided several consumer groups correspondingly represent several market segments and each market segment consists of consumers with similar demands. This is market segmentation in fact.

After market segmentation is completed, the enterprise will select relevant segments and decide on a market positioning. In general, the enterprise can adopt three strategies to choose a market segment, namely: undifferentiated market strategy, differentiated market strategy and concentrated market strategy. No matter which strategy is adopted, it is necessary for operators to grasp and analyze market variation trends and conditions of competitors through constant market research and prediction and adopt flexible market strategies adapting to market trends to seek more profit by making the best use of advantages and bypassing the disadvantages. On this basis, the enterprise shall develop a marketing design aiming at potential consumers' intentions, set up a certain image or a certain unique feature of its products and brands to target customers and generate a profound impression and a unique position.

STP strategy is therefore a process with three main steps (Kotler，2011). The first step concerns segmenting the market according to consumers' different demands for products or services, subdivide the market into several parts with different consumer groups and divide the general structure of market segments; the second step consists in selecting a target market, namely one or several market segments in need for a company to enter; the third step is to position the market, namely to establish and convey key information necessarily possessed by products in a target market and letting them be perceived by consumers.

In essence, market segmentation reflects the concepts of modern marketing (focus on consumers) and is also the basic premise for enterprises to adopt marketing strategies.

For the selection of a target market, the core is to make a systematic and overall analysis and evaluation from several perspectives such as potential scale and level, market competition trends, matching rate of enterprise resources and demands of market segments and input-output ratio of market segments according to the divided market segments and finally find out the optimal combination for selecting the right strategy for a target market (undifferentiated, differentiated or concentrated) and target a covering mode.

According to Kotler's (2011) definition, the so-called positioning is the action of designing the function and image of the company's products according to consumers' expectations and being perceived by target consumers. According to this, commonly referred product positioning and enterprise positioning concerns the location of products and

enterprises in the target consumers' mind.

5.2　Overview of the Market Segment of Mosquito Repelling Products and Pesticides of Rainbow Company.

Mosquito repelling products and pesticides include: mosquito coil incense, aerosol insecticides, electric mats and liquid mosquito coil incense. Different consumers have bias on selecting products. As for products of the same type, consumers at different social classes vary in their pursuit of the added value of products. According to interviews of eight middle and high level executives, channel agents and salesmen in sales field working for Rainbow company, six major factors that influence consumer's buying of mosquito repelling products and pesticides have been identified. Among these six major factors, three concern attribute factors that are characteristic of consumers themselves and the other three concern external environment factors that influence consumers' choices.

1. Living environment of consumers

Living environment refers to the degree of ventilation and cleanliness of the whole environment and whether there is a suitable circumstance for breeding mosquitoes. The quality of the living environment of consumers decides, to a certain extent, which types of mosquito repelling products consumers choose to buy. Where there is less air flow, consumers will choose sanitary high-end products with low toxicity like electric mats and liquid mosquito coil incense；otherwise, they will choose products with more powerful effects for repelling mosquitoes like mosquito coil incense and aerosol insecticides.

2. Living areas of consumers

Generally, the living conditions in the primary and secondary regional market excel those in the tertiary and fourth regional market. There are fewer mosquitos in primary and secondary regional market; thus electric mats or liquid mosquito coil incense are chosen and used more than mosquito coil incense or insecticide. In the tertiary and fourth regional markets like rural-urban fringe zones and villages and towns, mosquito repelling products like mosquito repellent incense and insecticides are more chosen and used. Especially in rural areas, as data of actual sales show, consumers will generally not choose liquid mosquito coil incense or electric mats.

3. Climate differences in rural markets

The time for using mosquito repelling products and killers in the north of China is

approximately between five to six months, which is shorter than in the south; thus mosquito repelling products are less used in the north of China. Additionally, if climate changes ın relation to the past, in certain designated regional markets, the sales of mosquito repelling products and killers will be greatly affected.

4. Social classes to which consumers belong

Consumers of the high income class, whose price elasticity of consumption demand is low, price sensitivity is also comparatively low, and living conditions are comparatively better (Huang Yali, 2012), will generally choose electric mats or liquid mosquito coil incense with high added value, such as sterilized, scentless, bionic or suitable for children. On the contrary, consumers of middle and low income, whose price elasticity and price sensitivity are comparatively higher, are more likely to choose products of coverall series and with favorable discounts or in combination with free gifts. At the same time, if their living conditions are not satisfactory and there are comparatively more mosquitoes, they will be more likely to choose products with more powerful effect for repelling mosquitoes like mosquito coil incense and aerosol insecticides.

5. Education attainment of consumers

As far as consumers are concerned, their level of education attainment is positively related to their environmental awareness and health protection awareness. In general, consumers with higher education have stronger environmental awareness, then are more likely to focus on the protection of their own health and on the maintenance of living conditions. Thus they are more likely to choose high-end products like scentless solvent insecticides of good quality and smokeless mosquito repellent incense.

6. Gender and age of consumers

As the features of consumers' price elasticity of demand show, the price elasticity of young people is generally lower than that of middle-aged and old. Young people with low price sensitivity will pursue products according to fashion and pay more attention to additional functions. Compared with men, women have higher price sensitivity and price elasticity of demand (Cheng Jiang, 2007).

As discussed above, considering the influence of the three external environment variables and the three self-attribute variables of consumers on their buying of mosquito repelling products and killers, enterprises are required to combine the external environment of each specific regional market and their own resources and design different product assortments and marketing business combination to satisfy to the maximum different demand

patterns of a target market.

5.3   Selection of Target Market of Rainbow Company

According to the six variables of market demand mentioned above, Rainbow Company's target market can be divided into segments of more specific demands on the basis of different factors which influence purchase.

Household hygiene and epidemic prevention articles are seasonal mass consumer products. Research conducted by Fan Zhirong (2007) reveals that in south China, only 5％ of interviewees had not used mosquito–repellent and deinsectization products. Over the last twenty years, as an expert in household hygiene and epidemic prevention products and a leader in terms of market share, Rainbow Company has been practicing a diverse complete coverage strategy of products, which means adopting differentiated products to meet the needs of market segments to a maximum degree.

Considering the internal resources of the company and the changes in the external market environment, Rainbow Company established a marketing network in all central cities except in Qinghai, Xinjiang and Tibet which are remote and vast areas in northwest China with transport difficulies and sparse population, and its main products are available in most markets in counties, villages and towns. Mosquito–repellent and deinsectization products require low involvement and industry opportunities consist is the continuous expansion of the market size. Consequently, Rainbow Company must implement a positive market expansion strategy and outperform in combining products and marketing as well as effectively conveying the information to the final consumers. Meanwhile, the company should appropriately add some important attributes to the products according to market demand such as being suitable for children, or clean and odorless. In this way, it could raise the level of consumer involvement and rapidly seize the market at all levels to gain a competitive advantage.

In 2012 the decisions of differentiated varieties of Rainbow Company's electric mats, insecticides and mosquito coils are shown in Table 5-1. From this table, it can be seen that Rainbow has more than 40 different household hygiene and epidemic prevention products including 15 electric mats of different types, eight types of different electric liquid repellents, seven types of different pesticides and nine types of different mosquito coil incenses. These various household hygiene and epidemic prevention products basically satisfy differentiated

demands of the target markets and consumers in terms of additional functions, mass demand, environmental adaptation, high-end property and price elasticity of demand.

Table 5-1: Decisions of Differentiated varieties of Chengdu Rainbow Company's electric mats, insecticides and mosquito coils in 2012

Type	Specifications and models	Differentiated marketing positioning
Electric mats	5001B Biomimetic	High-end functional products Large drop, suitable for places with many mosquitoes Differentiated odors, meeting popular demands
	5001D Children-type	
	5001E Tasteless	
	5001A Golden rainbow	
	5001 Fragrant	
	5001B Faint scent	
	5001F Sandalwood	
	5001G Lavender	
Electric Vaporizers for mosquito killing	5026 Bread	High price performance ratio, meeting popular demands High-end functional products
	5027 flip type	
	5018 Biomimetic	
Electric mats packages	5001AE Special preferential packages	High price performance ratio, meeting bulk demands of high elasticity of price KA selling products with ultra–low special price, appropriate for sales market competition
	5001AF 75 pieces	
	5001AG Tasteless special preferential packages	
	5001AJ Faint scent preferential packages	
	5001AB In-line utensil special preferential packages	
	5001AH In-line utensil value packages	
	5001AC Winder value packages	
Insecticides& aerosol	5212B Bomber	High price performance ratio, meeting popular demands High-end functional products
	5217 Lemon	
	5218 Tall can	
	5216 Orchid fragrance	
	5228 Tasteless	
	5215 Mosquito killer	
	5230 Cockroach killer	
Liquid mosquito coil incense	Q5102 Faint scent	High price performance ratio, meeting popular demands High-end functional products High price performance ratio, meeting bulk demands of high elasticity of price Popular products
	Q5105 Tasteless	
	Q5108 Lemon	
	Q5103 Tasteless children-type	
	5100 Preferential packages with two bottles	
	Q5135 Value packages	
	Q5131 Winder preferential packages	
	Q5130 Electric Vaporizers for mosquito killing	

Mosquito coil incense	5611 Small sized coil	High price performance ratio, meeting the demands of low-end townships
	5614 Sweet osmanthus sandalwood with light smoke	
	5613 Gardenia with light smoke	Meeting the differentiated demands of low and middle end markets
	5718 Smokeless sweet osmanthus sandalwood	
	5714 Smokeless osmanthus sandalwood with large sized coils	
	5616 Smokeless children type	High-end functional products
	5619 Mosquito repelling and hygienic sandalwood	
	5612Preferential packages	
	5625 Special preferential barreled packages	KA selling products with ultra–low special price, appropriate for sales market competition

Source: Mosquito–repellent and Deinsectization Product Manual of Rainbow Company in 2012

(Detailed)

5.4   Differentiated Market Positioning of Rainbow Company

According to Kotler's (2011) before quoted definition, market positioning consists in designing a function and image of products according to the expectation and demand of the consumers and conveying this concept to target consumers. The fundamental purpose of market positioning is to determine an appropriate position of products in the eyes of the consumers. As Rainbow Company adopts a complete market coverage strategy, it faces many varied market segments at the same time. On the basis of the six variables of demand on dividing market segments, it can be concluded that the demands of every target market for Rainbow's services and products should be differentiated.

1. Target market positioning strategy for electric mats and electric liquid mosquito–repellents incense of Rainbow Company

In terms of consumers' brand recognition, Rainbow Company boasts itself of possessing the largest market share in the mosquito repellent industry, as having been the first to introduce this product with over 20 years experience of research and development and production. It praises itself as being a well-known brand in the industry, a China's famous trademark and a China's famous brand. In terms of value, their products are environmentally friendly and accredited by the U.S. Environmental Protection Agency and WHO, safe for humans and animals, clean and hygienic as well as convenient to use. All these market positioning labels are just in line with the requirements of high and middle income groups and

families who are concerned with their living environment. In terms of highly educated consumers who pay attention to environmental protection and health, Rainbow Company is also able to cater to them, further developing functional products with high value added, such as children-specific, biomimetic or odorless.

As for distribution channels, the target buyers of products by Rainbow Company are mainly in cities, towns and counties and their shopping places are primarily large–scale chain stores. Therefore, when designing marketing channels, various supermarkets in central cities, towns and counties and medium and large sized large–scale chain stores in towns and counties should be Rainbow's focus. With cities and central towns being composed of differentiated target markets with diversified demands for Rainbow Company's products and services, the company determines its products for sale in line with supermarkets at different levels and allocates market resources so as to meet targeted consumers' individual requirements in different target markets. In the regional markets at different levels, the distribution of OTC varieties is differentiated. See Table 5-2.

2. Market positioning strategy for aerosol pesticides of Rainbow Company

Rainbow's aerosol pesticides are accredited by the world authority WHO and the U.S. Environmental Protection Agency as environment friendly products safe for humans and freshening the air and leaving no stains. This product is the result of over 20 years experience of research and development. It is a pesticide killing most pests and the most effective mosquito repellent in the market. High–end consumers generally believe in product effects, so they tend to focus on the safety of human health and product smell, while low–end consumers usually pay more attention to the effectiveness of pesticides, i.e. whether they will effectively kill pests immediately or not. To strike a balance between different consumer groups, Rainbow Company has introduced high-end products, such as odorless and natural ones made of imported ingredients, as well as low-end products of high price/performance ratio. In terms of distribution channels, various supermarkets are its main channels. On the other hand, pesticides face much wider target consumer groups, so Rainbow Company must make full use of wholesale markets and intermediate distributors, and strengthen the sales in grocery stores and convenience stores in order to satisfy the demands of the lower–end market.

3. Market positioning strategy for mosquito coil incense of Rainbow Company

The mosquito coil incense is a type of environmentally friendly product accredited by world authorities (WHO and EPA), safe and with nearly no smoke. It has visible effects in killing mosquitoes. Mosquito coil incense is designed for low–end consumer groups who

usually live in places prone to breed mosquitoes and who hope to kill mosquitoes at the lowest cost immediately, especially the visual effect of seeing mosquitoes dead on the ground. With the improvement of living standards, some consumers increasingly focus on environmental protection and health. As for low-end consumers, Rainbow has introduced high concentration mosquito coils with smoke which have high price performance ratio and large mosquito repellent radius. As for high-end consumers, it has introduced smokeless large mosquito coils lasting for 10 hours and producing little pollution. In terms of distribution channels, on the basis of counties, towns, villages which are the largest market of mosquito coil incense, it aims at covering all the target markets especially lower–end markets so as to make it convenient for consumers to go shopping and enlarge the expansion of product coverage in regional markets by making full use of wholesale markets, and strengthening the sales in grocery stores and convenience stores. However, in rural areas, mosquito coil incense with light smoke at lower prices is the top selling product.

In addition, effectively implementing a complete market coverage strategy featuring market differentiation calls for positive cooperation with middlemen who need to be guided to optimize the combination of different products and services according to the product positioning of different market segments so as to accomplish the coverage of the target market in cooperation with Rainbow Company to a maximum degree.

Through the analysis above, Rainbow Company has specified the diversified demand of consumers in different target markets in different regions. Accordingly the key display articles and outlets as required in the coverage principle are very clear. Table 5-2 shows details.

Table 5-2 Items at Point of Sale and Display Planning of Chengdu Rainbow Company in 2012

Product models	Type A shops		Type B shops		Type C shops		Type D shops	
	Whether to show	Display outlet	Whether to show	Display outlet	Whether to show	Display outlet	Whether to show	Display outlet
5001	√	2-4						
50015			√	2-4	√	4	√	2
5001A	√	2	√	2	√	2		
5001B	√	2	√	2	√	2	√	2
5001D	√	2	√	2				
5001E	√	2	√	2				
5001G	√	2	√	2				
5001F			√	2				
5026	√	1	√	1				
5027	√	2	√	2	√	2	√	2
5018	√	2	√	2				
5001AB	√	2	√	1				

5001AE	√	1-2	√	1-2	√	2		
5001AF	√	1-2	√	1				
5001AC	√	2	√	2				
5212B	√	3-5	√	3-4	√	4-5	√	4
5615	√	3	√	3	√	3		
5216	√	3	√	3	√	2-4		
5218	√	3	√	3				
5228	√	3	√	3	√	2-4		
5217	√	3-5	√	3	√	2-4	√	3
5230	√	3	√	3				
Q5102	√	4	√	4	√	4		
Q5105	√	4	√	4				
5100	√	4	√	2				
Q5103	√	3	√	2				
Q5130	√	2	√	1				
Q5135	√	4	√	2	√			
Q5131	√	3	√	2				
5611					√	2	√	2
5614	√	2	√	2	√	3	√	4
5718	√	2	√	2				
5714	√	2	√	2				
5621	√	2	√	2	√	2		
5625	√	2	√	1				
5616	√	2	√	2	√	3		

Source: Marketing Plan of Chengdu Rainbow Company in 2012

(Type A shops---- large-scale comprehensive supermarket stores; Type B shops---medium-sized supermarket stores; Type C shops--- small supermarket chain; Type D shops---convenience store, grocery store)

（The "display outlet" refers to the number of the products which face the consumers when the products are displayed. If the column of "display outlet" is two to four, the number of the products which face the consumers is two to four.）

Chapter 6: Optimization Design of the Marketing Channel of Rainbow Company

This chapter is the main part of the case study. The chapter discusses the driving factors of marketing channel innovation, establishes a selection model of marketing channel relationships for Rainbow Company and raises optimization ideas and framework for channel integration. The basic ideas for improvement and optimization of Rainbow's marketing channels are to effectively match the demands of customers for products and services with the ability to provide them and create value for channel suppliers and manufacturers by designing a marketing channel mode suitable for internal conditions and the external environment of the company. The aim is to improve market share and create new profit growth points. Improvement and optimization of a marketing channel is not only reflected in a reasonable selection of channel relationships, but also reflected in the integration of marketing channels. The former defuses channel conflicts to achieve channel coordination; the latter reduces channel costs to realize reasonable allocation of factors.

6.1   Selection of Marketing Channel Relationship of Rainbow Company

With the rapid growth of chain retail of fast consuming goods and online marketing business, the marketing channel of Chinese household goods is at the evolution stage and has to face many conflicts. At this stage, channel conflicts include those between traditional sales agents and large professional chain stores and those between the former two and the online marketing mode established by large network retailers and manufacturers. Rainbow Company that lives in an environment of constant innovation needs to build an appropriate and reasonable channel relationship between different levels of markets and channels taking resource constraints and efficiency levels of different channels into consideration.

6.1.1   Theoretical basis of marketing channel selection

Research on channel relationship can be divided into two schools: the school of economic research and school of behavioral research (Weitz, Barton and Qiong Wang, 2004). The latter one asserts that channel power is a control force exercised by a channel member on

other members at different levels of the same channel; generally, as time goes on, channel power will transfer from manufacturer to retailer (Kadiyali, 2000). When the channel power is asymmetrical, one party with bigger power tends to adopt opportunistic behavior and exploit other channel members with mandatory strategies to obtain profit over equilibrium level of the channel (Frazier & Summers, 1986) resulting in channel conflict.

If channel conflict gradually escalates, the channel may desintegrate or operate with low efficiency. Therefore, the operation cost of the channel will increase and the quality of customer service will be reduced. In this channel relationship, if the power exercised by one party with bigger power makes other members unable to obtain desired profit returns, these channel members will tend to be opportunistic in trading activities and have bad behaviors that go against the stable and healthy operation of channel. If the party with smaller power is the agent, efforts for product sales of the manufacturer will be reduced and a replaceable manufacturer will be found; if the party with smaller power is the manufacturer, service quality of products may be not ensured and the manufacturer may set about building its own marketing channel network or seek new channel partners. Basically, it is difficult to rely on asymmetrical powers to continuously manage channel relationships in a healthy and stable mode (Buchanan,1992).

Theoretically, the result of interest games among all levels of channel agents and manufacturers will reduce asymmetrical degree of power between manufacturers and agents in the vertical channel system. In light of the change, scopes of research on channel relationship cover: the formation of channel power, use and management, approaches to reduce conflicts between channel powers and mechanisms established to promote cooperation among channel members (Weitz, Barton and Qiong Wang, 2004). Therefore, the analysis of factors promoting marketing channel innovation of Chinese domestic appliances for epidemic prevention and research on commitment levels between Rainbow Company and channel agents at different levels as well as the main variables influencing channel relationships lay a foundation for Rainbow Company to establish a channel relationship strategy.

In the innovation process of marketing channel of Chinese domestic appliances for epidemic prevention, the main driving factors are:

1. After 1990s, Chinese market of household epidemic-prevention products transformed from sellers' market to buyers' market. The formation of a buyers' market of products brought two significant changes. On the one hand, product homogeneity was serious which intensified competition among enterprises; on the other hand, consumers tended to be rational during

consumption. The two significant changes in these two aspects urged manufacturers to try hard to pursue efficient and more economic marketing channels.

2. In late 2000, the competition patterns of Chinese household hygienic and epidemic-preventive products in primary and secondary markets (central cities and secondary cities) evolved into contest among several manufacturers of major brands. These manufacturers and Rainbow Company almost had equal ability in product research, manufacture and marketing. Improvement of concentration ratio meant that differentiated competitive advantages required clear cooperative relationships among manufacturers, channel agents and retailers and the pursuit of competitive advantage for the whole value chain covering product research, design, manufacture, sales, transportation and after-sales service.

3. Since 1999, Chinese large chain stores have entered into high-speed development stage and won more "rights of speech" in marketing channels. Large stores, depending on chain operation, purchase scale, complete range of products and price advantages, rapidly took a dominant position in marketing channels and brought challenges to traditional regional agents and to the price system of enterprises.

4. Household hygienic and epidemic preventive products of foreign manufacturers came into the Chinese market on a larger scale which aggravated market competitiveness of Chinese household hygienic and epidemic preventive products. Except relying on technological superiority, foreign manufacturers sought cost advantage by localization strategy, such as the case of Raid, the famous brand of insecticide products subordinate to SC Johnson Wax, which has effectively controlled large stores in central cities (primary markets) and secondary markets in Eastern China and has been the strongest competitor of Rainbow Company.

5. With the rapid development of Internet economy, e-commerce models like B2B, B2C and O2O are deeply affecting marketing channel innovation of Chinese household hygienic and epidemic prevention products. Emerging e-commerce models enable manufacturers and final consumers to establish the most direct transaction channel to gradually replace the selling advantage that channel agents get by geographical relationship in traditional marketing modes, which will cause a direct and important influence on transforming the function of agents in the traditional mode. More importantly, emerging e-commerce models rely on the interactive information exchange modes of internet, are efficient, prompt and comprehensive, thus they can replace many trading links in traditional marketing channels.

The above factors promote fundamental changes in the market circulation channel of

Chinese domestic products for epidemic prevention and propel manufacturers to constantly improve their structures of marketing channels and adjust relationships with all levels of channel agents. Obviously, in light of resource restrictions and enterprise efficiency, the channel relationship of strategically close connections does not apply to all external market environments and the building of channel relationships with strategic partners depends on the commitment of both parties, rather than on the wishful thinking of one party. Fundamentally, the channel relationship between manufacturers and channel agents depends on both parties' bargaining capacities. Based on research on channel relationships in relevant literature (Keysuk Kim and Gary L. Frazier, 1996), variables influencing channel relationship are as follows:

● Commitments

Commitments are desires and behaviors of channel members to maintain and create value relations and reflect the tightness of contact among channel members. In general, all channel members wish relations to be stable and continuous. It is beneficial for manufacturers to obtain commitments of channel agents to enhance channel information sharing and product market expansion. In turn, channel agents can obtain upstream marketing support and share channel information to acquire stable product supply and rewards. The improvement of commitment levels between manufacturers and channel agents can generate synergies in the operation of the marketing channel, finally forming prominent advantages. Therefore, the higher the commitment levels among channel members, the closer and more stable the channel relationship is. If the commitment level of one party is obviously higher than that of the other party, it indicates that the party with lower commitment level has strong bargaining power in the channel system and the other party is in a passive and compliant position.

● Uncertainty of external environment

The uncertainty of the external environment has direct effect on channel system. The more complex and turbulent the external environment, the more necessary and valuable the coordination among channel members is. As previously mentioned, many factors prompting marketing channel innovation of Chinese domestic appliances for epidemic prevention indicate that the external environment confronted by Rainbow Company at present is uncertain on the whole. In terms of competitive situation, domestic primary and secondary markets (provincial capitals and prefecture-level cities) are always a hotly contested spot of brand manufacturers and the basic features of these markets are increasing uncertain factors caused by diversified demands of consumers and cutthroat market competition. In tertiary and

quaternary markets (county-level cities and counties as well as villages), the demands of consumers are relatively simple and market competition is not that fierce, so the market environment is relatively stable and uncertain factors are less.

● Inherent factors of channel system

The bargaining power of manufacturers and channel agents is a significant factor determining commitment levels in the vertical channel system. In the early 80's Michael Porter put forward the "Five Forces model" according to which the bargaining power of channel agents is mainly influenced by concentration ratio of agents/ concentration ratio of manufacturers, leverage of bargaining, purchase quantity, comparison of conversion costs of agents and manufacturers, availability of information on agents, backward integration capacity, availability of current succedaneum, price sensitivity of agents and total purchasing prices. In turn, the bargaining power of manufacturers is influenced by comparison of conversion costs of agents and manufacturers, different levels of products, occurrence of succedaneum, concentration ratio of agents/ concentration ratio of manufacturers, comparison of forward integration threats of manufacturers and backward integration of agents, supply costs compared with product prices and importance of purchase quantity for manufacturers.

Manufacturers are concerned about providing required products and services for customers at accurate time and spot through current marketing channels when demand occurs. Bargaining power of agents are capacities of agents to create increment of value of the downstream channel, based on their contribution to completing the whole transaction with terminal customers, which is a crucial factor for determining the existence of an influencing channel system (Stern & El-Ansary, 1992). When agents can bring a large increment of value, manufacturers will value the coordination and cooperation with agents. Otherwise, manufacturers will hardly pay attention to the quality of relationship with agents.

Agents are concerned about attracting customers and earning profits by selling competitive goods. The bargaining power of manufacturers reflects the substitutability of manufacturers for agents, namely the difficulty of agents in increasing or decreasing the number of manufacturers or suppliers. Similarly, the substitutability of manufacturers directly influences closeness of cooperative relationship with agents.

Accordingly, we can structure the channel relationship model of Rainbow Company taking in consideration three dimensions: uncertainty of external environment, capacities of agents to create increment of value of downstream channels and substitutability of manufacturers. We can analyze various relationships among their combinations to further

analyze the channel relationship between Rainbow Company and its channel agents.

6.1.2   Selection model of channel relationship of Rainbow Company

According to their scale, the current channel agents of Rainbow Company can be divided into large chain stores, primary regional agents and secondary regional agents. As an emerging retailing format of the primary and secondary markets, large chain stores have noticeable advantages in the control of consumption terminal. Compared to other channel agents, they have a stronger bargaining power. In Rainbow case, each primary regional agent governs a couple of secondary markets. Its main task is to develop and maintain secondary customers and it has a rather strong channel bargaining power; secondary regional agents are generally the traditional agents without scale advantage, and are governed either directly by Rainbow Company or by the primary agents. Their capacity of creating added value for the channel is poor, and their channel power is weak.

The primary and the secondary markets (the consumer markets of provincial capitals and prefecture-level cities) of domestic appliances for epidemic prevention of Rainbow Company are completely different from the tertiary and quaternary markets (the consumer markets of county-level cities and counties as well as villages) in consumption demand structure and the competitive situation and uncertainties of the external environment encountered by Rainbow differ. In addition, in view of that, large chain stores do not appear in the tertiary and quaternary markets in China. Agents in these markets are defined as primary regional agents and secondary agents, while agents in the primary and the secondary markets are defined as large chain stores and primary regional agents, as shown in Figures 6-1 and 6-2.

Fig. 6-1: Structure of Rainbow's Marketing Channel System in the Tertiary and Quaternary Markets
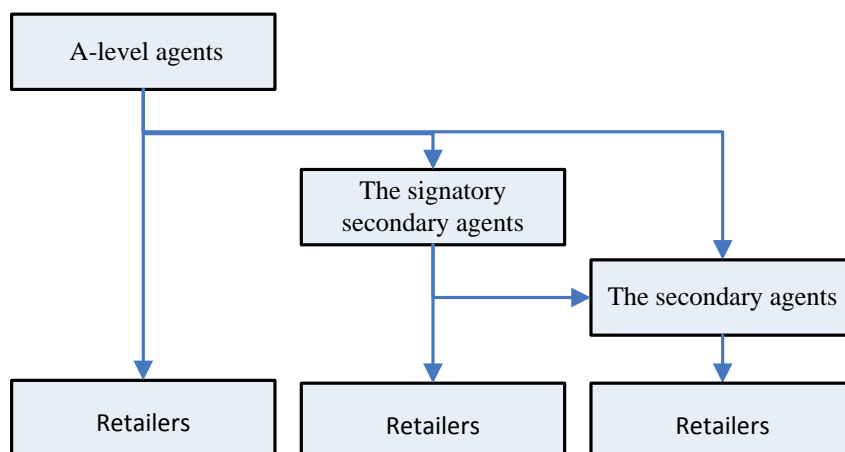
Source: Organization Chart of Rainbow's Marketing System in 2012

Fig. 6-2: Structure of Rainbow's Marketing Channel System in the Primary and Secondary Markets
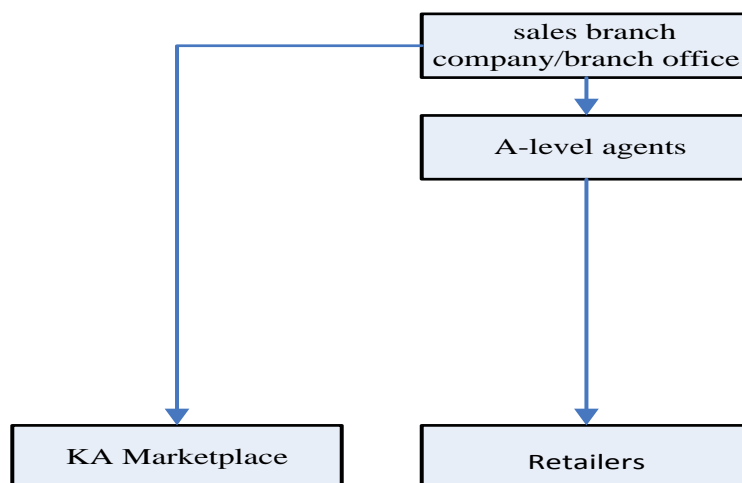
Source: Organization Chart of Marketing System of Rainbow company in 2012

Considering that the production technology of products for epidemic prevention continues to mature in China and tends to become homogenous, brand influence and market share of products are important indexes to reflect the substitutability of manufacturers. In Rainbow's current classification, the company has a large brand influence and market share in Sichuan, Yunnan, Guizhou, Chongqing and Guangxi, as well as in external Southwest areas. Figures 6-3 and 6-4 show the channel relationships between the tertiary and quaternary markets as well as the primary and secondary markets of Rainbow Company. PC refers to the commitment level of manufacturers, while MC refers to the commitment level of agents.

Fig. 6-3: Model of Channel Relationship between the Tertiary and Quaternary Markets of Rainbow Company
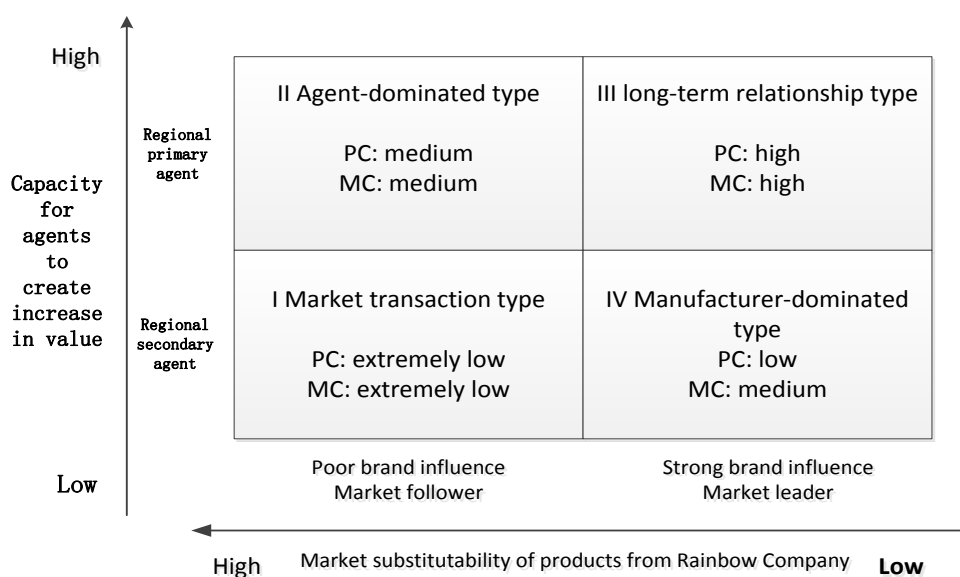
Source: The author

Fig. 6-4: Model of Channel Relationship between the Primary and Secondary Markets of Rainbow Company
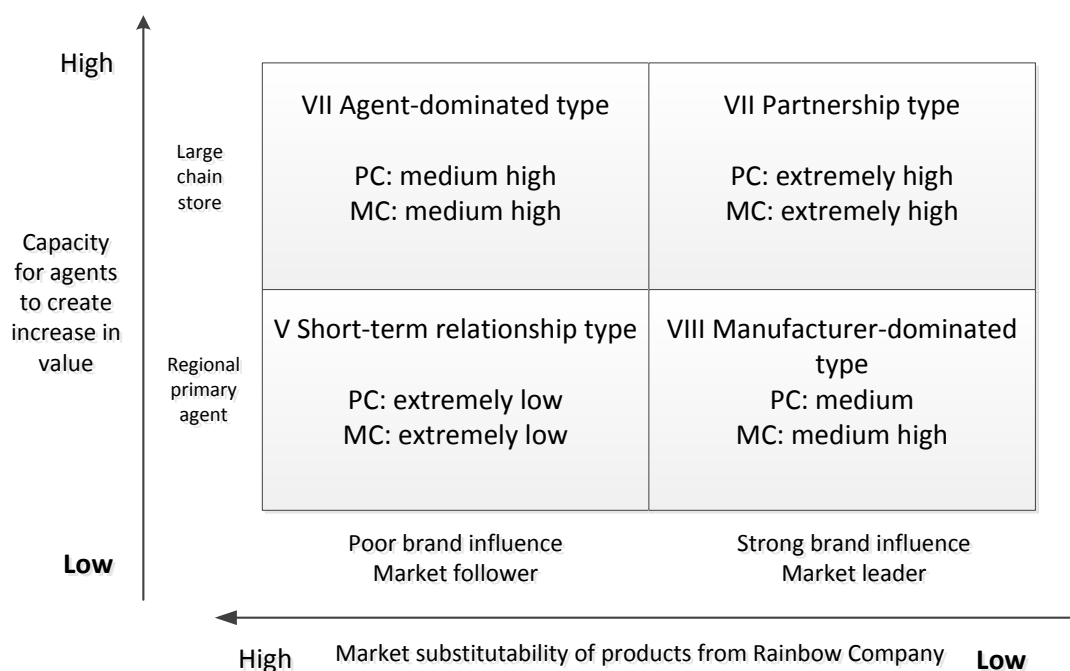
Source: The author

Having established the selection model of channel relationships of Rainbow Company, we analyze the capacity of agents to create increased value for downstream channels and the market substitutability of products from Rainbow Company in different levels of the market. The relationship between Rainbow Company and channel agents is classified into eight types (each area represents a type of channel relationship in the model). When the combination of external environmental elements and particular elements of the channel system in each area is different, the channel powers of Rainbow Company and channel agents, as well as the channel coordination desire and efforts of both parties differ, thus presenting different commitment levels.

6.1.3 Selection of channel relationship of Rainbow Company

According to the channel relationship model, Rainbow Company shall, with reference to brand influence and share of products in different levels of the market, allow for the capacity of each channel agent to create increased value for downstream channels and to establish channel relationship at different commitment levels with each channel agent.

In the tertiary and quaternary markets, channel relationships between Rainbow Company and channel agents are as follows:

（1）When the products of Rainbow Company are market followers in regional markets, the brand influence is poor, and the capacity of channel agents to create increased value for downstream channels is rather low, the channel relationship between the Company and the secondary agents assumes a market transaction type. Both the poor channel value and the rather high substitutability of products lead both parties of the channel to lack a driving force that could establish a close channel relationship. The commitment levels of both parties are then the lowest and all issues to be resolved resort to the general transaction mechanism in the market.

（2）When the Rainbow's products are market followers in regional markets and the brand influence is poor, while the capacity of channel agents to create increase in value for downstream channels is rather high, the channel relationship between Rainbow Company and the agents is of agent-domination type. These agents are generally the primary agents governing an area. They have rather strong market development capacity and relatively sound regional sales networks. They also establish stable and coordinated channel relationships with downstream agents and retailers and have the capacity to create increase in channel value. However, they allow little room to meet the needs of Rainbow Company and sell the same type of products from its competitors. Compared to Rainbow Company, their commitment levels are rather low. In this case, Rainbow should strive to establish a close cooperative relationship with primary regional agents to ensure the increase in sales volume of its products.

（3）When the products of Rainbow Company are the market leaders in regional markets, the brand influence is large, and the capacity for channel agents to create increase in value for downstream channels is rather high, the channel relationship between Rainbow Company and the agents is a long-term cooperation relationship. Under this circumstance, both parties can maintain a stable and continuous competitive advantage and profit from close cooperation. In addition, a relatively stable environment in the tertiary and quaternary markets provide conditions for both parties to establish a long-term and stable cooperative relationship and the commitment levels of both are rather high.

（4）When the products of Rainbow Company are the market leaders in regional markets and the brand influence is large, while the capacity for channel agents to create increase in value for downstream channels is rather poor, the channel relationship between Rainbow Company and the agents is of manufacturer-domination type. In this case, the channel commitment level of channel agents will be typically higher than that of Rainbow Company

in order to continuously transact products of Rainbow brand and get support from its marketing channels.

In the primary and secondary markets, there are many uncertainties in the channel environment, and a high number of manufacturers fiercely compete with each other. For the time, the importance and necessity of strengthening coordination and cooperation among channel members are prominent. In the tertiary and quaternary markets with rather stable environment, Rainbow can mainly pay attention to correct location of channel relationship and cultivation of channel agents in accordance with the market sales trend of products, while in the primary and secondary markets with complex and changeable external environment, how to establish close coordination and cooperative relationships with all channel agents to enhance commitment levels of channel members and to lower the risk of environment uncertainty by forming and exerting overall advantage of the whole channel value chain is especially important. In the primary and secondary markets, there are four channel relationships between Rainbow Company and channel agents as follows:

（1）When the products of Rainbow Company are the market followers in the primary and secondary markets, and its brand influence is poor, while the capacity for channel agents to create increment of value for downstream agents is also low, then the channel relationship between the Company and primary regional agents is the short-term relationship. The unstable and short-term relationship is common in regions out of China's Southwest where Rainbow Company dominates. Obviously, under the circumstance of uncertain external market environment, the relationship dissatisfies both parties. Rainbow is required to coordinate and cooperate with primary regional agents with respect to each link and improve the cooperation level of both parties to meet the demands of end customers.

（2）When the products of Rainbow Company are the market followers in the primary and the secondary markets, and the brand influence is poor, while large chain stores have noticeable control advantages over terminal marketing thus gaining rather high capacity to create increment of value for marketing channels, the channel relationship between Rainbow Company and these large chain stores is the agent-domination type. Currently, in the primary and the secondary markets, the control capacity of large chain stores over consumption terminals is beyond comparison to any other channel agents. Relying on abundant capital, large-scale business and trans-regional chain operations, large chain stores form a professional and high-efficient retail terminal with large coverage, playing the channel leader role. Thus, in terms of Rainbow Company, when its products have no brand influence in

regional markets, the Company can only adopt the strategy of providing large chain stores with even a higher level of channel commitment and actively establish a closer and more stable channel relationship with chain stores.

（3）When the products of Rainbow Company are the market leaders in the primary and the secondary markets, and the brand influence is high, while large chain stores also have noticeable channels to create increment of value, the channel relationship between Rainbow Company and these large chain stores is a true partnership. Nowadays, in the primary and the secondary markets within Sichuan Province and fewer parts in Yunnan, Guizhou, Chongqing and Guangxi, Rainbow products have noticeable brand influence and dominance in the market, while large chain stores have rather strong capacity of channel value increase. Both parties recognize that the value of close cooperation and the commitment level of both parties is rather high, thus the channel relationship is close and stable. In order to obtain new channel competitive advantages in the future uncertain market, Rainbow Company shall fully cooperate with large chain stores regarding market sales statistic analysis and sales prediction, joint price decision, joint promotion, logistics delivery and after-sales service to further strengthen the partnership among channel members and jointly enhance the coordination capacity and value-added capacity in the whole channels of the region.

（4）When the products of Rainbow Company are the market leaders in the primary and the secondary markets, and the brand influence is high, while the capacity for channel agents to create increment of value for downstream channels is rather low, the channel relationship between the Company and primary regional agents is the manufacturer-domination type. In most areas of Yunnan, Guizhou, Chongqing and Guangxi, as well as part of Southwest area, the products of Rainbow Company have a rather strong brand advantage. However, the capacity for primary regional agents to create increment of value for channels is rather poor. How to select, develop and support appropriate channel agents for further coordination in the interest of both parties and for enabling agents to actively work in the marketing development strategy of Rainbow Company, as well as how to promote effective development and improvement in channel functions, is the important issue currently required to be solved.

What we want to emphasize is that there are differences in channel commitment levels both by Rainbow Company and channel agents in different hierarchy regional markets. In the primary and the secondary markets, the channel commitment level by Rainbow Company and channel agents is higher than that in the tertiary and the fourth regional markets. Rainbow Company shall select and establish the channel relationship with appropriate commitment

level to realize optimization in channel relationship in accordance with different external market environments and the power for the Company to bargain with channel agents. In addition, faced with changes and fierce competition in the current market channel environment of domestic appliances for epidemic prevention, Rainbow Company shall integrate its marketing channel resources and optimize the marketing structure. This will be discussed next.

6.2   Marketing channel integration of Rainbow Company

Rainbow integrates its marketing channels to satisfy requirements for the market and industrial development so that it gets greater control over marketing network channels by lowering the operating costs of the marketing channels and improving their efficiency, transferring channel focus to end customers from agents and meeting market demands in a better way, thus enhancing market share and increasing enterprise profit.

6.2.1   Conceptual basis of marketing channel integration

Marketing channel integration can be understood in two ways, including integration of structures among channels and integration of channel functions within marketing channels.

（1）Integration among channels

Integration among channels refers to a situation where each marketing channel in a multi-channel marketing system independently burdens its sales function and realize product sales to improve market coverage and the sales volume of products, while each marketing channel in the integration is independent of each other (Xiong Yahan, 2007). Generally speaking, integration among marketing channels is a specific structure of marketing channels. For example, multi-channel system is generated from the integration among marketing channels.

There are three types of strategies of integrating marketing channels (Zhao Juan, 2007):

a) Intensive strategy: intensive channel strategy refers to a situation where enterprises make use of multiple marketing channels in some segmented markets and where service areas and objects of each channel are overlapped and compete with each other.

b) Selective strategy: selective channel strategy refers to a situation where enterprises make use of an independent marketing channel in a certain segmented market and where

service areas and objects of each channel are free from overlapping or competing with each other.

c) Hybrid strategy: hybrid channel strategy refers to a situation where enterprises adopt a blend of two channel strategies rather than one intensive or selective channel strategy. With a hybrid strategy, enterprises can make use of intensive channel strategy in a larger market and utilize a selective channel strategy in the segmented market of main products. Their primary objective is to provide more efficient and better quality services to major target markets of main products or to important customers while enhancing market share and sales volume.

Table 6-1 Illustrates the different capacities of marketing channels

	Face-to-face promotion	Indirect marketing	Direct-mail marketing	Telemarketing	Online marketing
Capacity of information communication	Strong	Less strong	Poor	Average	Average
Meet customization	Strong	Average	Poor	Poor	Average
Buying Risk	Low	Low	High	Average	High
Customer service support	Strong	Strong	Poor	Poor	Poor
Sale price	High	High	Low	Average	Low

Source: The author adapted/expanded from CaoYing, 2008

Generally, face-to-face promotion shows the strongest capacities in channel models in elements such as information communication, meeting customization, risk control and customer service support, yet these channels indicate the lowest efficiency and the highest cost. From the view point of customers, different target customers have different channel preferences and different purchasing criteria and even the same customer can have varied purchasing criteria for different products in different places. Obviously, the hybrid marketing strategy is a necessary strategy for enterprises due to differences in channel capacity, customer diversity and diversity in purchasing behaviors of customers.

2. Integration within channels

Integration within marketing channels refers to a situation where each marketing task is distributed to the marketing channel with channel service capacity and relatively low channel operating costs in accordance with the principle that priority shall be given to marketing operating costs so that all marketing channels are recombined in a system at a minimum cost (Huang Xin, 2010).

Purchase decision of consumers generally includes five interconnected processes: emergence of purchase motive, collection of purchase information, evaluation of purchase

plan, purchase implementation and assessment after purchase. In response, the marketing process of enterprises can be divided into five interconnected marketing tasks: seeking potential customers, customer confirmation, sales, after-sales service and customer management.

Before integration within marketing channels is completed, all five marketing tasks of marketing process are achieved by a single channel, as shown in Table 6-2.

Table 6-2 Completion of All Marketing Tasks by A Single Channel

	Seek potential customers	Customer confirm	Sales	After-sales service	Customer management
Face-to-face promotion	√	√	√	√	√
Indirect promotion					
Telemarketing					
Online marketing					

Source: The author adapted/expanded from CaoYing, 2008

After channel integration, marketing tasks are jointly achieved by each channel, as shown in Table 6-3.

Table 6-3 Completion of Marketing Tasks by Multi-channel Combinations

	Seek potential customers	Customer confirm	Sales	After-sales service	Customer management
Face-to-face promotion			√		√
Indirect promotion				√	
Telemarketing		√			
Online marketing	√				

Source: The author adapted/expanded from CaoYing, 2008

It can be seen that in the integration within marketing channels, which is based on the marketing tasks of channels, each marketing task is distributed to the marketing channel which can finish the task in a better way and at a lower cost while meeting customer's needs, thus decreasing the marketing cost of enterprises. Therefore, enterprises design integration within marketing channels to analyze and determine which market channel can finish marketing tasks with high efficiency and lower operating cost.

6.2.2 Analysis of structural development trend of domestic appliances for epidemic prevention in China

Fundamentally, two noticeable trends have prompted changes in the structure of

domestic appliances for epidemic prevention in China. One is the increasing flattening of the channel structure, and the other is the development trend of e-commerce into becoming a main distribution channel.

（1）Increasing flattening of channel structure

Competition among manufacturers became more and more fierce when the industry of domestic appliances for epidemic prevention in China entered a developed period, which makes marketing channel structures comprised of primary and secondary regional agents fail to adapt to market changes and industrial development. As analyzed in Section 3.4, drawbacks in existing marketing channels of Rainbow Company are shown in seven major points: in terms of channel control, it is difficult for Rainbow to effectively control the behavior of channel agents; for channel efficiency, the multi-layer structure obstructs improvement of channel efficiency; for channel cost, the clunky channel structure weakens the price competitive advantage of products; for information communication of channels, the single-way and multi-layered information transfer makes it difficult to precisely and promptly satisfy the feedback needs of end customers.

The above-mentioned problems are just superficial ones existing in the channels. Those more serious lie in the following aspects:

First, agents controlling distribution channels are independent from enterprises, which indicates unconformity in interest demands between agents and manufacturers. Thus, it will be difficult for enterprises to completely control behaviors of channel agents. As the maintenance and development of channel relationship depends on the result of the game for channel power between manufacturers and agents, when the channel commitment levels of the two parties substantially differ and if there is a larger interest lure, the loyalty of channel agents can waver.

Second, distribution channels controlled by channel agents have "shared property", that is to say, competitors of Rainbow Company can share the same channel agent. All support that is provided by manufacturers to channel agents to perfect the network function of the channel can probably be shared by their competitors. For example, in order to improve timeliness in product delivery, manufacturers provide delivery cars for free to channel agents. Although this cars are supposed to be used for delivering products of these manufacturers, yet in fact they benefit all other competitors that supply the same products to channel agents.

Third, it was known from the interviews to middle and senior managers and to store sales

personnel of Rainbow Company that most channel agents, especially primary agents have out-of-date marketing concepts and have never taken professional and systematic training. In turn secondary channel agents and retailers are under poor management and their capacity in market development, maintenance and management is far below the requirements of manufacturers.

Based on the viewpoint of changed status of channel members, domestic appliances for epidemic prevention in China has changed its focus from manufacturers to channel agents, and finally to consumers. As the commercial structure is transferred from a product-oriented to a customer-oriented one, objectively, manufacturers are required to provide more convenient purchase channels for consumers, and make timely response to product purchase demands and service demands of consumers at the same time. Therefore, it is the general trend to abolish traditional multi-layered channel structures, realize improvement in channel efficiency, control channel costs, intensively integrate and timely feedback channel information and realize channel flattening.

（2）E-commerce development towards becoming the main distribution channel

In the future, internet-based economy can have fundamental impacts on traditional economic life, which shall, in turn, lead to obvious changes in consuming psychology and pattern of consumers. Such changes will definitely give rise to comprehensive reconstructing of traditional marketing channels.

With the improvement of the overall online shopping environment in China, the size of online shopping market is significantly growing. According to *the 31st Statistical Report on Internet Development in China* published by China Internet Network Information Center in December 2012, Chinese netizens have reached 564 million and the Internet penetration was 42.1%, an increase of 3.8% compared to the end of 2011. In turn, online shopping users have reached 242 million and the popularity rate of online shopping has increased to 42.9%. Compared to 2011, online shopping users increased by 48.07 million and the growth rate is 24.8%. According to China Online Shopping Research 2011-2012 published by iResearch Group, in 2011, the market transaction of online shopping in China added up to a total amount of 766.58 billion (104.627 billion Euro) and the annual growth was 66.3%. It is estimated that the marketing transaction scale of online shopping in 2013 will reach 1568.89 billion (214.130 billion Euro; the actual transaction scale of Chinese shopping online market in 2013 reached 1885.10 billion yuan, equivalent to 257.29 billion Euro) and the size of transactions will rapidly continue to grow.

In terms of the transaction model of online shopping market, B2C transaction volumes in the online shopping market of 2011 was RMB 180.3 billion (EUR 24.608 billion) and it accounts for 23.5%, while C2C transaction volume accounts for 76.5%. It is estimated that in 2015, B2C transaction volume will account for 40.7%, while that of C2C will decrease to 59.3%. B2C model will definitely become the core in the future development of online shopping.

In terms of the transaction way of online shopping, the utilization rate of both online group purchase and mobile e-commerce apps remains in high growth. The growth rate of user scale for the three mobile Internet apps of group purchase by cell phones, online payment by cell phones and online banking of cell phones are all over 80%. (*Annual Monitoring Report of Shopping Online in China in 2011-2012* published by iReseach)

In terms of product segmentation in online shopping, there is obvious advantage in the user flow covering general merchandizes of domestic hygiene products. The purchase rate of commodities is high and scale sales is possibly to emerge. For example user demands of clothes, shoes, bags continue to increase. Brand styles are diverse and the level of sales fluctuates with seasons.

In terms of e-commerce, in 2011, the speed increase in the scale of B2B e-commerce market of small and medium-sized enterprises was 35.7% and the transaction scale was over RMB 3400 billio n(EUR 478.72 billion). The number of small and medium-sized enterprises with e-commerce application capacity is more than 48 million, and it increases with the rate of 8% each year, wherein, the proportion of small and medium-sized enterprises launching online sales is 25.3%. (*Annual Monitoring Report of Shopping Online in China in 2011-2012* published by iReseach Group)

Obviously, China Internet-based economy is going to a high stage and is developing at top speed. E-commerce is increasingly becoming the mainstream distribution channel. Theoretically, in the consumer-oriented commercial era, the 4P (product, price, place and promotion) demand of marketing management is fully and effectively combined with 4C (customer, cost, convenience and communication). Features of online marketing precisely conform to 4C requirements of dominance by consumers, low cost, convenience of use and fast communication. In addition, under the practical environment where large chain stores hold "discourse power" of channels and market competition is more and more fierce, to push online marketing forward is also a necessary means for enterprises to lower the operating cost of channels and strengthen channel control. Moreover, for domestic appliances for epidemic

prevention like Rainbow's products, its standardization is rather high and the degree of asymmetry due to product acknowledgment information by consumers is low. In this case the necessity of product sight-experience is not high so the product is suitable for trade in online marketing. Considering all the above Rainbow Company shall develop an online marketing channel and take it as one of the main channels for sales in the future.

6.2.3 Integration analysis on marketing channel of Rainbow Company

The integration of the marketing channel shall meet simultaneously the requirements of economical efficiency, controllability and adaptability.

For economical efficiency, firstly, a comparison of different sales and cost of various channels shall be made; secondly, the contact of channel shall be matched with cost. Research conducted by Ren Dapeng and Liu Peng (2007) shows that the income of different channel structures selected by manufacturers shall generally depend on two important variables, namely the balance between direct selling price of manufacturer and price sold to middleman, and the unit cost of the product. The manufacturer shall make an integrated analysis on the two factors to ascertain the selection scheme of the channel. Besides, the contact between channels and customers is directly related to the sales cost of the channel. High contact channel can provide more services in the sales process of products and create more value as well as higher operating cost while the service and support provided by lower contact channels are limited, although with lower operating cost than the higher one (see Fig. 6-5).

Fig. 6-5 Comparison of Contact and Sales Cost of Channel
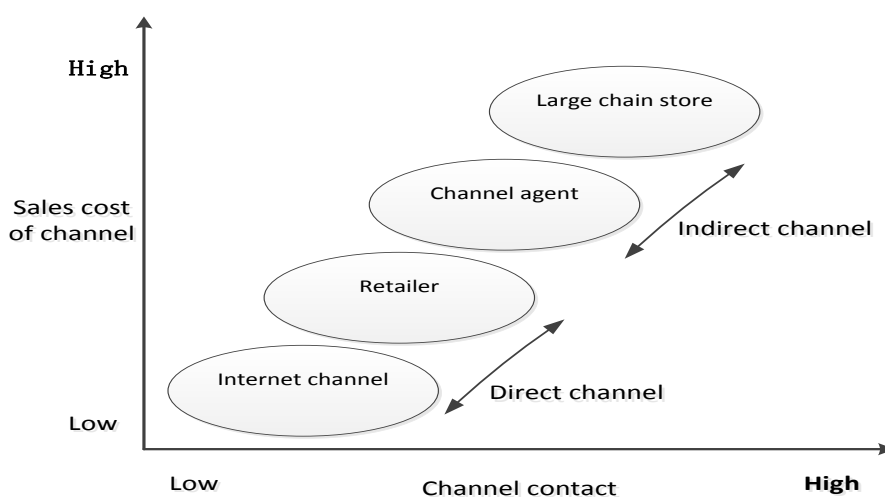
Source: The author based on the relevant literature (Ren Dapeng, Liu Peng, 2007)

The differentiation of brand influence and market competitiveness in various areas and markets is different due to the existence of many series of products in Rainbow Company,

which causes different interrelation with middlemen/customers, product service capacity and range. Therefore, diversified marketing channels are applicable to the company.

From a technical level, the controllability refers to the control ability of demand processing, distribution, sales, financial revenues and after-sales service in the transmission process on the channel value chain of products made by manufacturers, including the transformation of product advantages of manufacturers to sales promotion advantages by channel agents through professional sales teams. From the viewpoint of the manufacturer, this is exactly the control power of Rainbow Company over the channel agent in the marketing channel.

However, as mentioned in Section 1 of this chapter the main problem in the channel power is how this power is distributed. The relations established between manufacturers and channel agents shall be dependant on the bargaining power of both parties. In other words, the controllability of manufacturer on the marketing channel of the channel agents depends on the gambling relations between added value created by channel agents and market substitutability of products of Rainbow Company under different external market environments.

Adaptability includes two aspects; one is for adaptive customer behavior and marketing channel structure; and another is the adaptability between products of Rainbow Company and the marketing channel structure.

For the second point, on the basis of the above discussion, domestic products for epidemic prevention like those of Rainbow Company are a kind of daily necessity with strong seasonality and higher standardization level. There is also a low degree of asymmetric information of the customer towards product cognition as well as a low necessity of real experience of the products. Therefore, a mixed-type channel model including online marketing channel shall be applicable.

For the first point, most research accepts that the demand factor of customers or customer demand level is the result of channel structure, but more important, the marketing channel structure is formed according to the interaction between manufacturers, middlemen, and customers. According to Bert Rosenbloom (2011), the leading variables influencing the formation of marketing channel structure are as follows: market variables, product variables, enterprise variables, middleman variables, behavioral variables and external environment variables (see Table 6-4). The six variables affect and determine the type and structure of the marketing channel from different aspects.

Table 6-4 Effect Variables of Marketing Channel Structure

Marketing variable	Number, distribution, attitude and purchasing behavior mode of customer
Product variable	Volume and weight, unit value, inventiveness, technicality and durability of products.
Enterprise variable	Business capital status, scale, channel management and control ability.
Middleman variable	Expense cost, availability and service level of channel
behavioral variable	Conflict resolution and control ability of channel mode
Environment variable	Economy, social culture, competition, technology and politics.

Source: The author based on the relevant literature (Bert Rosenbloom, 2011)

Market and product variables have influence on the buying demand and purchasing behavior of customers simultaneously; enterprise, middleman, market variables and behavioral variables formed by the interaction of manufacturer and middleman reflect the relative potency among channel members and structural relationship of these members. Accordingly, the six variables influencing the marketing channel structure can be reduced to two factors, namely consuming behavior factor of customers and relative power of channel members (Zhang Pingdan, Wang XiaoFan 2009) as shown in Fig. 6-6.

Fig. 6-6 Classification of Influencing Factors for Channel Structure
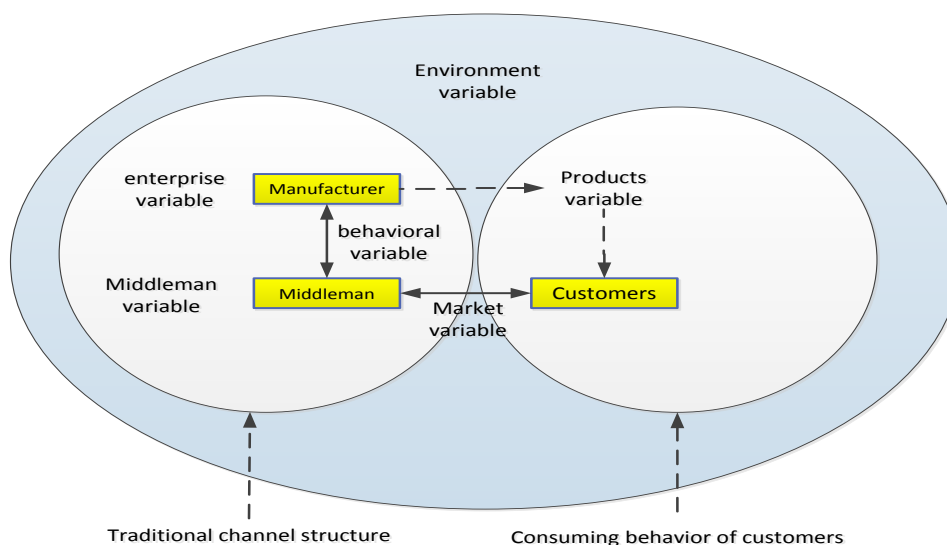
Source: Zhang Pingdan, Wang XiaoFan, 2009

According to different value appeals and consumer preferences of the consumer group, the consuming behavior of customers can be divided into three classes (He Yuan, 2012), namely function/price consumption model, brand consumption model and symbol consumption model. At the same time, the relative power of channel members can be divided into three classes in accordance with the theory of channel diagonal line, namely

manufacturer-dominated, middleman-dominated and customers-dominated (Yang Hui, 2002). The integration of relative power among consuming behavior of customers and channel members has constituted the composite mode of channel structure (see Fig. 6-7).

It shall be stated that the purchasing target of customers is the brand of the manufacturer under brand model and symbol consumption model, so the middleman and customer-domination channel structures do not exist. Meanwhile, domestic appliances for epidemic prevention of Rainbow Company are daily necessities, they are neither high-end shopping goods nor luxury products. As a result, in the manufacturer-domination channel structure, value feeling and environment experience are restricted, which makes it difficult to form the channel structure taking the brand model and symbol consumption model as major characteristics. In other words, there are three typical channel structure types in general meaning for domestic appliances for epidemic prevention of Rainbow Company, namely channel structure with effective distribution, channel structure of shelf display and channel structure with convenient terminal.

Fig. 6-7 Channel Structure Type Based on Relative Potency of Channel Members and Consuming Behavior of Customer
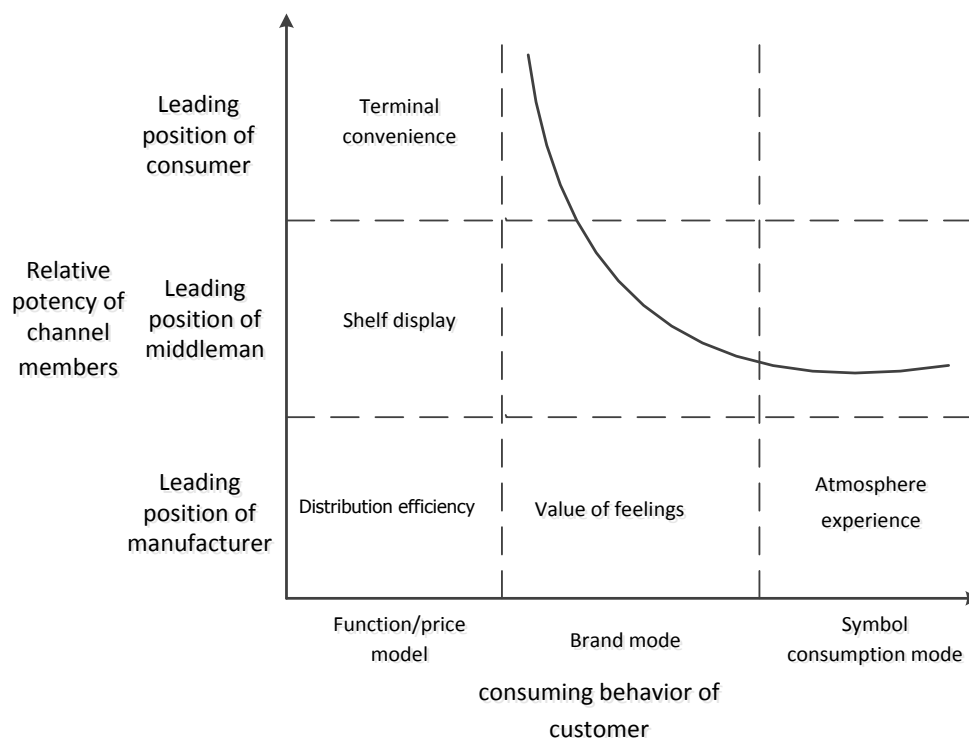
Source: The author adapted/expanded from He Yuan (2012) and Yang Hui (2002)

According to the above analysis, more attention shall be paid to the distribution efficiency brought by channel integration to bring seasonal household appliances for epidemic prevention, numerous in variety, in the quantity demanded and with a broad sales scope to

consumers. To this aim, Rainbow Company should improve the structure of marketing network consisting of primary regional agents – secondary agent signed by region – secondary regional agent – retailer. When middlemen (large chain store and primary regional agent) hold the leading position in the channel relation, channel integration shall be focused on extending the scope of shelf display. The larger the effective sales area of products, the larger corresponding sales volume is, a situation that is more obvious when the consumer takes a leading position in the channel relation under the online marketing environment. Then, channel integration shall be focused on the purchasing convenience of customers and distribution speed of products.

6.3 Optimization ideas of marketing channel and integration framework for Rainbow Company

According to the analysis and discussion in the above sections, the basic idea of improving and optimizing Rainbow's marketing channel is to promote the transformation from the current marketing channel model of product promotion to customer driving through an integration system including channel relations, channel structures, marketing channel information network system and function adjustment of channel terminals.

6.3.1 Optimization of ideas of marketing channel for Rainbow Company

（1）Integration of channel relationship and establishment of channel strategic alliances

The capacity of channel agents to channel value increment should be considered according to brand influence and market share of products in Rainbow Company under different markets (primary and secondary market, tertiary and fourth market) to establish the channel relationship of different commitment levels with channel agents.

（2）Improvement of channel structures to respond to future development trend

According to the principle of channel structure integration which meets the requirements of economical efficiency, controllability and adaptability, the relative power of consuming behavior and channel members shall be considered to adapt to the development tendency of channel structure for domestic appliances for epidemic prevention in the future. Three typical channel structures shall be emphasized for integration, namely channel structure with effective distribution, channel structure of shelf display and channel structure with convenient terminal.

（3）Construction of information network system for interactive marketing

Logistics distribution, product sales, information communication, customer management, and after-sales service shall be integrated through the internet platform to respond to the development of future Internet-based economy and integrate marketing channel information flow, fund flow and logistics for improvement of channel operating efficiency, realization of interactive marketing, and creation of new marketing channel value increment.

（4）Adjustment of channel terminal function and strengthening of channel control

The cooperative relationship between large chain stores and retail chain stores shall be strengthened in the primary and secondary markets to realize the corresponding unification of price controlled by the Marketing Department of Rainbow Company, product display rack area expanded by large stores and retail chain stores, and marketing implementation plan and after-sales services carried out by promoters. In the tertiary and quaternary markets, channel terminal function shall be adjusted for cooperative distribution with channel agents.

6.3.2　Integration framework of marketing channel for Rainbow Company

（1）Relation integration of marketing channel

According to the established selection mode of channel relationship for Rainbow Company, the relation between the company and channel agents is divided into eight types in different markets. In the eight relations, the market transaction relation between secondary regional agents and Rainbow in the tertiary and quaternary markets, and the short-term relation between regional agents and Rainbow Company in the primary and secondary markets shall be the focus of the integration.

There are two approaches to implement integration of market transaction channel relations. One is to implement an ability improvement plan for the channel agents and improve the commitment level of Rainbow Company towards channel agents and the cooperative level of the parties. The other is to make necessary separation or combination of primary regional agents to secondary channel agents to ensure stability and sustainable development of the entire channel relationship within the region (see Fig. 6-8). For the other three relations, namely agent-domination, long-term relation and manufacturer-domination, their long-term stable and closed channel relationship between parties shall be implemented by constructing strategic alliances within the channel.

Fig. 6-8 Integration Approaches for Channel relationship in Tertiary and Quaternary Markets
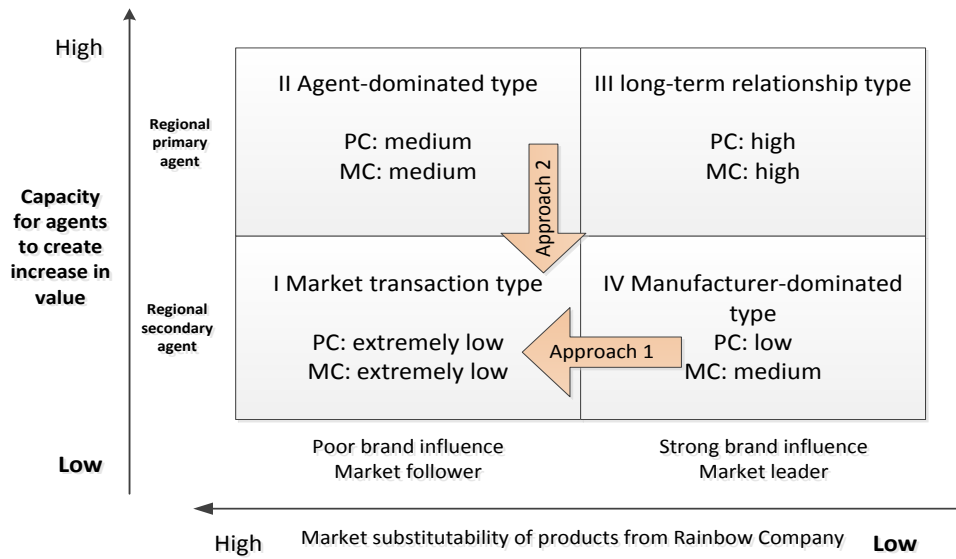
Source: The author

There are also two major approaches for the integration of short-term relation channel, namely by transferring the focus on primary channel agents who favour products of Rainbow major competitors to large chain stores and find new channel agents again. If the primary regional channel agent is important, the manufacturer-dominated channel management principle shall be insisted on, and the purpose of primary regional agents is mainly to open up and maintain secondary agents (see Fig. 6-9). Equally, the integration direction of the other two channel relationships (agent-dominated and manufacturer-dominated) shall be transformed to partnerships with strategic alliances within the channel.

Fig. 6-9 Integration Approaches for Channel relationship in Primary and Secondary Markets
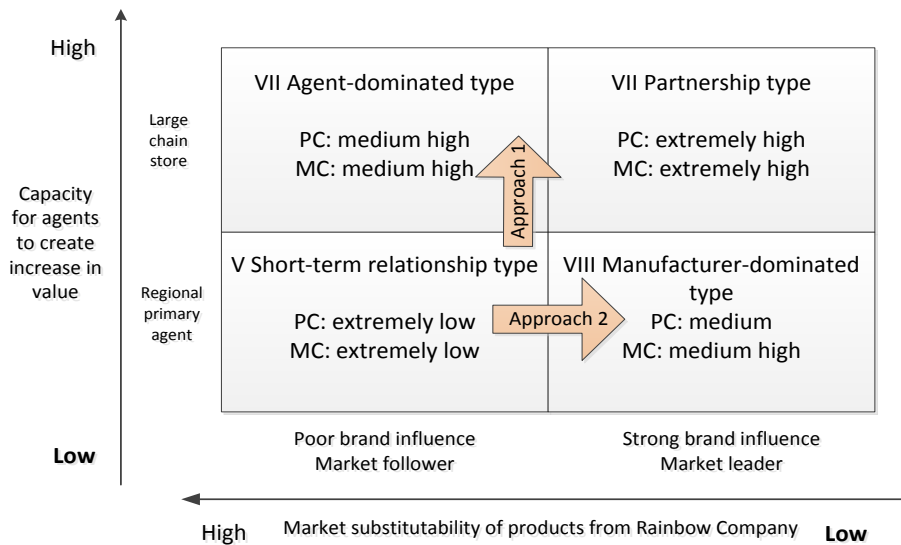
Source: The author

The current sales areas of Rainbow Company are divided into three parts, namely Sichuan, Yunnan, Guizhou, Chongqing and Guangzhou and areas beyond southwest China, in a total of 75 sales areas. Each sales area shall have a primary regional agent. Rainbow Company shall make overall analysis on all sales areas by combining marketing strategy planning of the company and evaluating channel relationships of different markets to make necessary adjustments on the channel relationship, including combination and separation of sales areas to realize system integration for channel relationship.

（2）Improvement of channel structure

The main objectives for improving a channel structure are to form complementary advantages of channel structures and obtain overall advantages in the channel value chain. On the basis of realizing integration of the channel relationship, the advantages of traditional channel structures for manufacturer-dominated type with effective distribution and middleman-domination type with shelf display shall be fully developed. At the same time, Rainbow should strive to develop the channel structures with convenient terminals characterized by online marketing and construct mixed-type marketing channel structures, as shown in Fig. 6-10.

In an online marketing channel, marketing through the official website of the enterprise requires the manufacturer to hold the leading position in overall targets. The channel is then provided with more intermediate links of the product supply chain and direct conflict with current marketing channels will occur. Therefore, it is not applicable to Rainbow Company. Instead, the B2B network platform of third party is an important platform for Rainbow Company to make transactions with large chain store and customer groups. The marketing channel with convenient terminal of Rainbow Company is mainly realized by official flagship stores of third-party network shopping platform and B2C platform of third-party dealers.

According to *Annual Monitoring Report of Shopping Online in China in 2011-2012* published by iReseach Group, B2C markets of Tmall (Taobao Mall) occupied 51% of market shares with total business amount of RMB 92 billion (EUR 12.52 billion) in 2011. Jingdong Mall accounted for 17.1% and the transaction volume was over RMB 30 billion (EUR 4.08 billion). The proportion of the two companies was nearly 70%. In addition, the transaction volume of these two online shopping platforms achieves the goal that annual growth rate is more than 200%. Obviously, Tmall and Jingdong Mall, which are the two third party network B2C dealers, shall be the main partners for Rainbow Company to establish online marketing channels.

Fig. 6-10 Design on Mixed-type Marketing Channel Structure for Rainbow Company

Mixed-type Marketing Channel Structure
of Rainbow Company

manufacturer (B)	Marketing channel →	middleman (B)	Marketing channel →	User (C)

manufacturer	Traditional distribution channel		Agent Dealer Distrib-utors Retailer	Traditional retail channel		Individual consumer
	Internet	Marketing in enterprise's website		Internet	B2C platform in enterprise's website	
		B2B network platform in third party			Official flagship store for online shopping in third party	
					Online dealer of third party B2C	
	Mobile Internet			Mobile Internet		

Central parts of channel: Demands/order - information flow | Payment - fund flow | Distribution and after-sales services - logistics

Purchasing link of internet customer:
Consulting manufacturer/product information | Place an order | Payment | Wait for goods | Payment | Return/exchange of goods

Support of cooperative partner	Technical services	E-commerce agency-operation	Network operation/marketing solutions for E-Commerce	Outsourcing customer service for disciplines	Channel management tools

Support system of foundation	Production system	Network infrastructure	Financial settlement system	Logistics system	Customer service system

Source: The author

In addition, Rainbow Company also should pay attention to new ongoing changes in the consuming behavior of terminal customer with the rapid development of mobile internet where the majority of e-commerce tends to go (Wang Haiyan, 2010). Compared with 2011, the proportion of online shopping through a cell-phone by mobile phone users has increased

by 6.6% and the amount of users is 2.36 times of the last year. In addition, the increasing speed of user scale of group purchase through mobile phone and mobile phone bank has exceeded 80%. (*Annual Monitoring Report of Shopping Online in China in 2011-2012 published by iReseach Group*). Therefore, Rainbow Company shall take precautions to continuously enhance the basic support system of its marketing network, strengthen partnerships and reinforcing the core link control of the purchase for network customers.

（3）Establishment of information network system

Undoubtedly, the establishment of a multi-dimensional information integration platform for the enterprise is an important mean to integrate hybrid marketing channel resources, improve operating efficiency of channels, realize interactive marketing process and create new increment of value in marketing channels. In terms of a higher level, the construction of an information network system finally shall realize the integration between foreground e-commerce system of enterprises and the background application system which includes enterprise supply chain, finance, customer relationship management, production and manufacturing and decision analysis as per details shown in Fig.6-11.

Fig. 6-11 Integrated Structure of Information Network System of Rainbow Company
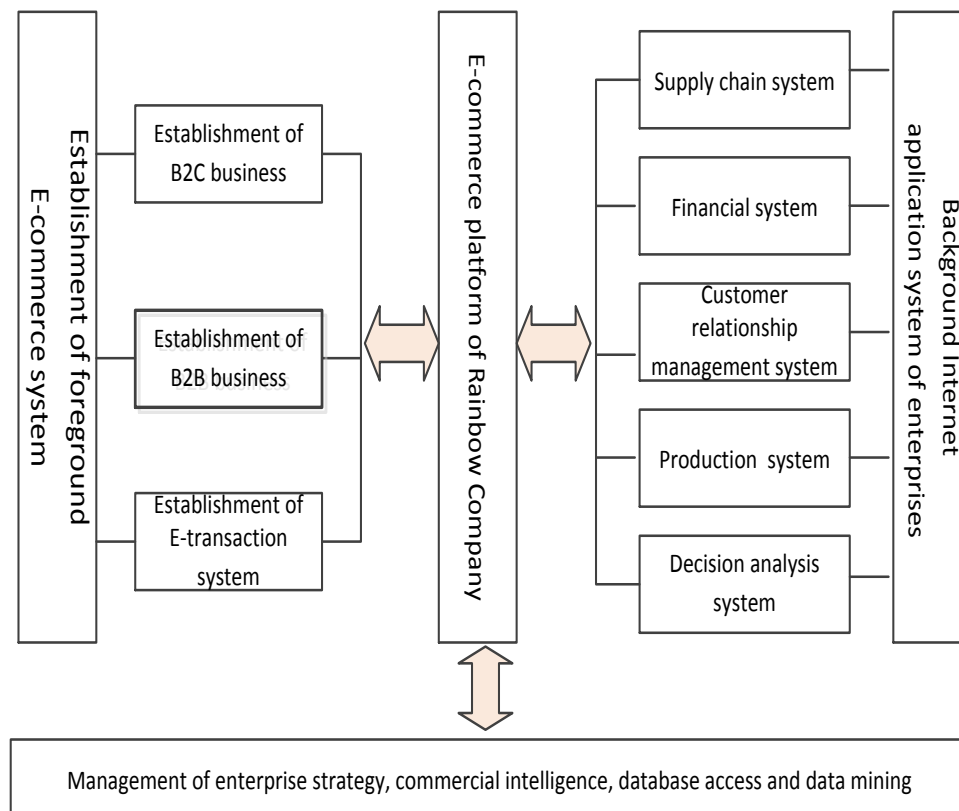
Source: The author

In sum, Rainbow Company shall establish a website providing customers with convenient search, complete information, comprehensive and true contents on the website, as well as a rather strong sense of recognition. Fig.6-12 shows the content and structure to be included in the future website homepage design of Rainbow Company.

Fig. 6-12 Structural Design Drawing for Homepage of Website of Rainbow Company
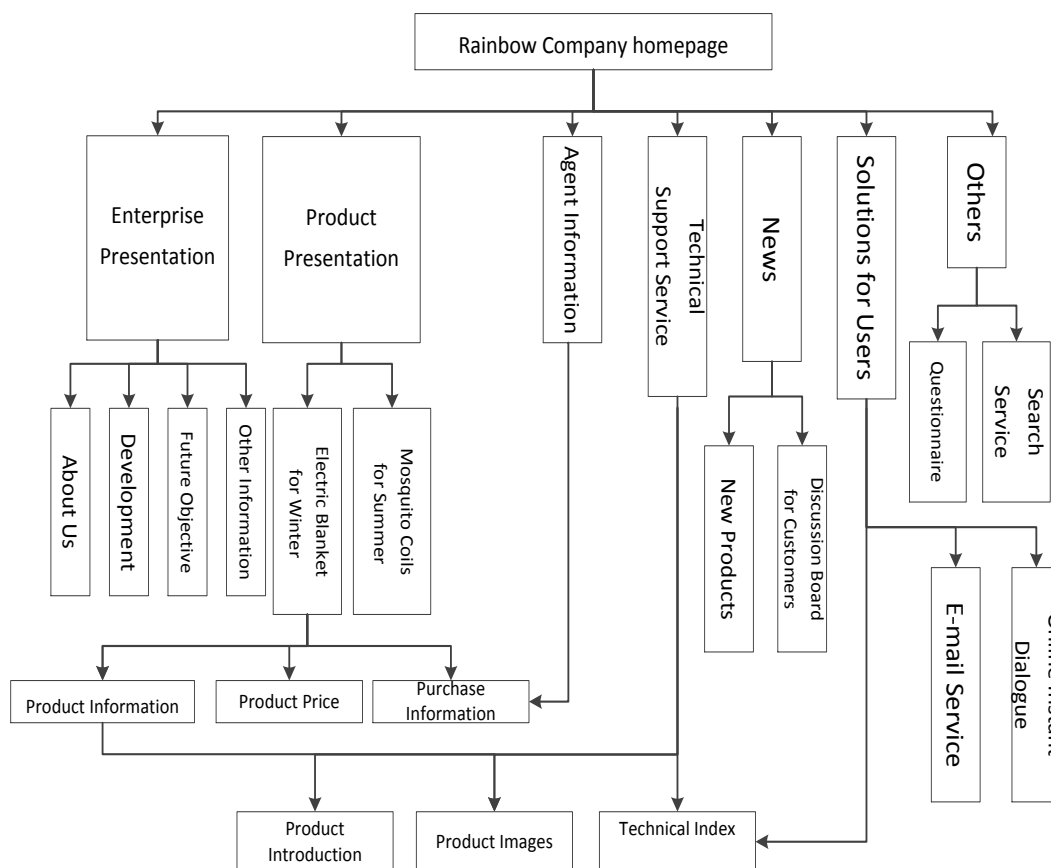
Source: The author

（4）Adjustment of channel terminal functions

In the primary and secondary markets, channel management scope of Rainbow Company shall be appropriately extended in advance. Besides strengthening price, promotion, product demand and supply plan management, the marketing representative business agency shall understand product sales, strengthen market management of the whole region and provide primary regional agents with technical support regarding product display, promotion, shopping guide, image management within stores and after-sales service while the agents complete distribution, product storage and logistics delivery. In the tertiary and the quaternary markets, Rainbow Company shall provide marketing policy guidelines in principle, and primary regional agents shall accordingly exert the channel terminal functions in the primary and secondary markets of Rainbow Company, while secondary regional agents shall exert the

channel terminal function in the primary and the secondary markets of primary regional agents. Fig.6-13 shows the adjustment proposed for the channel terminal function of Rainbow Company.

Fig. 6-13 Adjustment of Channel Terminal Function of Rainbow Company

Functions in charge of Rainbow Company	Functions in charge of agents

Price	Promotion	Service	Market management	Product display	Order acquisition	Product delivery	Product storage	Settle payment
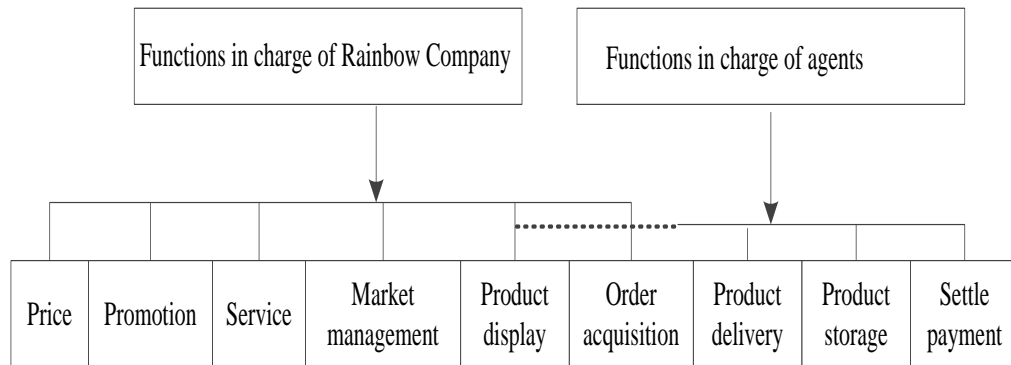
Source: The author

Chapter 7: Implementation of the Optimization of Rainbow's Marketing Channel

This chapter analyzes the specific implementation of optimizing the marketing channel of Rainbow Company revolving around channel control, channel establishment and channel development after determining the basic ideas of optimizing the marketing channel and the channel integration frame of Rainbow Company. In terms of channel control, the key is to enhance the system construction of a channel agent and structure marketing channel alliances; in channel establishment, eliminating conflict factors between traditional marketing channels and online marketing channels and then vigorously developing online marketing channels are the main concerns; in channel development, optimizing organization structure of the marketing channel and reasonably designing incentives and an assessment mechanism of marketing teams are at stake.

7.1   Construction of strategic alliances for marketing channel

The basic way of transforming channel relationships into a true transactional type partnership is to establish strategic marketing alliances with middlemen and agents. In addition, the construction of channel agents and the integration of dispersive channel agent groups to realize the effective control over marketing channel by Rainbow Company should be enhanced; strategic alliance of marketing channel to form integrated business between Rainbow Company and middlemen should be structured; and a marketing network system with distinct arrangement and harmonious channel relationship to maximize the overall benefits of marketing channel and win-win situation among all parties should be achieved.

7.1.1   Determination of a reasonable distribution price gap

Distribution price gap refers to the differential between the selling price of middlemen and the purchasing price of middlemen from Rainbow Company. The basis is the gross profit demands of terminal retailers and distributors under normal operation. Generally, the distributors are independent economic subjects for the purpose of economic benefit maximization. On the one hand, if the distribution price gap established is too small, it will be difficult for manufacturers to establish long-term stable strategic partnerships with distributors

due to lack of benefit to drive distributors. On the other hand, if the distribution price gap is too large, the market competitiveness of products will be reduced. Therefore, it is important to analyze the distribution cost and profits for determining a reasonable distribution price gap.

The correct pricing order is as follows: first, analyze price elasticity of products and price levels of main competitors to determine the retail price of products; next, conclude and deduce the gross profit demands of terminal retailers by means of nationwide sampling investigation and analysis; finally, reversely deduce the supply price of distributors to terminal retailers.

For determining the distributors' cost, it is essential to assess product distribution vehicles and sales personnel necessary for effective coverage of targets, fixed operation costs and variable costs caused, as well as potential sales of Rainbow Company within this regional market and so on through field investigation and then conclude the rate of distributors, with which the desired distribution price gap will be obtained by adding average profit expectation value of distributors. It is worth mentioning that this price gap is often far greater than that under a multi-level channel systems. For Rainbow, the practice in 2012 has shown that a higher price gap will not cause mutual price rollback in channels as long as agents at all levels strictly follow the requirements for regional distribution.

Besides, in primary and secondary markets with fierce competition, especially in large-scale stores in central cities, price competition must be involved in. In order to control the impact on distribution price gap by ultra-low special price in large chain stores and guarantee the profits of terminal retailers and medium-small convenience stores, it is essential to adopt a variety of classification strategies to introduce some homogeneous varieties exclusive for large chain stores instead of entering marketing channel of medium-small convenience stores. For some varieties simultaneously sold in large chain stores and medium-small convenience stores, such as single-box balmy mosquito-repellent incense mat, Hongzhaji pesticides, or micro-smoke mosquito-repellent incense, the selling prices in large chain stores should be slightly higher than distribution and retail prices and special price will be denied to fundamentally control the impact of special price advantages of large chain stores on medium- small convenience stores.

7.1.2 Correct division of regional market boundary

After establishment of distribution price system, it is necessary to further clarify the basic sales required for distributors to achieve balance of profit and loss. This involves the

issues of correct division of regional market boundary. The division is done in the principle of potential sales of market being no less than basic sales and according to the administrative district boundary. In general, for tertiary and fourth markets, 1 to 3 administrative counties may be regarded as a regional markets; for primary and secondary markets, such as central cities above prefecture level, several regional markets may be divided into urban administrative areas, streets, moat as boundaries according to potential sales.

For example, Nanchong District of Sichuan Province is divided into seven regional markets according to administrative areas and population distribution. One distributor is arranged in each regional market directly under the administration of Chengdu Rainbow Marketing Center to face terminal retailers or secondary distributors (see Fig. 7-1). As it my be seen, the channel system in Nanchong District is integrated into seven regional distributors from one primary channel agent in one region (headquarters are in Nanchong City) in accordance with the requirements for realizing channel flattening and adjusting channel relationship. The regional market boundary of original primary regional agent has been narrowed to only provide products and after-sales services for large downtown chain stores and small and medium convenience stores within Shunqing District (namely, Area 1 in Nanchong City shown in the following figure). Seven regional distributors in Nanchong District intensively implement distribution tasks within their own regions. Meanwhile, Rainbow Company dispatches market supervisors to avoid cross-regional delivery or release of product information.

Fig. 7-1 Regional Market Division in Nanchong District in Sichuan Province
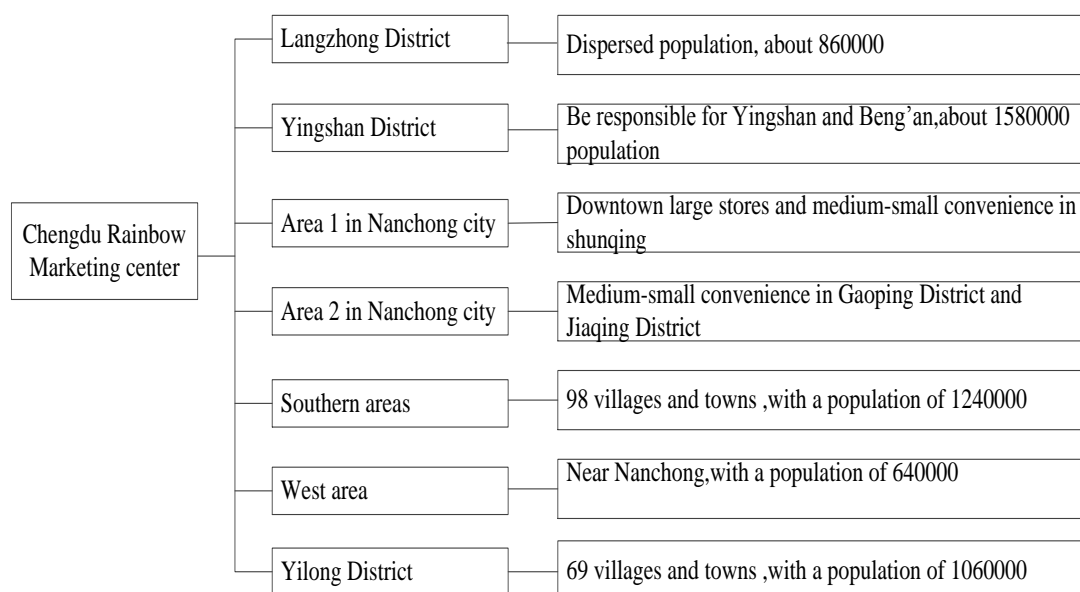
Source: Based on 2012 Organization Chart of Marketing Center in Rainbow Company

7.1.3 Good use of secondary distribution

To carry out regional distribution in tertiary and fourth markets will not only need to rely on the ability of distributors to provide service for all terminal retailers in regional market, but also needss to give play to traditional wholesale market to cover remote retail stores. For a large amount of convenient groceries and stores in trade markets of many villages and communities in China, the traditional purchase channel is to purchase goods from traditional wholesale market dealers. The cost is high and marketing efficiency is very low by only relying on regional distribution. In addition, in remote counties and villages, regional distributors conducting both wholesale and retail business have established long-term and stable personal relationships with convenience stores, which should be taken full advantage. Therefore, regional distributors set transitional secondary distributors (not secondary distributors) in traditional wholesale markets and remote county/ town markets according to special geographical situation and surrender part of price gap to encourage and support traditional wholesale customers to continuously distribute products, so as to enable them to conduct both wholesale and retail business, thus increasing market coverage.

7.1.4 Selection of strategic partners

One of the core elements to establish a strategic alliance is to select right strategic partners. In the past, Rainbow Company variously attracted more stores and distributors to sell its products for the purpose of rapid development of marketing space without a uniform standard criteria in selecting partners. Taking into consideration of Rainbow's long-term development, the improvement and adjustment over marketing channel will inevitably involve in the selection and adjustment to channel agents. Thus, Rainbow Company needs to transform the former extensive selection and management mode of channel members, segment and specify the selection criteria and methods of strategic partners around the goal of structuring a strategic alliance for marketing channels. Based on the development planning of marketing strategy in Rainbow Company and in combination with product sales characteristics, the selection of strategic partners may be measured from the following aspects.

（1）With a certain financial strength

This mainly includes payment collection ability, profits and asset-liabilities level. Only the middlemen that have sufficient financial strength can meet the market input demands required by Rainbow Company's products to be launched in the market and enable products

to smoothly enter various marketing channels of lower-level market for product distribution and return money to factories in a timely manner, especially for the first payment. Furthermore, with stronger financial strength, middlemen can have stronger storage capability, marketing network distribution capability, marketing capability and anti-risk capability.

（2）With strong distribution network and terminal operation capability

This mainly includes the scope, quantity of marketing network and marketing network distribution, stronger warehousing and distribution capabilities. Middlemen must have their own independent marketing channels with a certain scale, including retail channel that covers the market terminal, or the sales volume of products in marketing channel will be difficult to be guaranteed. Additionally, the marketing channels shall penetrate into large chain supermarkets and extend to such traditional channels as county and town department stores, which not only can improve the market share of products, but also can prevent falsifying goods due to market blank. In doing this, resources in marketing network channels will be integrated, and at the same time channel conflicts will be controlled.

（3）With local marketing advantages

As China has a vast territory, economic conditions, natural environment, cultural customs and consumption habits vary in different areas. Even such international stores as Wal-Mart and Carrefour are different in marketing capability in different regions and cities, which is especially true for distributors. In recent years, Rainbow Company has invested substantial manpower, material and financial resources to expand regional markets beyond southwestern China; however, sales achievement has not proportionally increased. Marketing cost invested by Rainbow Company in regional markets beyond southwestern China accounted for 54% of total marketing costs in 2011, but the sales achieved in this area only accounted for 24% of total sales. From this result, input and output ratio is very unreasonable (2011 Financial Report of Rainbow Company). The reality shows that Rainbow Company will be unable to effectively respond to the increasingly fierce market competition, and management risks and operation costs of marketing channel will be increased if market coverage and sales volume are to be expanded only by means of blind solicitation of more large chain stores or distributors and an increasing number of middlemen.

Based on this, it is essential for Rainbow Company to understand the marketing of local large stores, chain retail stores and distributors and analyze their advantages and disadvantages before selecting partners at different regional markets so as to select the right amount of middlemen with advantages in local area. Rainbow Company needs to cooperate

with local quality middlemen, especially in regional markets beyond southwestern China, and rapidly access to the market with the existing marketing and operation advantages of middlemen. Meanwhile, it is important for Rainbow Company to reduce cooperation with middlemen with ordinary achievements and avoid cooperation with inferior middlemen, which is to reasonably control marketing costs.

In addition, as the sales of daily and fast-moving consumer goods of Rainbow Company vary in the slack and busy seasons in the north and south areas of China and there are also many different aspects in consumers' preference and economic conditions. Therefore, apart from investigating operation capabilities of marketing channel of middlemen, Rainbow Company also needs to analyze the type and combinations of products managed by middlemen and whether middlemen are willing to only operate the brand products of Rainbow Company. Investigation may be conducted from the following two aspects. One is product line managed by middlemen. If there are too many product varieties, the energy of middlemen will be distracted and the possibility to fully manage Rainbow Company's products will be lessened. The other one is to investigate whether there are products managed by middlemen competing with those of Rainbow Company. If middlemen manage competitors' products, that not only will reduce their concentration on managing Rainbow Company's products, but also ensure transparency of competition, and it is difficult to achieve high-level channel commitment in the channel relationship with Rainbow Company.

（4）With standard channel management ability

This mainly includes the collection, processing, feedback and decision-making ability of various channel messages, over an effective implementation ability of a promotion plan, configuration and management to promotion products, efficient motivation and management to promotional staff and effective control and management over distribution cost. In addition, it is necessary for Rainbow Company to obtain effective support and cooperation from middlemen in the process of expanding and consolidating market share for that there are many competitive products within the industry and consumers have higher shopping experience requirements at present in order to work together to improve customer's satisfaction. Therefore, the selected strategic partners should also pay attention to customer service management and possess after-sales service, logistics distribution and warehousing abilities.

Rainbow Company needs to establish standard development procedures and evaluation procedures of channel partners when specifically selecting partners and establishing strategic

alliance based on the above factors. In terms of practical experience, it can select channel agents according to the development procedures (see Table 7-1) of corresponding strategic partners. Qualified ones should be included in evaluation system of channel agents and immediately carry out actual marketing performance evaluation (see Table 7-2) over channel agents after each peak season of sales. Where channel agents can meet such major indicators as market development and sales growth within two successive evaluation periods, strategic marketing alliance agreement may be concluded with such channel agents. Control over risks of channel agents can be realized through the above procedures.

Table 7-1: Development Procedures of Channel Agents for Rainbow Company

Responsible departments	Development process	Description	Remarks
Marketing Center	Issue development plan	Marketing Center issues channel network construction plan	Half-year plan
Marketing Department	Market investigation and negotiation	Personnel in Marketing Department develop channel network	
Marketing Department	Submit alliance report	Guide agents to submit alliance application form and relevant certificates.	
Marketing Center	Preliminary review	Verify the business capability and resource input of agents and review the integrity of relevant data	1. Resource input indicators of agents; 2. Review of data integrity
Financial Center	Credit and financial status review	Evaluate the credit and financial status of agents and propose evaluation comments.	Financial evaluation table of alliance agents
Enterprise Management Department	Regulatory review of relevant documents	Carry out normative verification to the documents provided by agents	
Company's Decision-makers	Review and approval	Sign approval comments to the agents to be developed	
Information Department	Open information system interface of marketing network	Interface with the marketing information system of agents	Set system user code of agents
Marketing Center	Sign a cooperation agreement	Sign special sales cooperation agreement with agents	
Training Centre	Business operations and product information training	Train newly alliance members in corporate culture, business operations and product knowledge of Rainbow Company	
Marketing Center and Financial Center	Business settlement and product supply	Carry out business operation	
Marketing Center	rial evaluation	Evaluate operation cycle indicators and issue confirmation notice	Confirmation notice of trial evaluation
Marketing Department	Filing and supervision	File and supervise the developed agents	

Source: The author

Table 7-2 Evaluation Procedure of Channel Agents of Rainbow Company

Responsible departments	Evaluation process	Description	Remarks
Marketing Department	Evaluation analysis for main indexes of two operation cycles	Analysis for completion of relevant indexes	
Marketing Department	Provide opinions for regularization	Prepare evaluation position dissertation for regularization	
Marketing Center	Review regularization opinions by Market Department; If below standard, they will be reviewed in the new period	Perform contrastive analysis and evaluate according to commitments and performances of manufacturers	
Company's Decision-makers	Examine and approve regularization opinions, it disagree, they will be reviewed in the next period	Corporate decision-makers sign approval opinions	
Marketing Center	Sign agreement of channel strategic alliances with agents	Prices and preferential policies for allocation provided for partners of channel strategic alliances	
Marketing Department	File and supervise	File and supervise strategic partners	

Source: The author

7.1.5 Maintain strategic partnership

（1）Avoid falsifying goods

Traditional methods of preventing falsifying goods include the direct marking of a sales area on the goods. For example, if goods are delivered to Shanghai, words of "specially provided for Shanghai" will be marked on goods. The marking method is often dominated by delivering goods in advance, which is inconvenient to flexibly allocate product supply, so that production and products supply can be only performed according to actual demand of regional target market, making it easy to form inventory backlog. Therefore, a common improvement method consists in performing post delivering registration with digital technology for target sales area. Numerical codes shall be marked on goods in the manner of spraying code or labels in advance to build corresponding relationship between outer box and numerical codes. Bar codes on outer box shall be scanned and target sales area shall be registered at time of delivering. In the meanwhile, data shall be transferred to control system for preventing falsifying goods with intelligent information of manufacturers and market supervisors shall inquiry numerical codes of goods through text messages/WAP/3G or enterprise websites to know registered sales area. In terms of design of system management,

the following strategies can be formulated to prevent falsifying goods:

● Develop reasonable award and punishment measures

Specifications of award and punishment for falsifying goods shall be defined in investment promotion statement and contract. To ensure effective fulfillment of contract agreements, some measures must be taken, including: ①paying cash deposits. Cash deposits are factors for ensuring effective fulfillment of contract and powerful restriction of falsifying goods by dealers. If dealers commit conduct of falsifying goods, according to the agreement, enterprises can detain their cash deposits as punishment, thus effectively restricting the occurrence of falsifying goods through increasing costs of falsifying goods of dealers; ② corresponding punishment measures shall be taken for different levels of falsifying goods. Rainbow Company can select corresponding punishment measures according to different levels of falsifying goods of dealers, such as warning, deducting cash deposit, cancelling corresponding preferential policies of business, penalty, reduction of supply of goods, stopping supply of goods, cancelling rebate of that year and cancel dealership.

● Establishment of a supervision system

For Rainbow Company, first, the supervision against falsifying goods is important to strengthen the management of agents, which shall include: establish a supervision and management system of falsifying goods and set up a specialized agency; make product monitoring for each regional market by full-time staff, and focus on the collection and analysis of source and price of replenishing stock, purchase price, inventory, sales volume, sales prices and other information, and then report to the Marketing Department of Rainbow Company if there is any abnormal condition. In this way, in the event of abnormal phenomenon, corresponding measures shall be taken to avoid adverse effect. At the same time, all departments in Rainbow Company shall strengthen the operational coordination with each other to commonly prevent the occurrence of falsifying goods. For example, Marketing Department can determine whether there is falsifying goods by using after-sales service records. The product number and dealer have been recorded in the marketing notes. When it is sent back to the Marketing Department, Marketing Department can comparing the product number with the product number distributed to the regional dealer. If the product number is inconsistent, it can be judged as falsifying goods.

For another example, Rainbow Company can introduce the relevant measures of preventing the falsification of goods in the daily work of the Finance Department. In the current settlement patterns, the Finance Department of Rainbow Company is closely linked

with channel development personnel. Under C/C (cash and carry) settlement mode, it must fulfill the strict financial procedures to be traded so that the Finance Department is very clear where goods are sold. The Rainbow Company can develop an effective anti-falsifying process; integrate the business information and business data of Marketing Center, Marketing Department and Finance Department to achieve the correspondent analysis of regional demand planning, product supply planning and project amount of financial settlement; incorporate the preventive work of controlling falsifying goods into the operational work of the Finance Department for reducing the occurrence of the abnormal phenomenon.

- Strengthening the management of channel development personnel

On the one hand, strengthen the management of channel development personnel to prevent private transactions conducted by them and dealers from compromising the interests of the enterprise. On the other hand, develop reasonable performance evaluation and reward system, which truly achieves awarding the diligent and punishing the lazy, rewarding the good and fining the bad to enhance the enthusiasm and sense of fairness of channel development personnel, promote the employees to maintain a good working attitude and enhance the sense of belonging and acceptance of the enterprise, and consciously safeguard Rainbow's interests.

- Cultivation and improvement of loyalty of distribution

With the technology development and maturity of the industry, product differentiation is getting smaller and smaller, the competition for end customers and service has become a new normal. If dealers establish good cooperative relationship with Rainbow Company, it will enhance the loyalty of dealers to Rainbow Company so as to effectively control the occurrence of falsifying goods behavior. Typically, to maintain a good relationship with the enterprise, the dealers will not destroy this relation by falsifying goods. In addition, reliving the return terms of dealers can avoid falsifying goods of dealers because of fears of the product backlog.

- Coordinated with management by technical means

The use of technical means can make up the marketing strategy defects and lack of marketing and management resources. Through the establishment of the after-sales service anti-falsifying system management platform, the Company can promptly monitor falsification that may occur, which will convert the post-management for punishing dealers into subsequent management of falsifying goods in a timely manner in advance when an abnormal phenomenon identified. For this purpose, the company can encode and manage the smallest

unit of the enterprise product with anti-counterfeiting and anti-falsifying labels. With the combination of anti-counterfeiting and anti-falsifying and the help of mobile communication technology and Internet technology, tracking products coding in the links of delivery of cargo from storage, circulation and other links and monitor the flow of product in marketing channels to promptly monitor falsification, therefore make accurate judgments and rapid response to falsifying goods. Quelling the problem before the intensification of conflicts will ensure stability and the smooth operation of the entire marketing system.

（2）Establishment of high-efficiency logistics distribution system

The establishment of high-efficiency logistics distribution system is a key supporting element to achieve the value addition of channel value chain of the entire Rainbow Company and to develop the advantage of hybrid channel structure. Regardless of the efficient distribution channel structure dominated by manufacturer and shelves-displaychannel structure of dominated by middlemen or the online marketing channel structure that promotes third-party network platform of B2C channel marketing structure, they all need the support of a high-efficiency logistics distribution system.

The modern logistics distribution consists in an integrative service model of channel members, and the integration of logistics distribution is reflected in the following aspects: integration of logistics information, sharing of logistics resource utilization, commonality of logistics facilities and equipment use and integration of logistics management. The Rainbow Company shall build a high-efficiency logistics distribution network system, considering the current situation of national market-oriented network with a rich product variety, obvious characteristics of seasonal sales and a large quantity of middlemen. Its main purpose is to meet the end customers' demands for Rainbow's products and services and to achieve the smooth running of the entire channel value chain and value appreciation. In the sales logistics network, the close connection and mutual cooperation among every channel main body are of great significance during the process of products distribution; the storage level of products, selection of distribution ways and tools, determination of distribution time and scale have direct effects on the satisfaction of end customers' demands and the achievements of transmission efficiency and sales targets in the value chain of marketing channels.

The logistics and distribution network of the Rainbow Company is recommended to conform with the following steps while planning the logistics distribution network:

● Establishment of logistics network structure that adapts to the distribution functions

As for the logistics system of the Rainbow Company, 6 functional elements of distribution should be included, which are stocking-up, storing, sorting, cargo allocation, transport and delivery, and they have played different roles in the logistics network system. And it is necessary to establish and design a logistics network structure which adapts to the 6 elements if they want to give full play to the operation efficiency and stability of elements in the distribution network. In the market of specific target area, some matters shall be planned and designed systematically, such as the selection of logistics nodes that shall be intended for stocking-up, storing and sorting, as well as the organization of transport.

- Reasonable site selection of distribution facility

There are many factors which shall be considered in the selection of distribution facility sites and planned systematically according to two dimensions of both maximum efficiency of products distribution and minimum costs in consideration of the demand features of target marketing area, such as demand distribution and its changes. Meanwhile, the interaction effect shall be considered among every distribution facility to avoid the impact of sudden expansion of market demand or the facilities waste caused by the reduction of market demand.

- Designing of scientific delivery routes and transport optimization program

This is also an important part of system optimization of the entire distribution network. The features of scientific delivery routes are the minimum transport consumption, lowest costs, shortest mileage and shortest delivery time. Compared with the transport in general, it is implemented through rational planning delivery routes, and it will significantly reduce logistics costs and achieve the optimal matching of distribution efficiency and costs while delivering the products to end customers at the same time. Therefore, on the basis of achieving the integration of market information in each member of the channel and implementing integrated management of comprehensive demand planning and supply planning, the Company needs to plan a scientific transport route, select reasonable distribution mode and tools, as well as optimize carrying plan of products distribution to reduce the operating costs of the entire channel. The Rainbow Company can make a systematic plan and take an actual operation control during the practical operation process when facing with the distribution of products in accordance with the principles of optimal distribution costs and highest efficiency in the distribution center, which shall be based on the product demand conditions in each sales cycle of the regional markets with a comprehensive consideration of distribution capacity levels, product classification storage scheme, combination mode and delivery routes; the scientific quantitative analysis techniques shall also be put into use.

During the process, the most foundational work is to develop a scientific measurement and estimate for costs, labor power and time in every aspect; to use the past sales data to analyze the future market demand and sales prediction, which provides important basis towards the designing of products deliver routes and distribution transport program.

（3）Standardized cooperation with strategic partners of channel

Ensuring and enhancing the mutual trust between the Rainbow Company and middlemen in the process of cooperation are the basis to build the strategic alliance channel relationships. Fundamentally, the establishment and consolidation of trust foundation first require a clear understanding of the two sides on their own management and development as well as the mutual recognition and understanding of both market positioning and interest demands. At the same time, the possession of channels and methods for effective communication cannot be ignored, and both sides shall be willing to strengthen their trust relationship in the concrete channel business activities. In the standardized cooperation, the Rainbow Company needs to take the initiative to fully communicate with middlemen; keep abreast of the running conditions of the entire marketing channels; jointly discuss the improved strategies of marketing channels with middlemen; assist them in making appropriate adjustments as soon as possible, all of which are to reduce or avoid artificial problems in marketing, enhance the overall ability to respond to changes in marketing channels and continuously improve the efficiency level of the entire channel operation.

● Standardization of supply chain in channels

Standardized cooperation is the guarantee to establish and maintain strategic partnerships. The channel relationship of new channels in strategic alliances requires the organic integration of internal supply chain of all channel members, external demand chain and service chain, including information sharing, logistics cooperation and seamless link of service (Huang Jian, 2009). On the basis of the establishment of the coordination mechanism for effective supply chain between the Rainbow Company and all levels of channel agents and retailers, it is necessary to regulate the processes and practical operation of business links of both sides to reduce the intentional incidence during the development of channel activities and strengthen mutual trust foundation. The achievement of the standardized cooperation of the supply chain formed by channel members means the logistics, capital flow and information flow between channel members will transfer in the supply chain and match along with each other, by which the basic guarantee will be obtained for the high-efficiency operation of the supply chain, as is shown in the Fig. 7-2:

Fig.7-2: Logistics, Capital Flow and Information Flow in Supply Chain of the Rainbow Company
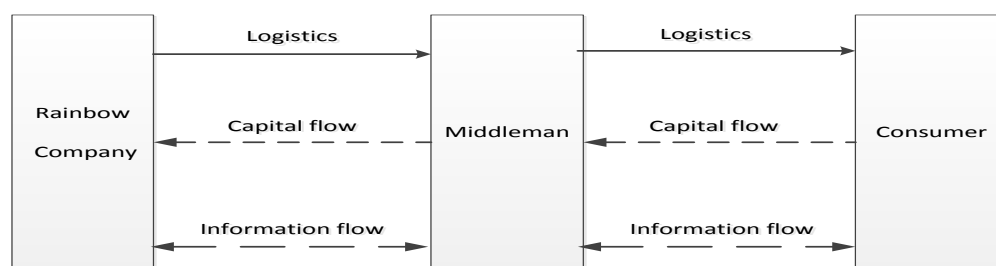
Source: The author

By regulating the supply chain, it can achieve the information sharing for each link in the supply chain and decrease inventory risks. At the same time, it can shorten the demand response time and logistics operating cycle in supply chain; reduce the channel inventory levels of various links and lower the occurrence frequency of channel members to take opportunistic behavior; improve channel efficiency and the level of cooperation, thereby helping to strengthen mutual trust between the channel members.

● Standardization of predicted demand level in forecast market

The products of Rainbow Company have distinctive seasonal features of FMCG and have a strong timeliness. Generally, the larger fluctuations of market demands will result in a big risk of operation and management. The uncertainty of market demands has a strong effect on the operating decisions. The improvement of market predictive ability not only helps to set a reasonable production plan and develop effective marketing programs, but also helps to reduce the number of returns after the seasonal sales cycle.

In order to improve the predictive ability for future market demands, the Rainbow Company not only shall ask relevant market staff to keep records for all the change indicators in the marketing channels in detail on a weekly and monthly basis, but also master the variation trend of different regional markets exactly through various channels while collecting, counting and analyzing the acquired sales data so that they can launch an investment on the demands of all large-scale chain shopping malls, chain convenient stores, distributors at all levels and end customers before the coming of sales season. Then the feedback information of various channels will be gathered to make a comprehensive analysis of the system, thereby determining the overall growth targets of marketing plan; making a reasonable allocation according to the features and capabilities of each middleman; fully communicating with them to correctly guide each of them to make a reasonable goal setting for market demand; determining the sales target for each middleman through negotiation.

● Standardization of terminal division of channel adjustment

The strategic co-marketing between the Rainbow Company and middlemen will lead to a change of the Company's role which means the Company will convert from the original manufacturer to the market–oriented channel manager and the transformation of channel function. On the one hand, the Rainbow Company needs to reserve necessary management functions of price, channel performance and market management to maintain a unified brand image; allocate some channel tasks to the middlemen, such as products storing, logistics distribution and sales promotion in the shopping mall, if they can handle it independently and smoothly. On the other hand, the overlapping parts in the channel activities can be handled by both sides, such as products display, order management and important customer relation management. For the middlemen, it is necessary for the Rainbow Company to clear and definite business process and operation specification in all links. According to the principle of reciprocity for powers and responsibilities, the Rainbow Company shall specify the responsibilities in all business links and make an assurance of reasonable division of channel terminal function, clear responsibilities and business operation regulations in the form of system files after reaching an agreement with the middlemen.

● Persistence of equal dialogue and guarantee of interests for multi-parties in channel

The establishment of channel relationships for strategic partners depends on the cooperative willingness and commitment level of both sides, rather than unilateral wishful thinking. The establishment of equal dialogue mechanism with channel strategic partners is the foundation for both parties of fully communication, trust relationship creation and consensus-reaching. Obviously, only by developing an equal dialogue mechanism between the Rainbow Company and the channel strategic partner, they can truly establish and maintain the partnership.

At the same time, an establishment of price system, which gives consideration of legitimate interests of multi-parties, is a foundation of the maintenance for cooperative partnership. In order to ensure that the price system can adjust channel resource and channel relationship effectively, and it can be accepted and conducted by consumers, middlemen and the Rainbow Company itself, the Company shall make a distinctive design for product series; take action of "hierarchical marketing" to display its richness of products; combine different levels of prices and products reasonably, to avoid the price dislocation according to the demands features of end customers. In addition, it shall develop normative delivery standards and methods to apply to the different level markets and different distribution channels,

thereby guaranteeing the interests of the channel partners and end customers to avoid channel price conflicts.

7.2 Increase of development efforts for online marketing channel

China's Internet economy has entered a stage of rapid development since 2005. It is predicted that, by 2015, the market transactions of China's online shopping will reach 2551 billion Yuan(359.2 billion Euro) , accounting for 8.6% of total retail sales （*Annual Monitoring Report of Shopping Online in China in 2011-2012* published by iResearch Group）. There is no doubt that e-commerce will gradually become the main distribution channels. With the advancement of internet technology and continuous expansion of user group of e-commerce applications accompanied by continuous improvement of China's expressway network system and development of logistics industry, the Internet marketing increasingly reflects the platform advantage in realization of 4C Marketing Theory. In terms of Rainbow Company, its domestic hygiene and epidemic prevention products belong to general merchandises, which enjoy obvious advantages in customer flow on online shopping, have relatively higher purchase and conversation rate, and thus, the sales are likely to form large scale. Under the current reality that large chain stores master channel "discourse power" and with fierce competition in the market, increasing the development efforts for online marketing channel is undoubtedly necessary means for Rainbow Company to reduce the channels operating costs, enhance the control of channels and expand the market space.

According to our analysis of marketing channel integration of Rainbow Company in the preceding chapter, Rainbow Company should adopt a structure mode of hybrid marketing channel and concentrate on the construction of three types of marketing channel structure, that are distribution efficiency type, shelves display type and terminal convenient type. In this way, the main marketing channels of Rainbow Company will transfer from the original two types of traditional marketing channels to three main marketing channel structures that give priority to the third-party online shopping platform B2C mode and include Internet channel.

Fig. 7-3 Three Types of Marketing Channels of Rainbow Company
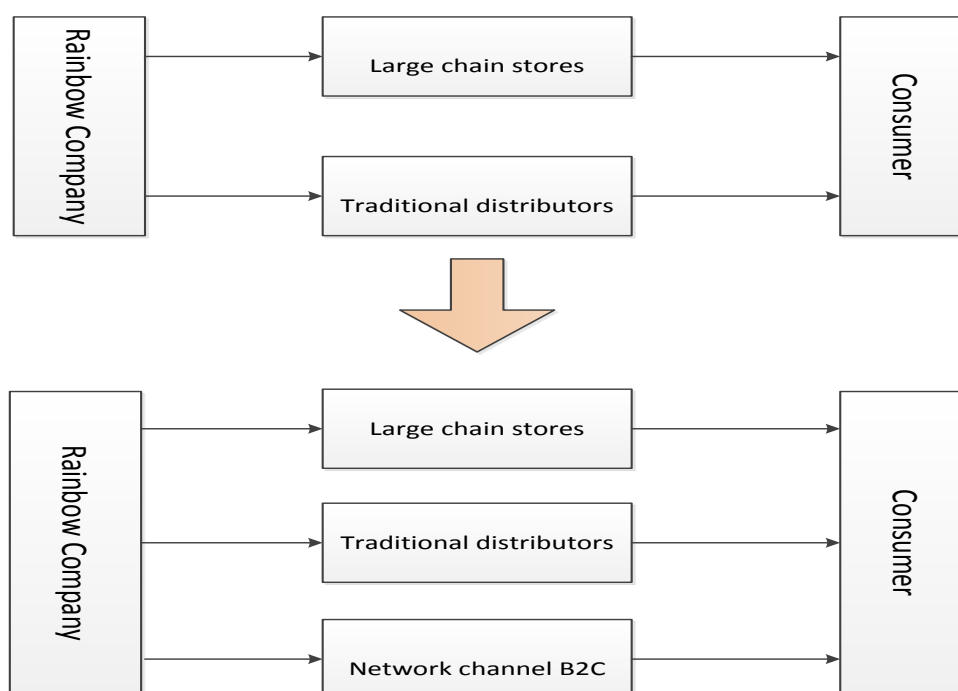
Source: The author

The new online marketing channel has changed the interest pattern of economic entities in entire marketing channels, which inevitably produced channel conflict. This mainly reflects on the following aspects:

1．Price conflict

The online marketing channel has shortened the middle link of the channels, which does not produce operating costs in physical stores; thereby the selling cost of product is lower than that of products sold through the traditional marketing channel. In this way, the manufacturers can offer lower prices and more discounts to benefit consumers in order to expand the market share of the product. It tends to make traditional channel agents stand in inferior position during price competition and be satisfied with this.

2．Target customer conflict

Unlike the traditional marketing channel which has clear region division and a relatively fixed target customer group, online marketing channel is not limited by regions and time. Anyone in any area can make network transactions if only with access to the Internet online shopping platform. In theory, the online marketing channel can cover all customer groups under the traditional marketing channel, thus, there are inevitable conflicts of target customers.

3. Interests distribution conflict

In the structure of traditional marketing channel, agents at different levels of channel will extract certain benefits from distribution of product from layer to layer. But in the online marketing channel, the transfer links are cut-off, correspondingly, the profit distribution of traditional channel agents is decreased. This directly has a negative impact on the interests of the traditional channel agents and is easy to produce conflicts.

4. Resource conflict

The manufacturers will consider not only the allocation of resources of the traditional channel agents as usual in the development of a marketing plan but also the allocation of resources of both channel modes. Due to the difference between the operation modes of both channels, their promotion strategy will be different. Therefore, in certain time, the manufacturers will also pay more attention to the investment of resources for the online marketing channel, which leads to sharper conflicts of channel resource allocation.

In the development plan of the marketing strategy for Rainbow Company 2012, it was proposed that the network sales should account for more than 25% of total sales in three years. To achieve this goal, the Rainbow Company needs to focus on the integration of traditional marketing channel and online marketing channel and to intensify the development efforts of online marketing channel by planning in terms of product option, price strategy, channels complementation, customer segmentation, etc.

7.2.1   Selection of products and services suitable for online marketing channels

Whether a product is suitable for online marketing channels, in addition to the characteristics of the product itself, it also depends on the life cycle phase of the product in market and conflict degree between traditional marketing outlet and online marketing channel (Gu Yonghong, 2006).

(1) Determine the main marketing channel of products to enter the market depending on the life cycle phase: If Rainbow's products are in the early stage of launch, priority to market development should be given and traditional marketing channels should be chosen. If market demand of the products is growing rapidly, the conflict between traditional channels and network channels is smaller and the products can be put into two channels at the same time. While the products are in mature period or recession period and the market demand is declining gradually the conflict between   traditional channel and network channel is easy to

expand (Deng Lin, 2007), therefore the two channels should be considered carefully and for selecting one channel after comprehensive comparison.

(2) Give differential designs and packages to products entering different marketing channels: Even though there is no essential difference between products in online marketing channel and traditional marketing channel, differential designs and packages are still required for products entering different marketing channels to reduce comparable factors of their from two different marketing channels and further reduce the level of channel conflict.

(3) Adjust products with higher selling cost in traditional marketing channel to online marketing channel for sales according to the principle of optimal channel cost, so that falsifying goods, price squeezing and other channel risks caused by different marketing channels of the same product in a region can be avoided to a certain extent.

7.2.2   Development of an appropriate price system

Practice shows that price is an important factor to induce channel conflict. In the presence of online marketing channels, channel middlemen are more sensitive to the price. At this point, if the online marketing price used is lower than middleman's selling price, a channel conflict may be induced. Currently, most household appliances manufacturers in China usually implement the pricing strategy that online marketing price is slightly higher than channel agent's selling price to avoid the channel conflict caused by price variance between traditional channel and network channel (Wang Haiyan, 2010). Rainbow Company can use the online marketing price which is only 1-3% lower than national retail price so that there is little difference between online marketing price and actual price of traditional marketing channel under the condition of considering the freight and the threat to middlemen of the traditional channel will be eliminated as well to ensure stable development of both channels.

7.2.3   Achievement of complementary advantages of channels

On the basis of the development of relatively unified promotion strategies, Rainbow Company can conduct functional integration of traditional and network channels depending on different levels of the market and differences in regional markets and combining market competition with channel agents' cooperative level. It can also make use of complementary advantages of two channels to enhance the value-added ability of the value chain of the entire marketing channels. In regions where Rainbow Company plays a dominant role in channel

relationship, Rainbow Company can incorporate such agents of traditional channel into the Company's electronic commerce system, enhance parties' channel partnerships and give authorized qualification to its online sales to improve the efficiency of marketing channels, quickly realize the transfer of logistics, capital flow and information flow and achieve channels complement each other complementary advantages, due to Company' s stronger capacity of controlling channel agents. In tertiary and fourth markets with difficulty in forming sales scale and limited capacity of logistics distribution in most cases, online marketing platform plays the roles of introduction and recommendation concerning product information. Rainbow Company can take advantage of its corporate website, online advertising and other advocacy approaches to provide consumers with information of various products and available local channel agents and guide consumers to buy products from traditional channel agents while making use of traditional channel to enlarge corporate recognition.

7.2.4   Segmentation of customer group

From macroscopic perspective, China's online shopping industry has entered a relatively mature stage after more than ten years of development. One indication of this maturity is the balance situation of distribution of Internet users among different age groups. Age structure of China's Internet users by 2011 is: under the age of 19: 28.4%; 20-30 years old: 29.8%, 31-40 years old: 25.6%; above 40 years old: 16.2%; proportion of Internet users who are older than 40 years old is increased to 41.8% from 22.4% in 2000 (*Annual Monitoring Report of Shopping Online in China in 2011-2012* published by iResearch Group). In the future, online marketing channels will face well-proportioned consumer groups in age brackets.

Under this background, Rainbow Company shall attach the importance of customer segmentation to characteristics of customers' consuming behavior, carry out related introduction and recommendation of products, product service design, promotion strategy and asset. It should also analyze what kinds of customers are suitable to traditional channels or network channels to meet their demands according to the characteristics of customers' consuming behavior. What is more, Rainbow Company shall also combine demand characteristics, level of channel relationship and product market competition in different regional markets to develop the relations between customer consumption behavior and essentials of above channels for providing reference basis to establishment of diversified, multi-level channel marketing mode.

7.3   Strengthening the establishment of regional distribution teams

From a macro perspective, the improvement of regional distribution team functions is an important guarantee for the Company to develop its marketing channels. From a practical standpoint, it would be necessary for the Company to manage the distributors in a standardized manner, to establish a favorable cooperative relationship with them so as to enhance distributors' enthusiasm vigor and vitality. Rainbow Company should internally develop operational systemto effectively implement training, guidance and supervision to distributors. This is a necessary condition to all those who play a vital role in achieving a high effective coverage rate of retail terminal products in sales.

7.3.1   Organizational structure of the distribution team

In the organizational structure of distribution teams of Rainbow Company, the executives are classified from top to bottom as follows: Large area managers, regional managers, market supervisors and distributors' salesmen To reinforce the regional distribution team, the management contents and behavior in above positions shall be regulated simultaneously.

In the organizational structure of distribution teams of Rainbow Company, the executives are classified from top to bottom as follows: Large area managers, regional managers, market supervisors and distributors' salesmen To reinforce the regional distribution team, the management contents and behavior in above positions shall be regulated simultaneously.

（1）Regional distributors' salesmen.

The establishment of cooperative relation based on strategic alliance between regional distributors and Rainbow Company originally marked that they reached a consensus on unified and coordinated management as well as professional operation of marketing campaign in regional market. However, distributors' salesmen are required to obtain necessarily professional marketing capability and higher vocational quality in order to accomplish stated sales target, increasing marketing efficiency and benefits and realizing effective management on regional market. Therefore, Rainbow Company should set up a standardized system to provide systematic training to the regional distribution team with the purpose of boosting the sales techniques and market management capacity of regional distributors' salesmen. Commonly, the following can be included in training contents of the regional distributors' salesmen:

● Basic product information and quality problems that may occur;

● Requirements on classification of the terminal stores and corresponding effective

coverage. The company makes a positive demand and quantitative criteria regarding types and display of distribution for different terminal stores on consideration of differences in key target customers of different store services.

● Division of sales routes and communication skills with customers of distributors.

● Maintenance of market price.

● Understanding and analysis of competitors and competitors' product information (promptly report important market information to market supervisor).

● Incentives, assessment and daily management skills of salesmen.

（2） Market supervision.

Market supervision refers to what guides and supervises the distributors to improve effective coverage rate of the market, find problems and immediately solve them according to regional distribution principles. Table 7-3 shows the general investigation form of important terminal stores in sub-regional market of Rainbow Company.

Table 7-3 Investigation Form of Important Terminal Stores in Sub-regional Market

Store name: Address:					Interviewee: Telephone: Date:		
Product category	Electric mat	Pesticide	Liquid mosquito-repellent incense	Incense coil	pills for killing cockroaches	Mothproof piece	Air freshener
Models of OTC products							
Display surface							
Whether the price fluctuates within a reasonable range							
Sales volume in the latest 10 days							
Stock							
Sales volume of main competitive product 1							
Sales volume of main competitive product 2							
Sales volume of main competitive product 3							
Regional manager：		Regional salesman:			Completed by:		

Source: The author

The supervisor must deeply understand more than three sub-regional markets (supervisor must visit 60% terminal stores at least in each regional market, select 2 more typical terminal stores for critical communication and take 30 minutes at least to communicate with the boss

or procurement personnel to learn more about over-the-counter, display and sales situations of products and information of main competitive products) when visiting a regional market in accordance with requirements for filling in the form. The supervisor shall also find problems through analysis and summary of these basic information and communicate with distributor and salesmen managed by the supervisor respectively to discuss improvement measures. Therefore standard inspection form of terminal stores should be prepared (Table 7-4), filled in by the supervisor on time and submitted along with investigation form (Table 7-3) to the regional manager for approval every weekend and then submitted to the general regional manager for summary at the end of the month.

The duration allocated for market supervision in regional market according to simulation research in practice should also be calculated as shown in Table 7-5.

Table 7-4 Standard Inspection Form of Terminal Stores

Regions visited:				Number of stores visited:		Date:	
Product category	Electric mat	Pesticide	Liquid mosquito-repellent incense	Incense coil	Agent/pills for killing cockroaches	Mothproof piece	Air freshener
Types of OTC products (%)							
Display surface (%)							
Price scanning (%)							
Regional manager：			Regional salesman:			Completed by:	

Source: The author

Table 7-5 Time Allocation for Market Supervision in Regional Market

Terminal stores visited in 60% sub-regional markets	1h/X3 stores in sub-regional markets
Important terminal visit	X6 stores per 0.5 hour
Communication with distributors	2 hours
Total	8 hours

Source: The author

Inspection tour in all sub-regional markets takes 16 hours on average . Therefore the average duration of a visit to a regional market is 24 hours which is equal to three working days. The calculated duration is basically consistent with that in practice. Rainbow Company produces daily FMCG under strong seasonal variation of sales and quickly variable market, so the market supervisor is required to be the Company's sales representative who must pay a return visit to regional markets (the interval shall not exceed 15 days).

Calculating the three working days spent on a regional market visit by a market supervisor, the duration of return visit to each regional market is 14 days and the number of

regional markets directly managed by market supervisor is finally defined as 3-5. Adjustment depends on specific geographical location of sub-primary regional market and transportation conditions.

（3）Regional manager

A business management region of a regional manager is delimited according to the population density，population distribution and market maturity of the region. Generally, for regions with high market maturity (including Sichuan, Guizhou, Yunnan, Hubei, Hunan), each regional manager only controls a prefecture-level regional market (by administrative division); while in low market maturity like the northeast of China and North China, each regional manager controls the provincial regional market. A general regional manager is responsible for regional manager.

Designed responsibilities of regional managers of Rainbow Company are described in Table 7-6.

Table 7-6 Responsibilities Description of Regional Managers

Post	Regional manager	Immediate superior	Regional manager
Responsibilities		Work standards / requirements	
1.Management by objectives: Prepare and complete target task of product coverage Execute and complete annual and monthly sales targets 2. Customer relationship management: Plan and execute customer development network Prepare a plan of visiting important customers 3. Promotions management: Carry out and supervise all promotion and marketing activities Analyze, assess and summarize the promotion and marketing activities 4. Personnel management: Carry out daily management and performance appraisal of market supervisors Be responsible for preparing a plan of training for sales group within regional market Have the right to make suggestion about appointing or dismissing market supervisors 5.Sales inspections, sales analysis, market feedback within the region		1. Management by objectives: Be responsible for rationality and effectiveness of objectives and task assignment Complete annual and monthly sales targets 2. Customer relationship management: Be responsible for rationality and effectiveness of customer network planning The number of customers to be visited is not less than 60% of total customers within the jurisdiction region every month 3 .Promotions activities management: Ensure all promotion and marketing activities are carried out in order 4. Personnel management: Be responsible for effectiveness of daily personnel management and impartiality of the performance appraisal 5. Be responsible for normativity and authenticity of submitted reports 6. Be responsible for accuracy of market dynamics and accuracy and effectiveness of sale analysis 7. Be responsible for price system and market order within the region	

Source: The author

（4）General regional manager.

To meet the overall planning development requirements of nationally regional distribution, Rainbow Company appoints six general regional managers to manage northeast of China and North China regions, Zhongyuan region (Henan, Hubei, Hunan), South China region, East China region, Sichuan and Chongqing region and Yunnan and Guizhou region respectively. General regional managers participate in the major marketing decisions emanated from the Marketing Center of the Company. The general manager of Marketing Center is responsible for their daily work. Responsibilities of general regional mangers of Rainbow Company are described in Table 7-7.

Table 7-7 Responsibilities Description of General Regional Mangers of Rainbow Company

Post	General regional manger	Immediate superior
Responsibilities		Work standards / requirements
1. management by objectives: Resolve annual and monthly sale plans and sale targets;		1 Management by objectives: Be responsible for rationality and effectiveness of objectives and task assignment; Complete annual and monthly sales targets;
2 Customer relationship management: Develop and design customer development network; Approve selection and optimization of distributors;		2 Customer relationship management: Be responsible for rationality and effectiveness of customer network planning; The number of customers to be visited is not less than 50% of customers within the jurisdiction region every month;
3 Promotions management: Analyze and supervise all promotion and marketing activities; Manage the promotional expenses within the permissions; Assess and summarize the promotion and marketing activities;		3 Promotions management: Be responsible for implementation of all promotion; Be responsible for effectiveness and authenticity of promotions expenses;
4 Personnel management: Carry out daily management and performance appraisal of market supervisors; Give trainings to sales group; Have a right to appoint or dismiss group member.		4 Personnel management: Be responsible for effectiveness of daily personnel management and impartiality of the performance appraisal
5 Sales inspections, sales analysis, market feedback within the general region		5 Be responsible for accuracy of market dynamics and accuracy and effectiveness of sale analysis
6. Take part in development of critical decisions by Marketing Center		6 Be responsible for price system and market order within the general region

Source: The author

7.3.2 Incentives and assessment for group

（1） Distributor

Incentives and assessment of distributors include three aspects: performance level of market management, ability of maintaining product price and effective product coverage of target markets within their regions.

Incentives and assessment of distributors include three aspects: performance level of market management, ability of maintaining product price and effective product coverage of target markets within their regions.

In what regards incentives to distributors, apart from granting a commission on sales amount after completion, other ways can be included, such as providing free opportunities on training and learning and inviting them to participate in business tour seminars. In addition, moral encouragement of distributors should be implemented. A distributor association should be organized and established to shape a system of regular business exchanges for all the distributors. All activities expenses are to be paid by Rainbow Company. Expert team including domestic industry experts, marketing experts and other experts will be invited to fully communicate and probe with members of the distributor association to shape an activity platform with the integration of research, education and production, strengthen cohesiveness and consensus of entire distribution group in Rainbow Company and their loyalty to Rainbow Company and improve the overall quality of the distribution group. Appraisal of distributors will be focused on the proportion of sale of product varieties, as well as on the number of terminal outlets effectively covered by product and payment collection of the month. Rainbow Company should also enhance the analysis of distributors' performance data, communicate with distributors in time and consult with them to deal with major problems arise in channel business.

（2）Regional manager and market supervisor

The post salary system under objective assessment should be established and applied. The total amount of post salary is verified according to the size of regional market capacity and the ease of market expansion. In this , 60% is basic salary and 40% is appraised and granted monthly or quarterly as per target completion progress. Index weights are suggested in Table 7-8:

Table 7-8 Suggested Index Weights of Salary Appraisal

Index	Weight
Coverage rate of target market	15%
Effective coverage of target market	35%
Payment collection of the month	20%
Market price maintenance	20%
Market control (Statement, marketing costs, customer complaints)	10%

Source: The author

7.3.3 Strategies of team communication and talent localization

Effective coordination and adequate communication among team members are the foundation to shape and keep cohensiveness and infuse effectiveness and vitality in teams. Therefore, it is necessary for Rainbow Company to establish a platform where team members can learn from and communicate with each other from time to time so as to ensure adequate communication and management coordination.

In addition, to ensure stability of all teams of marketing channels of regional markets and sustainability of development, Rainbow Company still needs to carry out unified management and assessment in its affiliated sales companies, namely external personnel who is responsible for market control, tally clerks and sales promoters. It should also be concerned with the localization strategy of first-line talent and raise first-line staff's sense of belonging to Rainbow Company.

Chapter 8: Summary and Research Prospects

8.1   Summary

This thesis sought to clarify and define the factors affecting marketing multichannels optimization by taking Rainbow Company as a case study and adopting FMCG marketing channels optimization as the research topic. Based on actual marketing channels operation data and deep research on the case company, the study comprehensively applied marketing management theory to analyze and evaluate the development situations and existing problems for the present marketing channels. It has discussed the segmentation, targeting and positioning (STP) strategy of Rainbow Company's household hygienic and epidemic-prevention products while considering the impacts of network direct sale modes on traditional marketing channels. It has also identified   the outline and basic frame of optimizing the marketing channels of Rainbow Company and proposed an implementation strategy. In sum, the thesis has sought:

1.To find out the existing problems in the case company marketing channel system, and conduct a multi-dimension analysis of the changes of external marketing environment, the position of market competition, and the internal resource conditions of Rainbow Company and factors affecting its marketing channel optimization.

2. The thesis applied STP theory to subdivide and describe the current marketing market of Rainbow Company, established the relations between Rainbow Company's products and services and every target market as well as the positioning strategies of target markets for specific products.

3.The study analyzed the selection strategies on channel relationship of Rainbow Company at different-level of   markets through the establishment of preference pattern of marketing channels, and combining development trends of e-commerce market of future household hygienic and epidemic-preventive products. It has discussed an integration outline of Rainbow Company's marketing channels under the coexistence of traditional and online marketing channels and established operation modes of dual marketing channels and integration framework of marketing channels for Rainbow Company.

4. Based on theories and concepts related to marketing channel optimization and the three aspects on channel control, establishment and development, the thesis proposed an

implementation strategy for optimizing marketing channels of Rainbow Company.

The thesis has taken Rainbow Company as the research object as it is a dominant brand enterprise of household hygienic and epidemic-preventive products industry in China and therefore it could be considered as representative. The transformation of Chinese FMCG marketing channels has been directly reflected in the establishment and development process of marketing channels of Rainbow Company. In the meantime, the thesis provided an integrated framework of marketing channels considering optimization ideas of marketing channels in online and traditional marketing. Thus, the research results may provide guidance and reference in strategy and method, for other FMCG industries and enterprises similar to Rainbow Company when considering to optimize their marketing channels.

8.2   Shortcomings of the research

During the research process, shortcomings can be found in three aspects:

1. The research fails to integrate relevant elements related to marketing channel relationships and its structure under an integral framework. Due to the shortage of necessary data analysis and comprehensive analysis strategy, the research fails to carry out further analysis and research on association relationships and action modes existing among the commitment level, market competitiveness of product, and consumer behavior resulting from gambling relations between external market environment and channel members.

2. Since the time and the length of the thesis are limited, it just provides three channel structures that should be selected by Rainbow Company from two dimensions on the basis of relative power between customer's consuming behavior and channel members. However, the research fails to establish an operable quantification criterion and shortcomings can be found in the analysis of characteristics and differences of operating models of three channel structures.

3. Similarly, since the time and the length of the thesis are limited, no consideration is given to changes in ordering policy, inventory arrangement and sales volume of products in different periods in the research of marketing channel optimization of Rainbow   Company. Those are of great significance and   follow-up researches can further the discussion on those aspects.

8.3   Research prospects

In the future, the continuous development of the Internet-based economy will lead to obvious changes in consuming attitudes and patterns of consumers, and such changes will definitely give rise to comprehensive revolution of traditional marketing channels. If China's FMCG enterprises are to realize seamless connections between online marketing channels and traditional marketing channels, research on coordination mechanisms for channel partners, application of management tools for new channels and enhancement of basic supporting systems should be conducted with focus on core links of channels and purchase of network clients. Meanwhile, close attention should be paid to new types of online shopping (group purchase and O2O sales model) so as to analyze the effects of those types on the operating mode of mixed-type marketing channel. Those may require further research in the future.

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Appendix 1: Outline of Interview

1. Could you please introduce current operation of the Company including production of household epidemic-preventive productsand marketing in recent years?

2. What key stages has the Company gone through in production and management of household epidemic-preventive products and construction of marketing channel? What do you think is thedriving factor behind the appearance of these key stages? What were the major problems during process of development? How did the company deal with the problems?

3. How is the entire industry and marketing environment of the Company? How is the competition? What are the major competitors? How are the operating conditions and characteristics of marketing channel of competitors?

4. How do you evaluate current operation of marketing channel of Rainbow Company? What are the prominent problems? And why do these problems exist?

5. What do you think are the key factors that influence operation and optimization of marketing channel? Why do you think they are key factors?

6. What do you think is the market competitiveness of major household epidemic-preventive products of Rainbow Company in all regions of the country? What are the advantages and disadvantages of the products of the Company?

7. Could you please introduce all levels of channel agents and terminal retailers of Rainbow Company in cooperation model and control mode? What do you think is the level of the cooperative relationship between Rainbow Company and channel agents in each region？What are the recommendations for improvement of existing problems?

8. How do you think of on-line sales mode of household epidemic-preventive products of Rainbow Company? Are there any problems? What do you think of dual-channel marketing mode of household epidemic-preventive products of Rainbow Company in the future?

9. What are your specific advice and conception in constructing and developing of distribution teams of household epidemic-preventive products of Rainbow Company? Why?

10. What do you think are the key factors that influence consumers to purchase and use Mosquito–repellent and Deinsectization Product? Why do you think they are key factors?

Appendix 2: Lists of Depth Interview and Personnel Participated in Discussion

Name	Age	Education Background	Male/Female	Position in the Company	Working hours of management in Rainbow Company (year)
Huang Chaowan	49	Master	Male	Chairman and GM of Rainbow Company	25 years
Yin Maolong	59	Bachelor	Male	Chairman and Vice GM of Rainbow Company; GM of Marketing Center	23 years
Liu Qunying	43	Bachelor	Female	Vice GM of Rainbow Company; GM of Finance Center	18 years
Li Zhiwei	47	Bachelor	Male	Vice GM of Marketing Center of Rainbow Company	20 years
Fan Zhirong	40	PHD	Male	Vice GM of Marketing Center of Rainbow Company	16 years
Yun Yong	39	Master	Male	Regional Manager of Marketing Center of Rainbow Company	18 years
Yu Qihong	38	Bachelor	Male	Regional Manager of Marketing Center of Rainbow Company	15 years
XieFei	45	Bachelor	Male	Regional Manager of Marketing Center of Rainbow Company	21 years