

**SOURCES OF CONFLICT AND CONFLICT RESOLUTION STRATEGIES
BETWEEN DISTRIBUTORS AND RETAILERS
(CASE OF DRY CELL INDUSTRY IN NAIROBI)**

By

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DECLARATION

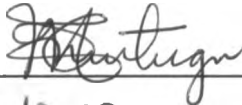
This project is my original work and has not been submitted for a degree course in any other university.

Signed 

Date : 24/10/02

KINUTHIA D.M.

This project has been submitted for examination with my approval as the university supervisor.

Signed 

Date: 29-10-02

MR. THOMAS MUTUGU

DEDICATION

This project is dedicated to my daughter Neema Wanjiku Kinuthia and my wife Lydia Kinuthia.

My daughter kept me awake late in the night and my wife kept her busy so that I could study.

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ABBREVIATIONS USED

EBKL in full is Eveready batteries (K) Ltd.

DEFINITION OF TERMS.

Numeric distribution means total number of shops stocking batteries out of the population.

Weighted distribution means total number of shops stocking batteries out of those stocking this category.

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Most of all I sincerely thank God for giving me good health and sound mind that is crucial for this kind of undertaking.

ABSTRACT

This report presents the findings of sources of conflict between the distributors and the retailers in the dry cell industry in Nairobi. It's set to achieve three objectives; firstly it is supposed to identify the sources of conflict and their extent and thirdly it is supposed to suggest ways of resolving these conflicts.

EBKL represented the dry cell industry because it's the only dry cell Company with any distribution system. The research used a sample of 36 mini-supermarkets as the respondent out of a total of 192 mini-supermarkets in Nairobi. A response rate of 94% was achieved.

Five sources of conflicts were identified and their extent identified. An average of 37% of the respondents felt that lack of volume discount was the greatest cause of conflict. This is the conflict that was voted by the highest number of respondents.

Generally the retailers are somewhat satisfied with the services of EBKL distributors. In fact most of them prefers collaboration strategy to any other in settling their complaints with the distributors. It was also established that meeting with the distributors helped to find a middle ground where each of the members benefited.

Finally the researcher identified areas of further research such as doing a study where the sample size is drawn from all over Kenya. This research could also be done in other industries because each of them has unique problems.

Chapter one

1.0 INTRODUCTION

Several studies have been done on the relationship between different channel members. Chepkoiit (1992) studied the distribution of sugar by the National Trading Corporation. He found out that there is an imbalance in the way sugar is being distributed within the rural areas. Lusaka (1991) centered on dealer perceptions of the suppliers power and influence strategies within a marketing channel. Further, Muiruri (1989) looked at the physical distribution problems facing the Nairobi city center and fruit sellers. He found out that the Key problems entailed warehousing/storage, transportation, in adequate fund to run the business and harassment by the city council authorities.

Retailers and distributors are members of channel structure. This channel structure is a set of institutions, agencies and establishments through which the product/service must move to get to the consumers (Stern and Ansary, 1988). Rosenbloom states that for many years channel structure otherwise known as place in the four P's of Marketing had taken a "back seat" but this is changing.

In Kenya the term channel structure or Marketing channel is what is commonly referred to as the distribution system and hence these words will be used inter-changeably in this paper. This is a combination of the following institutions: - Manufacturing, distributors, wholesalers and retailers. All apart from the manufacturing institution can be seen as middlemen playing the role of placing the goods/services at the doorstep of the consumer. However all these institutions depend on each other to cater effectively to consumer demand.

Marketing channel decisions are among the most important decisions facing management today because they affect every other marketing decision (Kotler & Armstrong, 1999). Again as noted by Sims et al (1977) marketing channel just like the other marketing mix elements(product, price and promotion) is a major variable that the firm can manipulate to influence it's sales volume. One aspect of the marketing channel systems is their constant interactions- they lead; they follow; they control; they conflict; they cooperate (Sims et al,1977)

As noted by Kotler and Armstrong (1994) there are two major channel conflicts namely horizontal and vertical conflicts. Horizontal conflict occurs between firms of the same level. For example in EBKL you may have one distributor complaining about the other. They could be under-cutting in pricing and hence consumers stick with them. Vertical conflicts occur between different levels of the same channel. This study is about the latter.

As goods moves from the producers to the consumers the following functions are performed.

1. Sorting out. This breaks down a heterogeneous supply into separate stocks that are relatively homogenous (Stern & Ansary 1998) Sorting out dry cell batteries involves having each size of battery separated from the rest.
2. Accumulation: here the various sizes are brought together. Usually wholesalers will store together same sizes of batteries from different companies such that it becomes easier to service an order.

Assorting: This has to do with matching the needs of the target shoppers' expectations (Kotler & Armstrong, 1994). Wholesalers build assortments of goods for retailers and retailers build assortments for their customers.

In the dry cell industry we have two types of suppliers;

1. The importers of the cheap Chinese batteries by the name Tiger-head, Rhino, 777, Super-cats e.t.c.
2. The official suppliers who includes EBKL, Panasonic, Fuji, Phillips and Gillette inter-products.

The cheap Chinese importers have no distribution system and operate through manipulation of price. However the goods flow un-officially from the importers to wholesale to retailers through to the consumers. Apart from EBKL the rest of the official suppliers sells their products on consignment basis where they advance credit to the trade in the hope that the products will flow through the system. However Gillette inter-products the company that used to supply Daimon batteries had tried to set up a sort of distribution network but they eventually pulled out of the market. So far it's only EBKL which has a consistent distribution network that works. EBKL has 25 distributors countrywide and the market has been segmented regionally such that each distributor has their own region. A list of the same is appended.

According to Rosenbloom(1999) when the various agencies in the channel interact the behavioral dimensions comes to play namely conflicts, power, role, and communication process. The author is not aware of any study on the vertical conflict between the distributors and retailers and hence the need for this study.

1.1 Statement of the problem

Conflict is as pervasive a phenomenon in distribution channels as it is in other inter-organizational systems (Stern et al, 1977). Conflicts occur because member of channel system often has different objectives and ideas about how things should be done (Rosenbloom 1999).

It's crucial to note that all the institutions in the marketing channels are important in availing goods and services to the point of purchase and use. The retailer is an important endorser at the point of sale (Still et al, 1998). If the retailer dislike the products this may evolve into obstructive tactics leading to loss of sales. On the other hand, distributor give goods place utility for a period of time and enables the retailers to buy the quantity they require at the appropriate time. However since they pursue different profit making objectives, vertical conflicts occurs as observed by Kotler (1994).

While the distributors are targeting wholesalers and retailers, the retailer targets the consumer or the end user. These two target markets have different needs and in trying to serve them the distributor and the retailer find themselves in conflict. No study has been conducted in Kenya as far as the current researcher knows on this subject.

The study therefore seeks to find out the reasons behind emerging conflicts between the distributors and the retailers and the possible strategies for resolving those conflicts.

1.2 Objectives of the study

- ❖ To identify the causes of distributors-retailers conflicts.
- ❖ To find out the extent of the conflict identified.
- ❖ To find out how these conflicts can be resolved.

1.4 Importance of the study

The findings of the study are expected to benefit the following groups of people:

- ❖ **Management:** The findings are expected to benefit the dry cell industry players in assisting the institutions of the retailer and the distributor to manage conflicts when they occur.
- ❖ **Traders:** The distributors and the retailers to coexist amicably in the marketing channel for their mutual benefit.
- ❖ **The academicians:** This will form the foundation upon which future research on this topic can be extended not forgetting the fact that knowledge will be imparted in the existing literature.

1.5 Organization of the study.

The study start with a literature review of what has been researched in the past. A brief background of the battery industry is outlined. The main literature review details what retailing and distribution is all about. Conflict resolution strategies have also been covered widely. Lastly data is analyzed in form of tables and percentages and recommendations are given

Chapter two

2. LITERATURE REVIEW

2.1 Background of the dry cell industry.

Prior to liberalization in the late 1980's, the battery industry in Kenya consisted of only one monopolistic player (Union Carbide Kenya, now Eveready Batteries (K) Ltd.).

Liberalization introduced competition, officially from Panasonic, Phillips, Dynocell, and Daimon, and unofficially from Chinese manufacturers under various brand names like Tiger head, Domex, Golden bell, Double cat and Rhino. Look a like of the brand Eveready is a common scene in the market place.

These look-a a likes and low quality batteries are mainly from China and are of inferior quality compared to the main stream brands. They do not meet the minimum requirements set by the International electronics council (IEC). The prices of both the Chinese competitors and counterfeiters are 50% those of their equivalent among the official players. This is mainly because the importers of the Chinese batteries do not pay duty and VAT for them. (They are portrayed as transit goods that find their way into Kenyan market)

From the foregoing it's notable that we have five main official suppliers of dry cell batteries (Eveready batteries K limited, Panasonic, Fuji, Phillips and Gillette the suppliers of Daimon batteries). All the other cheap batteries are supplied from china by different importers. While some of the official players use all the marketing mix variables to sell their products the exporters from china concentrate on the pricing strategy alone. The supplier agrees on the pricing

with the importer before the batteries have left the country of origin. The exporter also negotiates his price with the main buyers in the Kenyan market and on arrival the batteries are quickly delivered to their various destinations. Due to evasion of duty amounting to 53% of the value of batteries, the importers are able to buy their way out and sell at a price that is appealing to the low end consumers. The main wholesalers of these batteries in Kenya are known by their customers and because of the huge margins and volume involved they don't distribute the batteries but the customers go to get the batteries from their outlets. Just to demonstrate this point, it's worth noting that when the cheap batteries are out of stock the sales of EBKL always double.

2.2 EBKL DISTRIBUTION STRUCTURE.

Channels of distribution within EBKL

1. EBKL → DISTRIBUTORS → WHOLESALERS → RETAILERS → CONSUMERS.
2. EBKL → DISTRIBUTORS → RETAILERS → CONSUMERS.
3. EBKL → RETAILERS → CONSUMERS.

The most common channel is No. 1. It is very useful for mass distribution of the product and takes goods where EBKL would not have reached. Channel No. 2 is commonly used for supermarkets and mini-markets. This study dwells on this particular channel. The last channel involves what is usually called key accounts. These are big retail outlets namely; Uchumi supermarkets, Metro cash and carry, and Nakumatt holdings supermarkets.

Research International, conducts monthly audits of the market for the dry cell industry. Results for the battery market audit as tabulated in table 1.1 shows that the numeric and weighted distribution of the cheap Chinese batteries are growing and hence the growth for the same types of batteries.. Notably this is happening in the open store markets and the kiosk. This is expected because the low-end consumer shops in these places.

Table 1.1 **KENYA BATTERIES –NUMERIC AND WEIGHTED DISTRIBUTION .**

BRAND	Numeric Distribution June 2002	Numeric Distribution June 2001	Weighted Distribution June 2002	Weighted Distribution June 2001
EVEREADY	67%	65%	80%	77%
PANASONIC	25%	30%	30%	36%
PHILLIPS	5%	7%	7%	10%
DAIMON	2%	10%	3%	11%
CHINESE	65%	50%	70%	61%

Source: Research International Kenya retail audit, June 2002 & June 2001.

2.3 Channel structure

Brayer (1967) defines marketing channel as a “man-machine” system, thus, it is composed of human beings and machines together with relationships between the human beings, the machines and their attributes. According to Stern and Ansary (1988) distribution system is a set of interdependent organizations involved in the process of making a product or service available for use or consumption. Churchill et al (1995) have a more comprehensive outlook they note that a channel structure is an organized network (system) of agencies and institutions which, in combination, perform all the activities required to link producers with users to accomplish the marketing tasks”. All these definitions point to one thing that marketing channel institutions/distribution networks are involved in the flow of goods/services between the producer and the consumer.

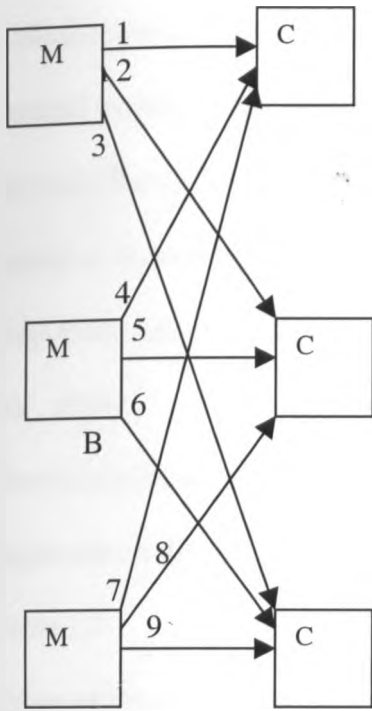
From the producer to the consumer the institutions in between can be referred to as intermediaries/middlemen. They are independent business entities specializing in linking sellers with the consumers. Without intermediaries we could be able to reduce distribution costs, if the supermarket can perform those functions more efficiently than a wholesaler, but the supermarket inventory costs may increase as a consequence, therefore no savings and less efficient. Then why do we need intermediaries? The following two reasons shed light to this question.

2.3.1 They improve efficiency

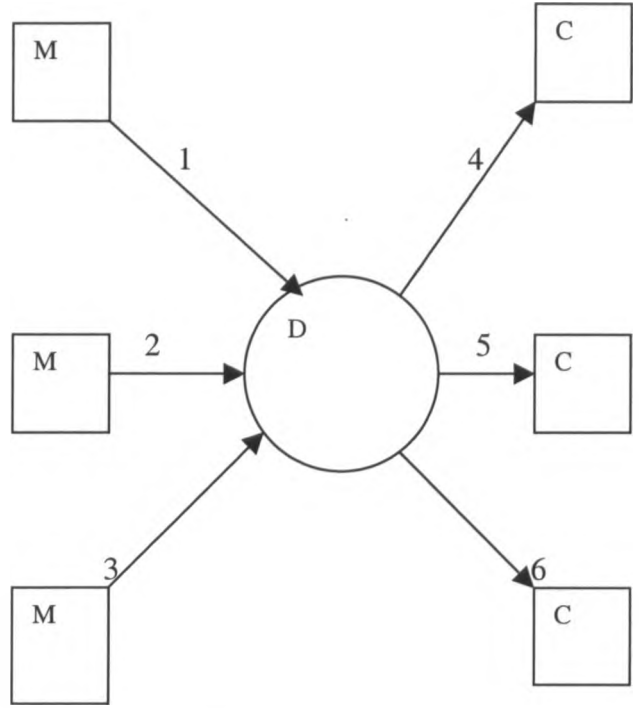
As Kotler (1994), observes the use of middlemen largely boils down to their greater efficiency in making goods available to target markets. There are certain costs associated with an exchange, therefore need to try to reduce the number of transactions (exchanges). As illustrated in the

figure below each buyer has to negotiate and exchange with each seller. With an intermediary, each buyer negotiates with one intermediary, and each seller negotiates with one intermediary. Hence these institutions between producers and consumers are middlemen who improves efficiency in making goods available to the target markets. It's practically impossible for a producer to deal directly with ultimate consumers (Stanton, 1991). Think for a moment how inconveniencing life would be if there were no retail middlemen-no kiosk, petrol stations or travel agencies for instance.

The figure below illustrates how middlemen improve efficiency;



A. Number of contacts
 $3 \times 3 = 9$



B. Number of contacts
 $3 + 3 = 6$

M = Manufacturer

C = Consumer

D = Distributor

Figure 1.1

How a distributor reduces the number of channel transactions

Source: (Kotler and Amstrong 1999)

2.3.2 Create value in the marketing channel

Intermediaries are specialists in the exchange process; they provide access to and control over important resources for the proper functioning of the marketing channel. If we were to eliminate them somebody would have to do their work. Functions can be shifted and shared among channel members, but cannot be eliminated, unless the buyer assumes them. “You can eliminate the middle man, but you can’t eliminate their functions” (Stanton et al 1991)- a well accepted maxim in marketing. Having the goods and services you want, when you want them, where you want them, and in the form you want them is the ideal result of marketing channels (Berkowitz et al, 1994).

Intermediaries are of different types depending on who they are serving, the table below expounds on this point;

Table 1.3

Types of intermediaries. Source Churchill et al (1995) pp 469

Agent or broker	An intermediary that negotiates purchases or sales but does not take title to products it handles.
Dealer	Distributor, retailer, or wholesaler.
Distributor	An intermediary- typically a wholesaler-that performs a variety of distribution functions, including selling, maintaining inventories, and extending credit; often serves industrial markets.
Retailers	An intermediary that sells to consumers.
Wholesalers	An intermediary that sells to other intermediaries; the term is most commonly applied to consumer markets

2.4 Major channels of distribution

There are various distribution channels that are in use. Since this study concerns consumer goods the researcher will expound on the channels dealing with consumer goods. Five channels are widely used for marketing tangible goods intended for ultimate consumers. The following figure makes this explicit;

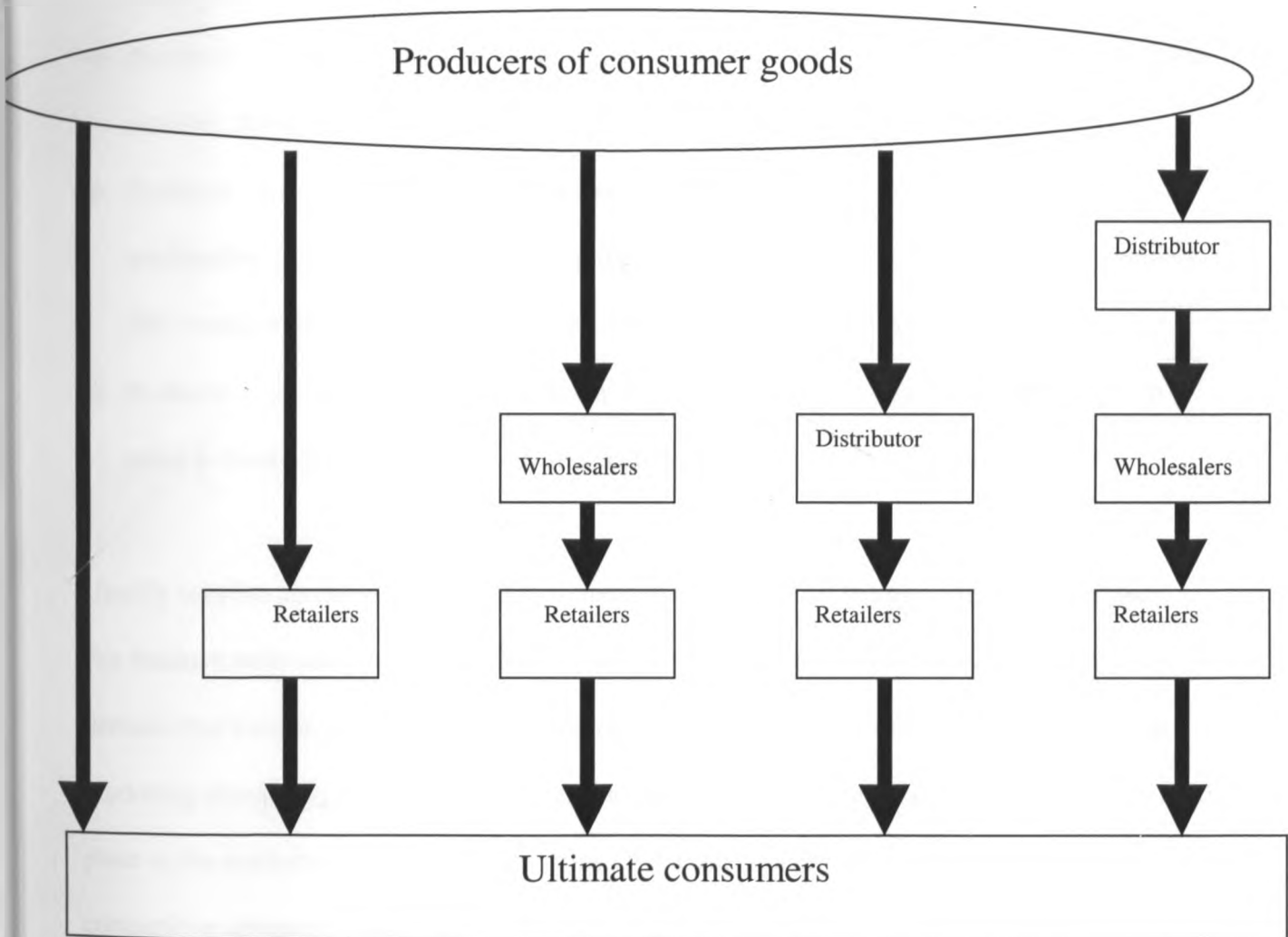


Fig 1.2 Consumer goods marketing channels.

Source: Adopted from Stanton et al (1991) pp 310.

As per the above figure the following channels could be used as follows;

- ❖ Producer → Consumer. This is the shortest and is very common with edible food producers during events and ceremonies. For instance Coca cola is known to directly serve people in big gatherings.
- ❖ Producer → Retailer → Consumer. Large retailers e.g. Uchumis supermarkets and Nakumatt supermarkets buy directly from the suppliers.
- ❖ Producer → Wholesaler → retailer → Consumer. This is the most common used channel . It has been found to be the most economical and effective.
- ❖ Producer → Distributor → Retailer → Consumer. Instead of using the wholesalers some suppliers prefer using their own distributors whom then serve the retailers. This works where the distributors have a very strong system in a certain area.
- ❖ Producer → Distributors → wholesalers → retailers → consumers. In order to have a more thorough networks that reach most parts this channel is adopted.

Usually supplier combines several of this channels depending on the prevailing circumstance.

For instance most companies in Kenya sells directly to the big retailers because the retailers demand that kind of service and want huge margins for themselves. Distribution is part of the marketing channel strategy. After product, price and promotional strategy the fourth “P” is called place or the marketing channel strategy. This “P” offers greater potential for gaining a competitive advantage than others because it is more difficult for competitors to copy in the short run (Rosen bloom, 1999). Establishing a marketing channel takes time and efforts because it is about relationships and people. According to Rosenbloom (1999) a distributor is an external organization that management operate to achieve it’s marketing channel objectives. External

means that the distributor is an independent firm and hence not part of the firm's internal organizational structure. This organization is operated by the management meaning that they get involved in its affairs. In most cases firms employ managers to handle the distributor on a daily basis. The manager ensures that the distributor has enough stock in servicing the market and is up to date as far as payments are concerned. Odondi (2001) simply defines distribution as the process of getting goods and services to consumers in an economic way while ensuring customer satisfaction.

The marketing channel objectives are goals and expectation that the firm has on the distribution system. Usually firms place quantitative figures as a target e.g. to achieve 60% numeric distribution and 80% weighted distribution.

2.5 RETAILING

According to Bolen (1988) retailing is the summation of all activities that add up in the offering for sale of goods and /or services to individuals and/or organizations for purposes of ultimate consumption. This definition is in four parts;

a) Summation of activities;

This includes all the activities that goes into giving the product/services place utility in making it convenient for buy (Stern & Ansary,1988). Retailers have been known to advertise by placing poster on a notice boards, give credits facilities (rural shops in Kenya have the debtors exercise books), to break the bulk (retailers are forever re-packing the Kapa Oil in their shops) and opening late for customers. If the retailer selects properly and performs efficiently the various retailing activities, the chances of retail success are increased. (Bolen, 1988).

b) Goods and services

Retailers are not only into the selling of goods but they also sell services. Think of the young man who pushes the knife sharpener in the estate, the cameramen who takes all the snaps of the house-help and the Kencell shops at Uchumi who will un-lock your phone. What about the Eveready battery retailer who will give you free batteries upon qualifying for them in the “collect four get one full promotion” (April to July 2002 Eveready Consumer promotion). All these are services that are provided for by the retailers, the provision of goods for sale by retailers is obvious.

c) Individual and/or organization.

Retailers don't only serve individuals but they are also into organization service. Think of primary school teachers who order their ten o'clock tea from the nearest hotel on a daily basis, what of myriad of companies in Nairobi who are supplied with a reception flower by the florist downstairs. Retailers have an opportunity to expand their business in organisations.

d) Ultimate consumption.

The fact that retailing is to the consumer differentiate it from intermediate marketing. For all purposes in this paper retailing is taken to be the final contact between the product/service with the consumer. Even when an item has been bought for use by others the consumption is still ultimate.

Retailers have been an integral part of the Marketing systems for hundreds of years. Retail shops have existed in some form in every civilized land. From the Marketing square in ancient time to

the shops of England in the 1500s to the nearly 2M retail establishments in the US today (Bolen, 1978). In Kenya retail shops take the form of dukas, kiosks, supermarkets, mini markets, convenient shops, sale stores, speciality stores, showrooms, combination store, supermarket, open stores, outlet stores. According to Kotler & Armsrong (1994) this description is by the length and breadth of their product assortments.

1). Dukas.

These are outlets found mostly in peri-urban and urban areas in Kenya. They have between one to two attendants as per Research international Kenya definition. They carry all types of goods as dictated by the demand of the particular location they are situated in.

2). Kiosks.

Research international Kenya defines kiosks as branded or unbranded outlets that will mostly be found on the roadside.

3). Supermarkets.

In Kenyan terms a supermarket is any outlet where the customer has the freedom of picking the product other than relying on the shopkeeper. In the recent past most of the wholesales have evolved into supermarkets. Kotler (1994) defines supermarket as large, low cost, low margin, high volume self-service stores that carry a wide variety of foods, laundry and household products.

4).Hyper-market.

This is an outlet which is in itself a one stop shopping experience. It will also be identified by its sheer size. In Kenya- Sarit Hyper, Ngong Hyper and Nakumatt Mega Mart can pass for hyper-markets. However this kind of outlets are small in the developed markets to pass for hypermarket. One feature that makes them very popular in Kenya is their ample parking space coupled with lots of space in between shelves in the outlets. Families are known to take outings in the Hypers and the good thing is that they end up buying.

5).Mini Market

This is a peri-urban and urban concept. These are types of Supermarkets in a small way. They serve the local communities in terms of foodstuffs and other daily needs. They are a very common site in the estates and are usually owned by elderly persons who have just retired from formal occupation.

6). Convenient shops.

Are small stores, which carry a limited line of high turnover goods (Kotler & Armstrong 1994). As the name suggests they bring convenience into the equation of shopping. In Kenya these are roadside outlets that are part of petrol stations. They sprang up to serve the motorists as they wait for the re-fuelling of the vehicles. However they have become a big time business and this is evidenced by the expansion cited all around. A feature common with the convenient shops would be the fact that they close very late in the night and some operate around the clock. They go by the names of Mobil mart, star card, Quick shops etc. Consumers use convenience stores for “fill in” purchases at the off hours or when time is short and are willing to pay for the convenience.

6). Sale store

This kind of store is a recent phenomenon. A sale store is a combination of many small outlets selling the same item. Most of the sale stores in Kenya deal with clothing items. This concept found it's way in Kenya from Uganda after the market liberalization in 1992. Sale stores have also combined clothing shops with supermarkets.

7) Specialty shop.

A specialty store is an outlet that centers it's efforts on one merchandise line (Bolen, 1978). This kind of outlets would be found in shopping complexes e.g. Chintu in Sarit Center and Tune inn shop at Yaya Center. Specialty shops are prospering because of market segmentation, targeting and product specialization (Kotler, 1994).

7). Open Store

These are outlets on the roadside or in a central location. Usually the merchandise is arranged in the morning and packed in the evening, Gikomba market in Nairobi is a good example of what an open store would be like. There are many lines of merchandise ranging from electric gadgets, clothing to hardware.

8). Outlet stores

These stores are direct selling outlets for manufacturers (Bolen, 1978). The Kencell and Safaricom shops are a case in point. They try to be an icon of what they think their shops should look like and give excellent customer service.

Retailers have become a force to contend with and make tough demands on the manufacturers who supply them. Uchumi has become notorious in charging for space in the shops, a combination of Nakumatt, Uchumi and Metro squeezes hefty discounts from manufacturers. This has caused many manufacturers to relook at their distribution channel in order to deal with these growing powerful retailers. However manufacturers who move most of the volumes through these big retailers have to contend with the high cost of space.

2.6 CONFLICT IN THE DISTRIBUTION SYSTEM.

The distribution system is social in that there are two or more actors involved. On one hand we have the distributor and retailer and on the other hand we have the producer/manufacturer versus the distributor.

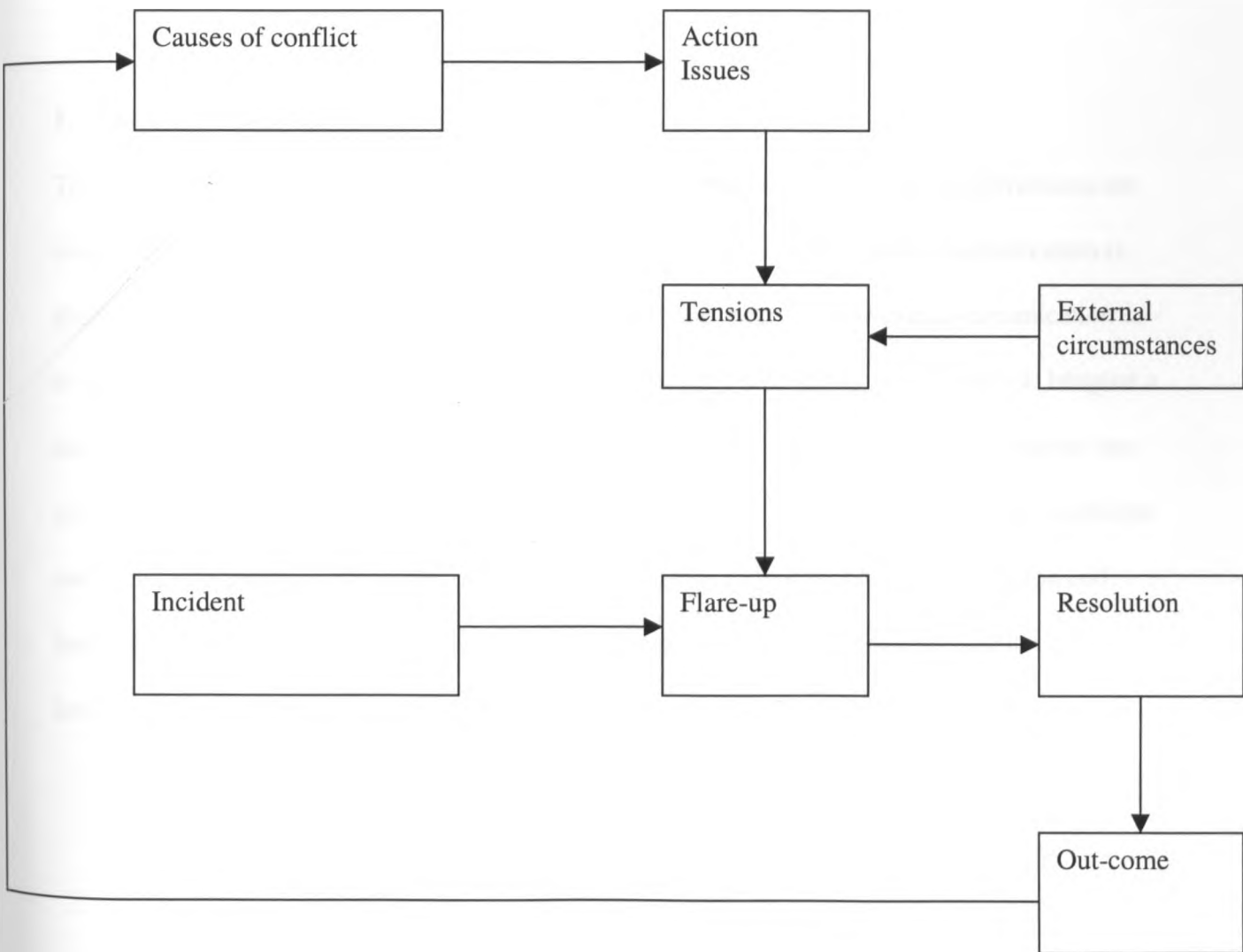
When this firms or agencies interact the fundamental behavioral dimensions comes into play namely conflicts, power, role and communication processes (Rosenbloom, 1999). For the purpose of this research paper the focus will be on conflict between the distributors and retailers. There are many definitions of conflict as there are behavioral books, however in this context conflict exists when one member in the distribution system feels that another member has acted inconsistently with the laid down guidelines or hurts the opportunity of another member to make more money.

As observed by Sims and others (1977) in their book "Marketing Channels", conflict among firms in the marketing channels may be defined as adversary-directed actions designed to thwart, injure destroy or manipulate the actions of some other channel member.

For instance a conflict may ensue between a distributor and retailer in EBKL. The distributors are supposed to service a certain route on a weekly basis. On one of those trips, one of the best

retailer doesn't have enough cash to purchase the weeks stocks and the distributor is unwilling to extend credit. The retailer perceives that his/her chances of making profit from sale of Eveready batteries during that week are being threatened and a conflict arises. The retailer can even decide to sell another brand and hence it's not only the daily sales that are lost but the customers too. However the distributor is also right in his own respect because the manufacturers don't extend any credit. Such discrepancies between what is good for the distributors and what is good for the retailers have led to substantial conflict between parties.

Fig 1.3 The conflict process, Source: Sims (1977) pp.209.



This research will look into the following seven areas of disagreements as noted by Rosenbloom (1999) and contextualized by the researcher to fit in the Kenyan situation.

1. Communication
2. Perceptual difference
3. Trading terms
4. Route service
5. Vested interest in distributorship and retailing by the distributor
6. Decision domain disagreements
7. Goals incompatibility.

1. COMMUNICATION

This is the vehicle to all interactions among the channel members whether such interactions are cooperative or conflicting (Rosenbloom, 1999). Kotler (1994) observes that communication is the process of relaying the message from the sender to the receiver. However communication as it were is a difficult thing and miscommunication can easily degenerate into a conflict. Imagine a case where the firm EBKL has a nationwide trade promotion. On buying so much batteries you are entitled to a certain discount, the message is supposed to flow from the firm to the distributor and then to the retailers. Consider a case where the distributor withholds the information and hence does not pass the discount to the retailers. The distributor gains but if the retailer comes to know a conflict ensues.

2. PERCEPTUAL DIFFERENCE

Perception refers to the way an individual selects and interprets environmental stimuli (Rosenbloom, 1999). However interpretation of stimuli can be different from reality. It's possible to see the same stimuli but attach different meanings and interpretation e.g. when the distributors receive point of sale materials from the firm, they are supposed to hand them over to retailers or better still paste them on strategic sites. However some retailers are known for using point of sale materials as wrap papers for the merchandise that they are selling. Hence the retailers view the point of purchase displays as packaging material other than a tool for branding and creating awareness.

3. TRADING TERMS

Business in Kenya is highly competitive and margins for the whole spectrum of trade have been shrinking. Business people have therefore been forced to change the way they do business in order to stay above board. One has to give extra-services in-order to keep customers, for instance the distributors give credit terms, deliver goods at retailers doorstep, pick up the goods and sell on behalf of retailers when they are stuck etc.

However all these services are a cost to the distributor and they will sometimes not be keen to perform them. The distributor may deliver goods and pick up a post-dated check only to deliver the check in the bank before the due date. This not only causes conflict but acrimonious working relations. The bank charges the retailer for non-sufficient funds which is an added cost to the operations of the retailer. As this paper was in progress there was a serious conflict between the retailers and the distributors in the giant Coca cola company. This conflict had emanated from the supplier. The company reduced the margins for wholesalers and distributors by a hefty 85%

amidst strong protests (Financial standard 2002). The retailers want continued service from the distributors and wholesalers while the two feel that they cannot operate at such low margins. Coca-cola has resulted into serving the retailers directly and we wait to see how far Coca-Cola can go.

4. ROUTE SERVICE COVERAGE

Distribution system in Eveready is regional based. Hence a distributor in a certain region is expected to fully cover all the outlets in the area. As times goes by other factors comes into play namely: -

- How profitable is the route?
- The security risks associated with the route
- How accessible is the route

Due to the above factors the distributor may respond in one of the following ways: -

- May be irregular on a particular route to avoid being way laid by thugs.
- May abandon the route and let it be served by opportunistic traders.

This will obviously cause the retailers to complain and a conflict emerges. The retailers point of view would be that the distributor should be consistent and regular to enable him/her to plan the purchases but the distributor also has interests to take care of.

5. VESTED INTEREST IN DISTRIBUTING AND RETAILING

Some distributors double up as owners of supermarkets while at the same time distributing. This gives them undue advantage over those they compete against. For example the distributor get about 5% margin for every piece of Eveready battery that they sell, if the distributor has a retail shop and start retailing he can be able to be 5% lower in price than all other retailers. Retailers in such regions have lots of complaints because of the unhealthy price wars.

Manufacturers have minimized this by having a contractual agreement to the effect that incase a distributor wants to retail they must always sell at the recommended prices. This could be an advantage to such a distributor in that his/her products will be the most highly priced in the region bearing in mind that the going price in market is usually lower than the recommended price. Hence there is huge profit made per piece of every battery bought and the downside of this is that the consumers may perceive such an outlet as expensive and boycott any purchase from there. Distributors have managed to keep within the law and still discount the product in question by banding it with another product.

6. DECISION DOMAIN DISAGREEMENTS.

According to Rosenbloom (1999) channel members explicitly carve out for themselves an area of decision making that they feel is exclusively theirs. Of course there are that business that have proper guidelines and decision-making procedures well spelt out. However sometimes decisions may be “up for grabs” even where guidelines exist. A case in point is when a distributor decides to give certain big retailers some volume discount. Even if the distributor had an agreement with a particular retailer that they should not sell below a certain price, this may happen. This is

because the distributor has no control on how the retailer should use the discount once it is given to them.

7. GOAL INCOMPATIBILITY

Members in marketing channel pursue their own goals. When the goals of two or more of the members are incompatible, conflict can result (Rosenbloom, 1999). In today's competitive arena the share of consumers' mind is important but equally important is the share of shelf space in retail outlets. Manufacturers know this for a certain and there has been a push to have the distributors own this share in their region. Hence you'll find distributors sales people haggling for self space in retail outlets. The retailers has no loyalty to any one brand their interest is to give their customers choice and reap maximum benefits. Hence, when the distributor wants to supply a display unit for the exclusive display of one brand the retailer becomes hesitant. Even when the display unit is accepted it will not be exclusive but all the brands of the same category will find themselves there. No wonder all the display units for Eveready batteries have all the other competitors on them. In this scenario seeds for conflict are planted over divergent goals.

2.7 CONFLICT RESOLUTION STRATEGIES

As indicated by Reeder (1988), there are six main conflict resolution strategies namely; competition, collaboration, avoidance, accommodation, compromise and coalition.

Competition

Individuals seeks to achieve their goals or further their interests by utilizing either their formal authority or the formal authority of a mutual superior in the organization to resolve the conflict in their favour. In the case of EBKL retailers call the head-office to complain of poor service or an out of stock situation.

Collaboration

Here the parties concerned cooperate and search for a for a mutually beneficially solution. A case in point is where the distributors would sit down with the retailers and arrange on credit terms e.g. upon every delivery the retailer is requested to issue a ten days post-dated check.

Avoidance

Sometimes conflict can make individuals to withdraw and when this happens no attempt is made to resolve the conflict in one way or another. In EBKL distributors withdraw when they have consistently received bouncing checks from a retailer. The salesmen are instructed not to visit the particular outlet with problems.

Accommodation

This is a passive and submissive strategy. It places the concerns of others before their own. It has been borrowed from the Bible in Phillipians 2:3 “considering others better that yourself”. This strategy is seldom used in a business environment.

Compromise

Here the parties concerned give up something of value to the other party. For instance the retailers may be asked by the distributors to pay one day before delivery and upon delivery they are given some discounts

Coalition

Individuals join in a cooperative effort for the purpose of exercising control over others. This happens when the distributors select the top buyers and incentivize them to over-stock over a period of time. Within the stated period the distributor has those traders in his/her docket.

However these terms need to be simplified for the purposes of this study. The researcher has come up with the following definition of terms in a simpler manner.

Competition.

By reporting the conflict to Eveready head quarters office.

Collaboration

By having a meeting with the distributor to iron out issues

Avoidance

By avoiding the distributors and having nothing to do with him/her.

Accommodation

By always agreeing with what the distributor says

Compromise

By giving up something and in return asking the distributor to give up something

Coalition

By teaming up with the distributor for the benefit of the two of us

Chapter three

RESEARCH DESIGN

3.0 INTRODUCTION

This chapter sets out the research methodology that will be used to meet the objectives of this research study. It will cover research setting, the population, sample, and data collection instruments and data collection techniques.

3.1 The Research setting

In this study the retail outlets will be represented by mini-markets for the following reasons;

- ❖ About 80% of the mini-markets are served directly by the distributors and within the self-service store category they are the fastest growing.
- ❖ They represent the middle line between the big retailer and the small duka.
- ❖ It is easier to conduct a research within this category because it is easier to map out a specific area.

The dry cell industry will be represented by EBKL. The reason behind this selection is that the rest of the major players don't have reliable distribution network. They do direct supplies apart from Gillette inter-product who have closed operation for their Daimon battery. The un-official suppliers of chinese battery are very hard to track and nobody would be willing to volunteer information because the batteries are sold illegally.

3.2 The population

The study will be conducted within Nairobi because as the table (3.1) below shows this region has the highest number of mini markets in Kenya.. The population therefore would be all the 192 mini-supermarkets in Nairobi.

Table 3.1 No. of mini-supermarkets in Kenya

REGIONS	Hyper-supermakets	Mega Supermarkets	Supermarkets	Mini Supermarkets	Total
Central	15	11	25	44	95
Central Rift	7	9	50	164	230
Coast	6	7	12	48	73
Eastern	9	8	21	54	92
Mount Kenya	15	13	20	76	124
Nairobi	36	15	94	192	337
North Rift	2	10	33	94	139
Nyanza	11	12	23	48	94
South Nyanza	3	2	21	120	146
Western	7	8	19	50	84
Total	111	95	318	890	1,414

Source: Research international Kenya.

Table 3.2 No of mini-supermarkets by the eight divisions of Nairobi;

DIVISIONS	Central	Dagoreti	Embakasi	Kasarani	Kibera	Makandara	Pumwani	Parklands
No. of mini Supermarkets	11	25	46	36	33	16	15	10
Percentage of mini-supermarkets	6%	13%	24%	19%	17%	8%	8%	5%

Source: Research international Kenya.

3.3 The sample

In a population of 10 million, a sample of more than two million can be misleading, while a sample of 1,000 drawn in a proper manner can be adequate (Cooper and Emory, 1995). For the purpose of this study 36 units will be used. This conforms to the widely held rule of the thumb; To be representative, a sample should have thirty or more test units (Wayne and Terrell, 1975). The sample units in each division will be arrived at by multiplying the number of mini-markets in each division by 36 and then divide by 192. When weighted thus we will arrive at the following sample size in each area.

Table 3.3

DIVISION	Central	Dagoreti	Embakasi	Kasarani	Kibera	Makandara	Pumwani	Parklands
No of mini Supermarkets in the sample	2	5	8	7	6	3	3	2

3.4 DATA COLLECTION

Primary data collected via a questionnaire will be used.

The researcher intends to train some two research assistants who will help in collecting the data.

To minimize non-response rate the research assistants will administer the data on a one to one basis. In case the respondent are busy interviews will be held to assist the process. The respondent will be the owner of the business or the managers in charge.

4.0 DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

Data collected was analyzed by the use of descriptive data analysis including tables, charts, and percentages to present both response rate and information on other variables. Tables and chart are easy for interpretation. Ms-excel software was used to summarize, cross tabulate and sort out the data to give appropriate rankings and strengths of various factors.

Out of the 36 questionnaires that went out with the research assistants 34 came back and were used to analyze the data hence a response rate of 94% was achieved.

The analysis will be divided into three parts for ease of analysis and also to capture the three objectives systematically namely; Sources of conflicts, extent of the conflicts and Conflict resolution strategies

4.2 SOURCES OF CONFLICTS

TABLE IN PERCENTAGES							
SOURCES OF CONFLICTS		Strongly Agree	Agree	Not Decided	Disagree	Strongly Disagree	Not answered
1	Discounts from the company are communicated late to us	6%	9%	6%	62%	17%	0%
2	We never get to know when there are new display stands from the company	24%	6%	12%	46%	12%	0%
3	Promotional Point Of Sale Materials get to us late	17%	9%	21%	32%	21%	0%
4	Price-list changes are communicated late to us.	15%	3%	15%	38%	26%	3%
5	We use the point of sale materials as packaging paper.	12%	29%	3%	12%	41%	3%
6	Eveready Display Stand Used For Other Competing Products.	35%	15%	6%	12%	32%	0%
7	We have no credit facility from the distributor.	32%	18%	6%	15%	29%	0%
8	The distributors are notorious for banking post-dated cheque before due date	0%	0%	9%	44%	47%	0%
9	No volume discounts to incentivise one to buy more	32%	41%	9%	9%	9%	0%

10	Distributors Route Service Is In Consistent.	3%	12%	3%	41%	41%	0%
11	Unfriendly Distributor Sales Men.	0%	0%	3%	32%	65%	0%
12	No Assistance In Moving Out Slow Moving Products From Eveready.	6%	6%	12%	59%	15%	3%
13	No Emergency Supply Service.	3%	9%	12%	59%	15%	3%
14	Not Alerted When Offer Is About To Close.	11%	12%	12%	41%	21%	3%
15	Not Alerted When A Particular Product Is Out Of Stock.	15%	15%	21%	32%	12%	6%
16	Extension Of Some Discounts To Some Selected Traders.	6%	0%	38%	32%	21%	3%
17	Access To Distributor Manager Is Difficult.	3%	0%	0%	0%	0%	97%
18	Credit Period For Eveready Should Be 45 Days.	3%	0%	0%	0%	0%	97%
19	Products Lines Out Of Stock Reappearing Months Later.	0%	0%	0%	0%	3%	97%
20	Company Communicating About Changes In Packaging On Time.	0%	0%	0%	0%	3%	97%
21	Distributors Runs Out Of Goods.	0%	0%	0%	0%	3%	97%
22	Introduction Of New Products.	0%	0%	0%	3%	0%	97%
23	Company Carries Out Promotion To Selected Traders e.g. Uchumi & Nakumatt.	3%	0%	3%	0%	0%	94%
22	Distributors Retains Orders On Pending Payments.	0%	3%	0%	0%	0%	97%
23	Limited Profit Margin Compared To Competitors.	3%	0%	0%	0%	0%	97%

The above table brings out five major sources of conflict namely

1. Information on new display stands with strength of strongly agrees had 24% voting for it.

Though the number of those who strongly agree is significant there was a large number of those who disagreed with this statement meaning there was no conflict. The most probable explanation could be that the company has never at any one time produced enough display stands for all that needed them.

2. There is rampant use of Eveready point of sale material as packaging paper.

29% of the respondents confessed using the Eveready point of sale materials as packaging paper.

This could be in situations where the person responsible for putting up the point of sale materials gives them to the shop owner. In the process the poster does not go up but is used as packaging paper.

3. Retailers are not happy with the distributors for not extending credit facilities.

This would be a cause of conflict in many fast moving consumer goods industry. Many companies argue that you need not give any credit to the trade because the goods will not stay on the shelf. Hence companies concentrate regular servicing of the retail market. This way the trade takes what they can sell within a certain period without running into credits.

4. Eveready display stand is also used for other competing products.

This is a widespread problem in many industries because there is no enough space in the outlets. The retailer's concern is to offer choice to the consumer but the distributor is primarily concerned with pushing his one line of product. Somehow the compromise is to allow the dominant brand in the category have a display stand but give a little space to the competition.

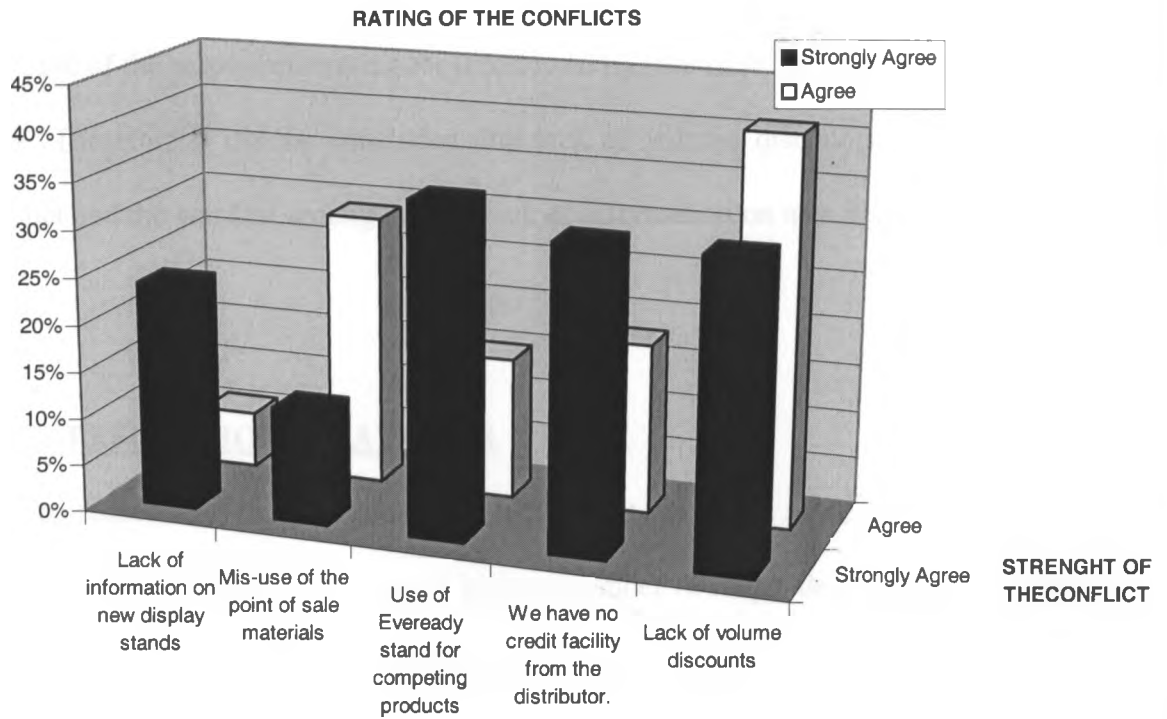
5. Volume discounts are non existent.

Volume discounts have been used widely in the past but they have lost their relevance in today's cutthroat competition. Once a firm extends this kind of discount it is used by the big buyers to destabilize price in the market.

Out of these five sources of conflict all of them apart from use of point of sale materials scored a strength of strongly agree. It is also important to note that apart from the 16 conflicts that the researcher could think of the respondents came up with 7 more conflicts. In identifying the conflicts the respondents were to rate each statement on a scale of 1-5 where 1 was strongly agree and 5 was strongly disagree. Strongly agree and agree means that a conflict exists while the rest means there is no cause for alarm. Hence the analysis only considered an item as a source of conflict if there was a large number of respondent ticking it as either strongly agree or agree.

4.3 EXTENT OF THE CONFLICT

The chart below shows the extent to which the retailers rate the strength of the identified conflicts. 24% of the respondent strongly agreed that information is lacking on new display stands while 6% just agreed with the statement. Misuse of the Eveready point of sale materials had 12% of the respondent strongly agreeing and 29% agree that this is true. Eveready display stands are liberally used by the respondent, 35% of them strongly accepted that this happens while 15% just agreed that this is true. Lack of credit facility show 32% of the respondent strongly agreeing that this is not forth coming while only 18% felt agreed with this statement. Lack of incentives on volume discount had a large number of respondent strongly agreeing at 37% and agreeing at 41%.



CONFLICTS IDENTIFIED

In- order to rate the strength of each of these five identified sources of conflict an average figure for strongly agree and agreeing rate was calculated as follows;

SOURCES OF CONFLICTS	Strongly Agree	Agree	Average
Lack of information on new display stands	24%	6%	15%
Mis-use of the point of sale materials	12%	29%	21%
Use of Eveready stand for competing products	35%	15%	25%
We have no credit facility from the distributor.	32%	18%	25%
Lack of volume discounts	32%	41%	37%

The table above shows that lack of volume discount averaged at 37% of the total respondent followed by use of Eveready stands for competing products which tied with lack of credit facility from the distributor at 25% of respondent voting for it. Mis-use of the Eveready point of sale materials had 21% of the respondent voting for it followed by lack of information on new display stands at 15%. Therefore it can be concluded that lack of volume discounts is the strongest source of conflict and the weakest among them is lack of information on new display stands.

4.4 CONFLICT RESOLUTION STRATEGIES

In this section the respondent were to choose the best conflict resolution strategy to deal with the stated conflict. Hence the strategy that had the highest number of respondents voting for it was deemed the best strategy to deal with that particular conflict. For all the conflicts except four the respondents preferred the collaboration strategy. It also stand out as one of the strategies that was voted for by more than half of the respondent in almost all instances. In the cases of banking post-dated cheque before the due date, failure to inform the retailer when an offer is just about to close, failure to inform on out of stock of a particular product and extension of discounts selectively, the respondent voted the competition strategy as the best route of resolving these conflicts. However this strategy is not as popular as collaboration. For those strategies that are unpopular compromise had the least number of respondent voting for it.

Chapter five

5.0 INTERPRETATION, RECOMMENDATIONS AND LIMITATIONS.

Generally this research has identified only five sources of conflict meaning that the EBKL network has a well-established distribution network that has created strong relationships for smooth running of operations. This fact is further supported by the fact that even for cases where a conflict was identified, the number of respondent averaged 30% of the total. On the other hand the number of those disagreeing with the statement meaning lack of conflict averaged 40%.

However EBKL need to sort out its pricing structure to allow for volume discounts as this seem to be the major complaint coming from the retailers. It scored an average of 37% when considering strongly agree and agree. Maybe if this was effected EBKL could be able to move more volumes through the mini-supermarkets. This would in return enable the retailers to give better prices to their customers.

Credit facility has become a very major issue especially in this age of cutthroat competition in the retail sector. Quarter of the respondent felt that this is lacking as can be read from the average table. EBKL should take the initiative of extending credit to the distributors who should then be able to do the same to their customers. However this move has some risks involved and caution need to be exercised.

Use of the Eveready display stand for competing product averaged at 25% of the respondent.

Usually because of space the retailer will not allow all the suppliers to have stands in the shops. EBKL being the greatest supplier of dry cell batteries are therefore the one who provides display space for all other batteries. This is not an easy conflict to handle and a compromise should be

arrived at. Though the retailers came up with the collaboration strategy I think this is to provide a chance of meeting the distributor to get a compromise. EBKL can allow competitors products on their display units but be given at least 80% of the space. The other alternative is to give display units that are commensurate to the size of the outlet. This will ensure that the stand is almost always full.

Point of sale material seems to be given a lot of abuse. Instead of being placed on strategic site to create information they seem to benefit the retailer. At-least 21% of the respondents accepted that they use the point of sale materials as packaging materials. EBKL should make sure that all the point of sale materials that are given out are put up by the company representatives. No materials should be given to the retailers to be put up later because that may well mean that they are automatically packaging papers.

Information on new display units seems not to be flowing smoothly. An average of 15% of the respondents complained that information on new display units never get to them. Maybe EBKL doesn't have enough display units in the market and hence many retailers are left out when new ones are introduced. The company representatives on realizing this maybe chooses to be quiet about the situation and the retailers discover from other sources about new display units. Display units are a function of the advertising and promotional budget and the researcher recommend that different display units be made for different shops. If for some reasons all the retailers didn't get the stands then they should be formally requested to wait for the next lot.

Limitation of the study and suggestions for further study

Though the researcher is quite familiar with the industry of the study the interpretations of this study should be applied in the light of the following:

- ❖ This study only covered the Nairobi region and there could be some regions in the country that could have some unique conflicts to them. Hence to have a full picture a countrywide sample need to be evaluated.
- ❖ The researcher also discovered that there could be many more conflicts that are not obvious to the organization e.g. there are some retailers who want access to the distributors at all times and they feel that this hasn't been easy. This being the case, a countrywide research on the same may give many beneficial insights into this topic.

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Appendix I

Date: 29th Aug 2002.

To Whom It May Concern:

Dear Sir/Madam,

RE: Research questionnaire

I am a research assistant carrying out a research on retailers and Eveready battery distributor relationship on behalf of David kinuthia-An MBA University of Nairobi student.

All the information provided is entirely for academic purposes and your name or that of the shop will not be referred to in the final analysis.

Your assistance will be highly useful

Thank you.

Yours truly,

Student

A handwritten signature, possibly "David Kinuthia", written in black ink over a horizontal line.

Description of the item**tick whichever is appropriate**

- | | | | | | |
|---|-----|-----|-----|-----|-----|
| 1. Discounts from the company are communicated late to us | (1) | (2) | (3) | (4) | (5) |
| 2. We never get to know when there are new display stands from the company | (1) | (2) | (3) | (4) | (5) |
| 3. Promotional point of sale materials get to us late. | (1) | (2) | (3) | (4) | (5) |
| 4. Price-list changes are always communicated late to us. | (1) | (2) | (3) | (4) | (5) |
| 5. Sometimes we use the Eveready point of sale materials as packaging paper. | (1) | (2) | (3) | (4) | (5) |
| 6. The Eveready display stand is also used for other competing products in our outlets. | (1) | (2) | (3) | (4) | (5) |
| 7. We have no credit facility from the distributor. | (1) | (2) | (3) | (4) | (5) |
| 8. The distributors are notorious for banking post-dated cheque before the due date. | (1) | (2) | (3) | (4) | (5) |
| 9. There are no volume discounts to incentivise one to buy more. | (1) | (2) | (3) | (4) | (5) |
| 10. The distributors route service is in-consistent i.e. there are no specific days of service. | (1) | (2) | (3) | (4) | (5) |
| 11. The distributors sales-men are un-friendly. | (1) | (2) | (3) | (4) | (5) |
| 12. We are not assisted in moving out slow moving | | | | | |

Products from Eveready.

(1) (2) (3) (4)

(5)

13. There are no emergency supply services if one has
abrupt out of stock.

(1) (2) (3) (4) (5)

14. I am not alerted when an offer is just about to
close.

(1) (2) (3) (4) (5)

15. I am not alerted when the company is just about
to run out of a particular product.

(1) (2) (3) (4) (5)

16. My distributor extends discounts to some selected
traders in these region.

(1) (2) (3) (4) (5)

Please mention any other item of conflict that you feel
Hasn't been captured by this list.

17. _____

(1) (2) (3) (4) (5)

18. _____

(1) (2) (3) (4) (5)

19. _____

(1) (2) (3) (4) (5)

20. _____

(1) (2) (3) (4) (5)

3. CONFLICT RESOLUTION STRATEGIES

According to you which of the following strategies will best solves the above conflicts or disagreements. The five strategies are;

1. Reporting the case to the head-office
2. Have a meeting with the distributor
3. Have nothing to do with the distributor
4. Always agree with the distributor.
5. Have a compromise by giving up something while the distributors also give up something.

The researcher shows the below score grind to facilitate the interview.

CONFLICT RESOLUTION STRATEGIES.

1	2	3	4	5
Report the case to the head-office	Have a meeting with the distributor	Have nothing to do with the distributor.	Always agree with the distributor	Give up something while the distributor does the same

Description of the item

Tick whichever strategy is most appropriate

(One strategy only)

1. Discounts from the company are
communicated late to us (1) (2) (3) (4) (5)
2. We never get to know when there
are new display stands from the company (1) (2) (3) (4) (5)
3. Promotional point of sale materials get to us
late. (1) (2) (3) (4) (5)

4. Price-list changes are always communicated late to us. (1) (2) (3) (4) (5)
5. Sometimes we use the Eveready point of sale materials as packaging paper. (1) (2) (3) (4) (5)
6. The Eveready display stand is also used for other competing products in our outlet. (1) (2) (3) (4) (5)
- 7 We have no credit facility from the distributor. (1) (2) (3) (4) (5)
- 8 The distributors are notorious for banking post-dated cheque before the due date. (1) (2) (3) (4) (5)
- 9 There are no volume discounts to incentivise one to buy more. (1) (2) (3) (4) (5)
- 10 The distributors route service is in-consistent i.e. there are no specific days of service. (1) (2) (3) (4) (5)
11. The distributors sales-men are un-friendly. (1) (2) (3) (4) (5)
- 12 We are not assisted in moving out slow moving products from Eveready. (1) (2) (3) (4) (5)
- 13 There are no emergency supply service if one has abrupt out of stock. (1) (2) (3) (4) (5)
- 14 I am not alerted when an offer is just about to close. (1) (2) (3) (4) (5)
- 15 I am not alerted when the company is just about to run out of a particular product. (1) (2) (3) (4) (5)

16 My distributor extends discounts to some selected

traders in this region.

(1) (2) (3) (4) (5)

Please indicate the strategy for the extra conflicts.

17. _____

(1) (2) (3) (4) (5)

18. _____

(1) (2) (3) (4) (5)

19. _____

(1) (2) (3) (4) (5)

20. _____

(1) (2) (3) (4) (5)

THE END