

## **CHAPTER 2**

### **LITERATURE REVIEW**

Poorly selected sales intermediaries not only will cost the organization poor sales performance, but they may also be difficult and costly to terminate. While the firm can use carefully drafted agency and distribution agreement to protect themselves, the best step in minimizing problems is to use more care in selecting the intermediary. Clasen (1991) propose steps in selecting an effective agency-distributor :

1. Examine the legal and business considerations involved in appointing foreign intermediaries, and establish criteria that reflect the particular geographic market.
2. Assemble a list of potential candidates using various directories and consulting other sources of information.
3. Qualify the candidate by applying certain criteria and conducting a preliminary interview.
4. Visit the proposed intermediary to obtain additional information about the resources and facilities.

In the area of management, Shipley et al (1989) emphasized on marketing capability and commitment.

Services are emphasized by Shipley and Prinja (1988), they show that small firms that serve a large number of customers and carry a large number of product lines want product availability, fast delivery, good technical advice, have an attractive product and give product maintenance.

Marketing channel members often can perform activities more effectively for producers than producers can for themselves. The marketing channel's function is to carry out the work of moving goods from producers to users. The marketing channel overcomes the major time, place, and possession gaps that separate goods and services from customers. Effective channel planning starts with a determination of which markets are to be reached with what objectives. Objectives include the desired level of customer service and desired functions that intermediaries would perform. In developing channel objectives, several other characteristics also must be considered, including those of the customer, product, middleman, competition, and company. Distributors must be selected carefully, according to established criteria (Band, 1991).

The right kind of physical facilities and financial strength are important in selection. One good example of physical facilities which is very important in pharmaceutical distribution is the availability of cold room. For example, vaccines and insulin have to be kept in low temperature in order to preserve its potency. If the distributors do not own a cold room or financially unable to own one, they are unable to attract potential pharmaceutical companies that require the cold room facility.

Sales personnel should be trained technically, especially in pharmaceutical business when information is vital for doctors to prescribe the right dose for the patient. For this reason, ongoing product training is very important. In Malaysia, it is not unusual to find companies give products training at least once in every three months.

Grant (1986) said distributor should carry compatible and synergistic product lines. Just to quote one good example in pharmaceutical business is in the treatment of diabetes. Treatment for a diabetes is to take oral drug or to inject insulin, and at the same time the patient need to monitor his/her blood glucose level. In this case, the drug or insulin is synergistic to blood glucose monitoring device. A blood glucose monitoring device producer can select a distributor that at the same time distributing insulin, the product itself do not conflict to each other, and further distributors' sales personnel can cover the same doctors who is treating the diabetes patient.

Nickolaus (1990) mentioned that Pall Corp., the world leader in the design, production and marketing of fine filters and other fluid clarification devices has been using a few criteria to select distributors. Among the criteria are :

1. Be entrepreneurial.
2. Have a sales staff that is technically trainable.
3. Be able to provide adequate coverage in the territory.
4. Be presently making a living in the markets Pall seeks to penetrate.

Besides some of the criteria studied by these authors, some studies summarize the criteria used.

To aid a supplier in the selection process, Mauser (1961) has developed a fairly good checklist of 21 questions, this is as shown in EXHIBIT 1.

#### EXHIBIT 1:

#### A CHECKLIST OF 21 QUESTIONS FOR RATING PROSPECTIVE APPLICANTS FOR A DISTRIBUTORSHIP (DEALERSHIP)

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1. What is the caliber of the person who is the head of the distributor's (dealer's) organization?  
Does the firm have the respect and confidence of the community ?
2. Do they have conflicting lines or products ?
3. Do they have a well-trained, smoothly running organization ?
4. Are they adequately financed ?
5. Are they making money ?
6. Do they have plant, equipment, and facilities for handling the line ?
7. Do they have an adequate and well-informed sales team ?
8. Do they have other products that fit in and harmonize with our line ?
9. Do they have a sales training program ? Do they allow suppliers to participate in their training program ?
10. What is the average educational background of their personnel ?

EXHIBIT 1 (CONTINUED)

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11. Are they marketing-minded ? Do they have the interest and ability to promote our product?
  12. Are they willing to appoint one executive to concentrate on our lines and be responsible for it ? Who would he be and what are his qualifications ?
  13. Do they cover their territory thoroughly ?
  14. Do they penetrate through to customers, executives, engineers, and operating people, or do they cover only the purchasing agents ?
  15. Will they accept a quota and make a reasonable effort to meet it ?
  16. Will they accept and use our promotional materials in accordance with our marketing program ?
  17. Do they have the courage to maintain reasonable margins when times are tough ?
  18. Do they have a good setup for giving continuing service to customers in order to maintain customer goodwill for our product ?
  19. Will they welcome our executives for conferences and sales meetings ?
  20. Will they give us the names and home addresses of their inside and outside salesmen, so we can quickly send information to them ?
  21. If our line is small, are they willing to feature it and push it ?
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Source : Ferdinand F. Mauser, *Modern Marketing Management* (New York : McGraw-Hill, 1961), page 338, in *Marketing Channels*, second edition, Louis W. Stern and Adel I. El-Ansary, Prentice-Hall, Inc, page 246.

Another model is proposed by Douglas M. Lambert (1978). His proposal is a selection techniques for a channel member, this is shown in EXHIBIT 2.

#### EXHIBIT 2 : CRITERIA FOR SELECTING A CHANNEL MEMBER

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1. Size of prospective channel member---sales, financial strength

2. Sales strength

Number of sales personnel

Sales and technical competence

3. Product lines

Competitive products

Compatible products

Complementary products

Quality of lines carried

4. Reputation

Leadership

Well-established

5. Market coverage

Geographic coverage---outlets per market area

Industry coverage

EXHIBIT 2 (CONTINUED)

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Call frequency or intensity of coverage

6. Sales performance

Performance with related lines

General sales performance

Growth prospects

7. Management

8. Advertising and sales promotion

9. Sales compensation

10. Acceptance of training assistance

11. Transportation savings

12. Inventory

Kind and size

Inventory minimums and maximums

Reductions in manufacturer inventories

Extent of postponement--speculation

13. Warehousing---supplied in field

---ability to handle shipments efficiently

14. Odd quantity costs---willingness to accept our ordering policies

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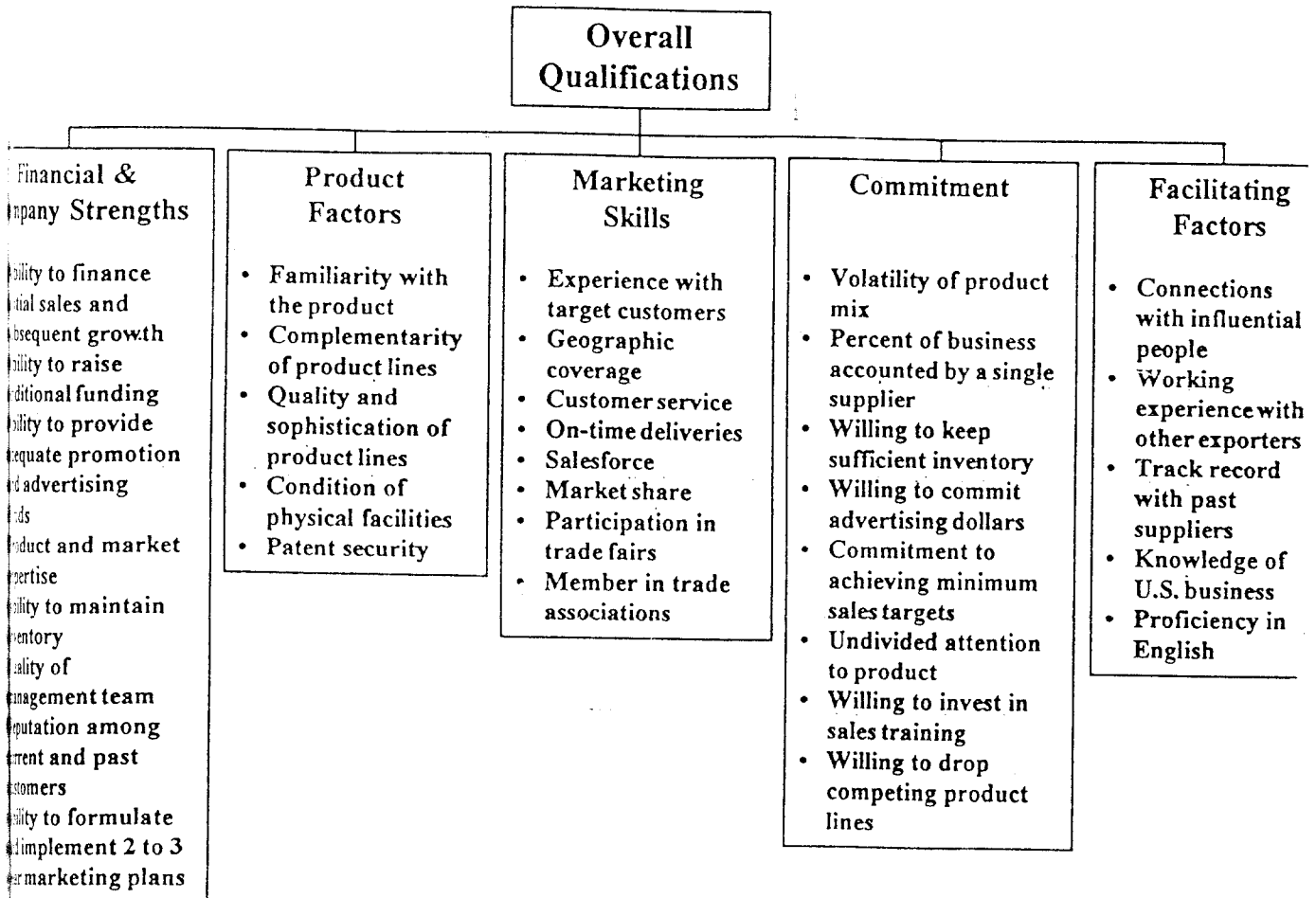
Source : Douglas M. Lambert, The Distribution Channels Decision (New York : National

Association of Accountants; and Hamilton, Ontario ; The Society of Management Accountants of Canada, 1978), page 37, in Management In Marketing Channels, Donald J. Bowersox, M. Bixby Cooper, Douglas M. Lambert and Donald A. Taylor, McGraw-Hill, page 245.

Cavusgil et al. (1995) even came out with an expert system approach to select a foreign distributor called DISTEVAL. In their study, five dimensions and specific criteria relevant to qualifying distributors are highlighted. A total of 35 criteria are identified and grouped into five major dimensions as illustrated in EXHIBIT 3.



### EXHIBIT 3 : CRITERIA FOR EVALUATING FOREIGN DISTRIBUTORS



Source : Cavusgil, S. Tamer; Yeoh, Poh-Lin and Mitri, Michel, Selecting Foreign Distributors, An Expert Systems Approach, Industrial Marketing Management, Vol 24, page 297 - 304, 1995, Elsevier Science Inc.

Out of these few models, the selection criteria proposed by Lambert (1978) is more complete, therefore, it is use as the basis for this study.