On The Use of Channel Incentive Programs: A Cross Country Analysis on the Crop Protection Industry in Brazil and USA

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Abstract

This paper presents a new theoretical form of analyzing marketing channel incentive programs. It suggests that the distribution of power among dealers and manufacturers plays a key role defining the performance measures and benefits used by manufacturers with dealers. A cross country analysis is conducted and the same three firms were selected in Brazil and in US in the crop protection industry, an industry where incentive programs are being widely used. While market context explains much of the difference in how power is distributed between dealers and manufacturers in both countries, the incentive programs used in the US and in Brazil evolved very differently. The research is organized in the spirit of grounded theory with the use of multiple case studies. The paper also offers a method in management practice for creating relationships with channel members using incentives.

Key words: Incentives, channels, crop protection industry.

1. Introduction

Incentive programs are defined as the behaviors or policies described in standard agreements which are designed to motivate the active support from the channel member to the manufacturers` agenda. Incentives are used to allocate resources and functions, reach objectives, control channel actions, manage conflicts and promote channel member adaptation (Gilliland, 2003). Well known incentives include extra product given by a manufacturer to a retailer as a bonus when the retailer achieves a certain level of sales quota, or a cash discount if the dealer takes an early stock position. The pioneering industries using channel incentives programs are the automotive, and the computer hardware and software industries. More recently other industries have implemented them globally such as the agricultural input industry.

Power in marketing channel has been related to the relative dependence theory. It means that the extent one channel member perceives itself as dependent on another channel member. The more channel member A depends on channel member B, the more powerful B is going to be relatively to A (Frazier, 1999). This notion of power may have a strong impact on how channel incentives are used by manufacturers, considering a more or less powerful dealer.

The trend towards product commoditization with the sales growth of generic brands and private labels in many industries has shaped how power is distributed among channel members. The ability to influence the final costumer purchase decision has clearly favored dealers over manufactures (Shervani, Frazier, Chalagalla, 2007). In the industrial marketing arena, while some manufacturers are struggling with how to by-pass powerful channel members with new business models based on internet or communication pull strategies, others are convinced that the best way is getting their branded products supported with the use of committed channel members. Incentive programs have been largely implemented by manufacturers trying to influence or

control channel members in order to encourage them to strengthen the manufacturer's market positioning, either selling or supporting final costumers (Gilliland 2002).

Despite the growth in their implementation by manufacturers, the channel literature has neglected a deeper analysis. Different conceptualizations have been offered to various incentive mechanisms, but none of them has considered them in their full content and meaning yet, considering the rationale behind them. For example, influence strategies are understood as the communication strategies employed by one manufacturer representative towards one dealer and involve information sharing, rewards, among others. (Frazier and Summers, 1984; Frazier, Payan, McFarland, 2005; Frazier and Rody, 1991). The marketing channel control literature discusses the implementation of output or input control measures (Celli and Frazier, 1996). The incentive channel literature discusses what type of incentives, such as high impact or market support and pledges to the channel can be applied and what kind of reaction the channel member is most likely to have (Gilliland, 2002, 2003). In addition, different research lines such as behavioral marketing channel literature and relational governance literature have suggested how to create and maintain relationships with channel members. The first focusing on the role of power, trust and conflict management as present in several works of Louis Stern, and the second focusing on aspects such as the role of bilateral power, long term agreements, commitment (Anderson and Weitz 1992; Ganesan 1994; Heide 1994).

Comparing the governance mode between manufacturers and dealers in US and Brazilian crop protection industry is intriguing. There are many similarities: the same products (such as herbicides and fungicides), the same manufacturers (in both countries the leading firms are the same), and the same type of final clients, primarily grain producers. What is different is the power distribution between manufacturers and dealers. In US, dealers are much less dependent on manufacturers than in Brazil, as dealers may switch a manufacturer's brand more easily, when selling to growers. Such comparisons are found in the works done in the same industry by Collantes (2001) and Akridge (2007) from the US side and in the works of Castro et al. (2007) and Claro and Claro (2007) from the Brazilian side. Since channel incentive programs are used largely in both countries, it is important to see how they are similar and different.

The objectives of this paper are first to better understand incentives programs and the role they play in shaping the relationship between manufacturers and dealers. Second, to verify why power structure is different across the two countries and how it may influence incentive program structure and the way they are implemented. Third, to propose a method in managerial practice to build and implement effective channel incentive programs in different market contexts.

2. Conceptual Model

Despite the efforts of Gilliland (2003) and Narus and Anderson (1988) on how channel incentives may be classified, understood, and developed, there has been no effort (to the best of our knowledge) at investigating the nature of channel incentives in detail, such as their specific components and how they are implemented by a particular industry. The proposed relationships are summarized in Table 1 and discussed in the following sub sections.

Table 1: Synthesis of Theoretical Propositions on Incentive Programs

Composition of Incentive Programs	Power Concentrated at Manufacturer Side or Bilateral Power	Power Concentrated at the Retailer Side
Performance Measures: *What tasks will manufacturers ask dealers to accomplish?*	• Strong Presence of Behavior Control • Presence of Output Control	• Strong Presence of Output Control
Benefits: *What will manufacturers offer dealers in exchange for their accomplishments?*	• Strong Presence of Long term Benefits • Presence of Short term Benefits	• Short Term Benefits
Exclusivity: *Is exclusivity present in manufacturer-dealer relationship?*	• More Present	• Less Present
Contract Formalization Level *How formal and explicit is the contract between the parties?*	• More Explicit and Formal	• More Implicit and Informal

Source: Developed by the authors.

Composition of Incentive Programs in Marketing Channels

Thinking about incentive programs following Gilliland`s definition, and considering the role of incentive programs in allocating resources and functions, reach objectives, and control/influence retailers' actions and managing conflicts, provides an opportunity for theoretical contributions about how they are composed.

Benefits exist because the other part expects something in exchange for the benefit it is offering. Social exchange theory suggests that one firm will analyze its relationship with the other based on the sum of costs and benefits that the relationship offers (Thibault and Kelley 1959). An incentive program may be understood as the tasks a manufacturer expects a dealer to perform and the benefits the manufacturer gives to the dealer once the dealer has accomplished the tasks. For example, a manufacturer early stock discount policy for dealers may be decomposed in two different pieces: first the dealers' task of stocking early (this is what the manufacturer wishes dealers to do) and second the cash discount given for that (this is the benefit the manufacturer offers in exchange for the task). The manufacturer could reward the dealer for early stock positions other than cash, for example sending a consultant (to just those who bought early) to advise the dealer how to better organize its warehouse. Thus, incentive programs are composed of two dimensions. First the tasks manufacturers expect dealers to do, this is going to be called from now on performance measures, to be more aligned with incentive and compensation topics, and, second, the benefits offered for dealers in exchange for completing the tasks properly. The first proposition of this paper has to do with the basic composition of incentive programs:

- *Proposition 1: Channel incentive programs are composed of performance measures and benefits offered by manufacturers to dealers.*

These two dimensions, their components and how they vary, according to the power structure, are discussed in the following sections. For “performance measures” the control literature is used, and for “benefits” the channel incentive literature is combined with the channel influence strategy literature.

Power Structure and Performance Measures

Marketing channel control theory emphasizes the discussion about when output or input control mechanisms must be used by a manufacturer to control dealers. As introduced by Celli e Frazier (1996), and based on the foundations of Bucklin (1973), when a manufacturer is using output control mechanisms, it is demanding primarily results as performance measures (sales, market share or margins). However, when the manufacturer also demands activities, for instance it asks a dealer to prepare market reports or to conduct a final consumer paying ability evaluation, the manufacturer is asking for particular inputs other than just sales. The performance measures in this case are composed of input as well, not directly related to sales.

Depending on where power is concentrated, the composition of performance measures inside incentive programs might change in the following direction. When a dealer is less dependent on the manufacturer (the dealer has much less to lose if the relationship terminates than the manufacturers does), the manufacturer might find it difficult to interfere with the dealers’ business, or put another way, exert control over the dealer activities and establish input performance measures (Celli and Frazier, 1996). Because the manufacturer wants more attention and exert somehow influence over the dealer business it will rely just on output performance measures as tasks expected from dealers (Frazier and Rody 1991). Moreover, experienced and knowledgeable dealers are much more resistant to any interference in their business (Bucklin 1973). This makes input or behavioral control very difficult to a less powerful manufacturer and therefore input performance measures will be less appropriate.

Thinking of the power center localized on manufactures, or even bilaterally where the center of power is not easily defined and both parts depend on each other equally (Heide 1994), the incentive program may vary in the following way: manufacturers with more power are harder to be replaced and get naturally more attention from the dealers (Frazier and Sommers 1984). More control is always better than less control in marketing channels (Weiss and Anderson 1992), and it is expected then that manufacturers will try to control the way the dealer works (Boyle et al. 1992), in ways other than just its sales results. In this case input performance measures are going to be present. Therefore, the propositions regarding performance measures and power in incentive programs are the following:

- *Proposition 2: When the power center is either localized on manufacturers or bilaterally established, incentive programs will be composed of both input and output performance measures.*
- *Proposition 3: When the power center is localized on distributors, incentive programs will be composed mainly of output performance measures.*

Power Structure and Benefits

Taking the second dimension, related to how the manufacturer will reward input or output tasks accomplished by the dealer, two literature streams can be combined to shed insight here. First, benefits and rewards given to channels are of five different forms according to the taxonomy work of Gilliland (2002). These five forms are pledges (specific investments made by the manufacturer in the relationship with the dealer such as educational programs to dealers staff or dealers facility improvements); high impact (bonuses paid in cash or products); final client encouragement (advertising paid by the manufacturer promoting the dealer in the region, prizes for customer to buy specifically from the dealer, among others); and further information sharing (a dedicated representative or a direct phone line to access manufacturer key personnel).

Second, the influence strategy literature as proposed by Frazier and Sommers (1984) and Frazier and Rody (1991). Channel influence strategies are classified in non-coercive and coercive. Non coercive influence strategies involve information sharing and requirements and they are based mostly on motivating the dealer to perform important tasks by changing the dealers' perception (the difference between the information sharing and requirements is that in the second there is a clear request from the manufacturer representative followed by explanation and in the first, the representative just exchange information and let the dealer conclude and take actions by itself). Coercive strategies however are based mostly on motivating the dealer by offering a reward or potential penalties with no concern about change the dealer's perception. Coercive strategies involve rewards (increasing benefits), threats (reduction of some benefit), and legal strategies (reference to a contract when a disagreement arises with a potential loss to the dealer).

Thinking of different benefits a manufacturer may offer to a dealer, one may think of a common five component list combining the benefit and the influence channel literatures described above: (1) high impact (included here are high impact incentives and rewards); (2) penalties (including here the threats and the legal strategies to actually reduce an existing benefit level); (3) information sharing (including the influence strategies of requirements); (4) pledges to the channel; and (5) market support (including final client encouragement).

It is possible to add a strategic consideration regarding the difference among the types of benefits as well. Clearly high impact benefits and penalties are more short-term and operationally oriented, while information sharing, market support, final client encouragement and pledges are more long-term and strategic oriented. This difference in strategic level of given benefits is present in the work of Narus and Anderson (1988).

High impact benefits are more attractive for more independent and experienced dealers, since they may believe no market support, training or final client encouragement to be needed. Hence, financial incentives are the focus. Indeed, an attempt of manufacturers to get the desired attention from dealers and motivate them to offer and sell manufacturers' brands to final costumers is improving the product margins (Bucklin 1973). High incentive benefits such as cash for a sold product, also

called rebates, increases the attractiveness of selling one product in a certain moment (Taylor 2002).

For more dependent dealers however, manufacturers may use different options according to their objectives. Manufacturers may try to improve the relationship with lock-in benefits that in fact increase dealer commitment in the long term (Anderson and Weitz 1992). Such benefits as market support, pledges to the channel and final client encouragement may be seen as a benefit but at the same time a way to get dealers more aligned with the manufacturer objectives (Gilliland 2003,;Frazer and Rody, 1991). This does not mean that high impact benefits and penalties are not present because they matter in the short run (Palmatier et al. 2006; Narus and Anderson, 1988; Taylor, 2002). Hence, the propositions regarding the difference in the use of benefits, as the power structure changes are below:

- *Proposition 4: When the power center is either localized on manufacturers or bilaterally established, incentive programs will be composed mainly of long-term benefits (pledges, information sharing, and market support) and secondarily by short- term benefits.*
- *Proposition 5: When the power center is localized on dealer, incentive programs will be composed mainly of short term benefits (high impact and/or penalties).*

Exclusivity in the Manufacturer Dealer Relationship and Power Structure

Exclusivity in marketing channels can be pursued by the manufacturer, setting an exclusive territory for a dealer, and by the dealer, committing itself to make exclusive efforts within the manufacturer product category. Exclusivity is strong evidence of mutual commitment to the relationship, as suggested by Anderson and Weitz (1992). Exclusivity may not be absolute or even formally established by an enforced contract, as franchising contracts. It may be a mutual agreement of an informal basis that both parts learn to be the best way to do business with each other (Kosak and Cohen 1997).

Since the dealer will concede less control to the manufacturer in situations where it is relatively less dependent on the manufacturer, it will not provide product category exclusivity to a manufacturer. It may use its multiple supplying sources to even strategically get better deals from competing manufacturers. On the other side, manufacturers may not establish exclusive territories because they have to maximize their presence in the marketplace, rather than any effort at coordinating ideal channel efforts (Anderson and Weitz, 1992).

Exclusivity in marketing channels in a relational basis depends on considerable evolution of the relationship between the channel members, as introduced by Dwyer et al. (1987), when they discuss the relationship life cycle. It is expected that exclusivity will be present where power is bilaterally structured or the manufacturer will have more power over the dealers, because it is the manufacturer's interest to set exclusive territories to control dealer efforts and avoid intra-brand competition and margin reduction (Coughlan et al. 2002). As a very important component of the relationship between manufacturers and dealers, exclusivity might be present somehow in channel incentive programs. It might not be absolute exclusivity but the focus on exclusivity will be present. Regarding this topic the proposition is the following:

- *Proposition 6: When the power center is either on manufacturers or bilaterally established, exclusivity will be more likely to be present in marketing channels incentive programs.*
- *Proposition 7: When the power center is on dealers, exclusivity will be likely to be present in marketing channels incentive programs.*

Contract Formalization and Incentive Programs

As MacNeil (1980) inserted the "relational norms" considering flexibility, reciprocity, trust and so on, formal contracts have a limited role when a relationship is created between a manufacturer and a dealer. Klein (1992) says the costs for contract specification are very often too high and contracts will be left incomplete to allow further adjustments in the relationship. Business relationships are not limited to a contract, or a document, but a wider agreement that includes explicit and implicit parties. As commented by Barzel (2001), just one part of the relationship is treated formally and explicitly in a contract, and this part is within a larger one called the agreement.

Channel incentive programs are tools implemented to foster channel performance and align channel members. They can not be extensively formalized and detailed due to their adjustable and variable nature, either considering time changes or further changes among individual channel members. Although, incentive programs might be composed of many implicit elements, they may vary considerably regarding where the power center is. For example, the channel literature says that contract enforcement is the case when one of the parties, typically the manufacturer, is more powerful than the dealer (Lusch and Brow 1996).

Manufacturers that have relatively more power may feel themselves legitimate to explicitly and formally place their demands to dealers in incentive programs to guarantee that they will capture the value from the relationship, as suggested by Gilliland and Bello (2002), while less powerful manufacturers may use a different strategy trying more implicitly to build a situation more favorable to them standing by their promises, answering dealers expectations as indicated by Narayandas and Rangan (2004). Bucklin (1973) said manufacturer may gradually increase dealers margin to gain more authority over dealer's marketing decisions. Thus, the propositions regarding to the formalization level of marketing channel incentive programs are:

- *Proposition 8: When the power center is either on manufacturers or bilaterally established, channel incentive programs will be more explicit and formalized.*
- *Proposition 9: When the power center is on dealers, channel incentive programs will be more implicit and informal.*

Session 3 will present the methods used to explore these research propositions.

3. Method

For verifying the propositions described above a multiple case study strategy is implemented. The method is in the spirit of grounded theory, which means that the cases and the theoretical constructions were done almost concomitantly (Glaser and Strauss 1967). The chosen research method allows discussing several dimensions of the studied phenomenon (Bonoma 1985). The crop protection chemical industry is selected as it for relies very much on incentive programs to manage marketing channels. A cross country analysis is done to explore the power difference impact on incentive programs, since US and Brazil have very different market contexts. The same three firms were selected in Brazil and in United States. In total six incentive programs schemes could be evaluated. These three firms have leading positions in the crop protection industry in Brazil and in US. These three leading manufacturers represent around 50% of crop protection products global sales (Neves, 2005, Akridge, 2007). All individual data is masked here to protect the confidentiality of the firm and the proprietary nature of their incentive program.

The unit of analysis is the incentive programs used by these firms following the Gilliland (2003) definition. Each program was mapped and their control measures and benefits were classified individually and then compared to each other within and between countries as Yin (2001) suggests for multiple case studies analysis. This mapping was done essentially by documental research on available manufacturers' published materials directed to retailers in both countries. Also market specialists and dealers were interviewed in both countries to clarify some further details of the implemented incentive programs and to confirm the researchers understanding of the programs. In total 15 interviews were conducted. The guide for the interviews done in Brazil and in US is shown in the attachment to this paper. As mentioned above, all the information presented in this article is coded and presented in consolidated fashion, as a way to avoid any identification of the firms involved.

In section 5 the paper proposes a new method for managing marketing channels with the use of incentive programs. A method is a sequence of business processes implemented by marketing managers to reach organizational goals (Srivastava et al 1999). The method is built on existent frameworks, several lines of channel theory, and the information collected from the multiple case studies.

4. Results

Interviews in both countries clearly indicated the difference in power distribution between dealers and manufacturers, when the relative dependence was questioned. Several factors helped explain why. These factors may be consolidated in three groups. These are manufacturer brand power, network effects, and channel member functions (Table 2).

Manufacturer brand power in US is lower than in Brazil. First, the incidence of generic non-branded products in Brazil is lower than in US. Second, leading retailers and wholesalers in US all offer private label products and in Brazil, this does not happen. Third, GMO (Genetically Modified Organisms) crops account for 85% of the soybean and cotton areas in the US and about 50% in Brazil, which reduce the need of crop protection products and their relevance to dealers' sales (James 2006).

Table 2: Difference in Power Distribution between Dealers and Manufacturers.

	Manufacturer Brand Power	Network Effects	Channel Member Functions
Brazil	• Lower presence of generic products • Channels private label Absence • Lower incidence of GMOs	• There is no wholesaler • Exclusive dealerships • Less concentrated retailing	• Dealers are forward credit received from manufactures and deal with credit risk • Much narrower service scope
USA	• High presence of generic products • High presence of channels private label • Higher incidence of GMOs.	• Preponderant existence of a wholesaling step • Much less exclusive dealership • More concentrated retailing	• Manufacturers trade credit is low compared to total credit • Service oriented dealers

Source: Authors, based on interviews.

About network effects, there is a need to understand how transactions around the focal transaction are organized in the network to completely understand a transaction (Ford et al. 1990). Fundamental differences in the network arrangements of both countries are first the existence of the wholesale step in US. This intimidates any direct contact from the manufacturer to the dealer, when in Brazil, the preponderant channel steps are just the manufacturer and the dealer. Secondly, in Brazil the leading manufacturers use a quasi-exclusive dealership arrangement organized per sales territory. This means that for a dealer to change to another leading manufacturer is difficult, since in the same region another dealer of the competing manufacturer is already established. In contrast, in the US for a dealer to switch manufacturers brand is very simple. Most US dealers represent several leading manufacturers at any point in time. Finally, the agricultural retailing in US is far more concentrated than in Brazil. In US there are about 2500 firms, while in Brazil this number is around 6000 firms (Marino and Neves 2008; Whipker et al 2005).

Last but not least are the channel member functions performed by dealers in both countries. In Brazil, the manufacturers play a fundamental role financing the agricultural production. Almeida and Zylberztajn (2007) estimate this as 30% of total growers credit need is financed by ag-input manufacturers and trading companies. Dealers in consequence forward credit and are responsible for managing risk. A manufacturer may in fact establish dealer's sales because it defines the credit value it will concede to a dealer. In US, credit management is also performed by dealers but capital comes from different sources as banks and cooperatives and a low percentage from manufacturers` trade credit (USDA, 2008). Indeed, while credit makes dealers very dependent of manufacturers in Brazil, in the US this is not a fundamental reason for manufacturer dependence. Moreover, service scope is limited in Brazil. Product application and other traditional agronomic services are performed mostly by growers. In US about 65% of all crop protection application is done by dealers. New high precision agricultural services are also performed by dealers. Akridge (2007) estimates 15% as the percentage of dealers total revenue related to services. Loyalty in US has been mostly created between growers and dealers. Once the differences in power structure are clear it is important to see how the incentive programs have evolved differently.

Comment [JTA1]: This sounds a little high?

First of all, interviews and document research supported the channel incentive programs task/benefits concept used in this research suggested in Proposition 1.

Table 3: Performance Measures used by Brazilian Crop Protection Manufacturers

	Output Performance Measures	Input Performance Measures
Br-1	• Market share in the sales territory (list of cities)* • Sales volume (it has to be equal or higher compared to last season) • Buy 100% of informed forecasted purchase	• Share of crop protection products inside the dealer* • Dealer credit rating (as a consumer and also as a lender, with specific capabilities for managing credit risk with growers)* • Sales should be only within the established sales territory • Sales should be only to growers and not to other dealers if not authorized • Follow manufacturer pricing policies to growers; • Allowance of data auditing by the manufacturer; • Share information about stocks, product shipping situation, competitor sales – within the dealer – leads status by adopting a software connected on line to the manufacturer
Br-2	• Joint market share (it considers other dealers in the same region, if they exist) (list of cities)* • Share of sales in selected growers; • General purchase volume from the manufacturer; • Purchases of selected products in the season; • Payment punctuality;	• Share of crop protection products inside the dealer* • Dealer credit rating ((as a consumer and also as a lender, with specific capabilities for managing credit risk with growers)* • Mapping market potential capabilities • Focusing fundamental customers capabilities • Annual budget elaboration • Management board implementation • Human resource policy implementation • Management information system implementation • Purchase and stock management capabilities • Warehousing, safety and logistics (qualitative evaluation) • Agreement about growers who might be served by the manufacturer directly or by other dealers because of previous relationships in other regions) • Follow manufacturer pricing policies to growers • Allow data auditing by the manufacturer
Br-3	• Volume purchased from the manufacturer*; • Product mix sales; • Sales of selected products;	• Share of crop protection products inside the dealer* • Dealer credit rating (as a consumer and also as a lender, with specific capabilities for managing credit risk with growers)* • Sales should be only within the established sales territory; • Recognition and acceptance about growers who might be served by the manufacturer directly or by other dealers because of previous relationships in other regions); • Follow manufacturer pricing policies to growers; • Selling to another dealer just if authorized by the manufacturer; • Sales forecast for manufacturer products per grower; • Sales forecast accuracy; • Detailed information about growers considered to be most value clients, as well as a customized plans to approach them.

Source: Authors, based on interviews and documental research. * used as a segmentation variable.

Table 3 illustrates output and input performance measures used by manufacturers in Brazil. A particular characteristic of the Brazilian manufacturer programs is the use of segmentation. The measures in the table with a star (*) are the segmenting variables. According to the performance on those variables, dealers are classified into segments with different level of benefits. The higher is the dealer performance, the more the dealer will have access to higher benefits. The other measures, without the star, are also present in the incentive programs somehow either increasing basic level of benefits or getting penalized for not performing the task. Clearly, many different input performance measures are present in Brazil.

Looking at the control measures used by US manufacturers some emphases are given to output control measures like sales volume, earlier purchases, bulk purchases, and taking early stock positions. Input control measures are limited to the need to present a business plan yearly to the manufacturer, with a strong emphasis on sales forecast and the use of software to transmit manufacturer products related information.
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Table 4: Control Measures used by US Crop Protection Manufacturers

	Output Control	**Input Control**
US-1	• Product Sales volume over a minimum level; • Earlier purchases from the manufacturer; • Purchase volume of bulk products;	• Build a business plan with emphasis on Sales forecast and proposal of joint marketing action plans for different crops; • Adoption of software for information sharing about manufacturer product Sales and stock levels.
US-2	• Product Sales volume over a minimum level; • Reach a sales volume quota; • Sales volumes of selected product lines, with individual sales quotas (special attention to competition from generics); • Sales volumes of bulk products. • Early purchases • Early stocking positions;	• Build a business plan with emphasis on Sales forecast; • Adoption of a software for information sharing about manufacturer product Sales and stock levels.
US-3	• Minimum sales volume to individual selected products; • Growth or maintenance (at least 90%) of last season sales volume of manufacturer products; • Market share in a defined region; • Sales volumes of bulk products; • Early stock positions; • Purchase and stock Bulk products;	• Build a business plan with emphasis on Sales forecast;

Source: Elaborated by the authors, base don interviews and documental research.

Looking at table 3 and 4 it is possible to say that in US, where power is concentrated on the dealer there is a strong predominance of output control measures and in Brazil, where power is concentrated on the manufacturers side, many different input measures are in place. Therefore propositions 2 and 3 are demonstrated.

Looking at the benefit side of incentive programs (Tables 5 and 6), as explained above, the Brazilian manufacturers all have relied on segmenting strategies. It means that different level of benefits of each type is offered to dealers. For instance, margins will be higher as well as support for promotional events if the dealer is classified as a top segment. For each benefit there is a grade level according to the dealer segment.

It is possible to see in table 5, there is a wider use of different benefits when compared to the US manufacturers programs. Penalization and pledges are strongly present. In US mostly manufacturers rely on higher discount rates given to dealers for their performance in specific tasks. In US just high impact benefits and information sharing were mapped as standard benefits given by manufactures to dealers. Clearly, many

pledges used by manufacturers towards dealers in Brazil as a deduction of what could be cash payments. This demonstrates the ability of manufacturers defining how the benefit will be given and used by dealers. As a contrast in US, there is a clear competition among manufacturers related to the highest cash benefit. Therefore propositions 4 and 5 are supported.

	High Impact Benefits	Penalization	Information Sharing	Pledges	Market Support
Br-1	• Sales commissions in Cash according to sold products; • manufacturer re-buying remaining products; • Higher margins on sold products	• Lower benefit level (segment) by the occurrence of wholesaling activities when not previous agreed; • Lower benefit level (segment) by the occurrence of sales outside the agreed territory;	• A manufacturer sales representative to almost exclusively serve the dealer;	• Negotiable commission rates paid in the occurrence of manufacturer direct sales to growers; • Negotiable commission rates paid in the occurrence of territory invasion from another dealer • Technical educational programs;	• Support for promotional events with growers;
Br-2	• Sales commissions in Cash according to sold products; • Higher margins on sold products	• Lower benefit level (segment) by the occurrence of wholesaling activities when not previous agreed; • Lower benefit level (segment) by the occurrence of sales outside the agreed territory;	• A manufacturer sales representative to almost exclusively serve the dealer;	• Consulting firm to help the dealer improving management practices; • Financial resources (deducted from cash price) for implementing improvement projects; • Negotiable commission rates paid in the occurrence of manufacturer direct sales to growers; • Technical educational programs;	• Share with dealer credit collaterals in transactions with selected growers • Support for promotional events with growers;
Br-3	• Remaining stocks renegotiation • Sales commissions in Cash according to sold products; • Better commissions according to the product classification		• A manufacturer sales representative to almost exclusively serve the dealer;	• One or two consultants in management for upper segments; • Management training programs for dealers;	• Support for promotional events with growers;

Source: Elaborated by the authors, base on interviews and documental research.

Table 6: US Manufacturer Benefits in Channel Incentive Programs.

	High Impact Benefits	Information Sharing
US – 1	• Higher discounts rates (Cash) for (sales of manufacturer products) ; • Higher discounts rates (Cash) according to (the type of package the product is sold -Bulk is higher) • Higher discounts rates (Cash) for (preparing a business plan considering manufacturer products sales forecast);	• A manufacturer representative to deal daily to the dealer; • Technical educational programs to the dealers staff (not attached to a specific performance level);
US -2	• Higher discounts rates (Cash) (according to total sales of manufacturer products); • Higher discounts rates (Cash) for sales goals of specific products; • Higher discounts rates (Cash) for (ordering and stocking early specific products); • Higher discounts rates (Cash) for products facing direct competition from generics;	• A manufacturer representative to deal daily to the dealer; • Technical educational programs to the dealers staff (not attached to a specific performance level);
US – 3	• Higher discounts rates (Cash) according to (total sales of particular manufacturer products -individually); • Higher discounts rates (Cash) (for early orders); • Higher discounts rates (Cash) (for stocking early); • Special higher discounts rates (Cash) (if the Bulk product is bought and stocked early);	• A manufacturer representative to deal daily to the dealer; • Technical educational programs to the dealers staff (not attached to a specific performance level);

Source: Authors based on interviews and documental research.

Exclusivity was defined as territory exclusivity given by a manufacturer to a dealer and by product exclusivity given by a dealer to a manufacturer. In both countries absolute exclusivity is not present, however in Brazil the governance mode is closer to exclusivity. Indeed, in Brazil dealers are quasi exclusive dealers, once a manufacturer represent about 70 or 80% of all crop protection sales and the dealer expects little competition inside its territory.

In Brazil there is one major crop protection manufacturer and one or two secondary ones just to complete the product line. Product exclusivity is pretty much inserted in Brazilian manufacturer incentive programs as well as territory exclusivity. Manufactures evaluate the extent of dealer product exclusivity and in compensation some pledges are given as commissions for sales of another dealer in the same region or manufacturer direct sales to growers. In US, although manufacturers will try to grow inside a dealer as much as possible and they expect dealers to be confined in a certain area, this is much less under their control. At the same time all leading manufacturers are supplying a dealer through a distributor. Dealers also intentionally do not want to rely in one or even two leading manufacturers to decrease potential dependence on one individual manufacturer. Three or

four leading manufacturers are always present in an US dealer. As a conclusion, it is clear that more powerful manufacturers will insert exclusivity into their incentive programs. These observations support propositions 6 and 7.

Finally, incentive programs are more explicit and formal in Brazil than they are in US. The comparison is based in available published materials directed to dealers. Interviews clear indicated that in US although the materials are simple and clear (higher discount rates) for attaining the performance levels on output measures, mostly there are a great level of spoken agreement and tailored solutions to dealers which are not written anywhere. In Brazil, it seems that most of the agreement is made clear and written for the recognition of the dealer and manufacturer. These observations may support propositions 8 and 9, however it should be said that the influence from different institutional environments and legal implications in both countries may also play a fundamental role in it that could not be analyzed.

Interestingly, it is clear that the programs are very alike within countries showing first the adaptation to the institutional environment where they exist and second demonstrating how copying strategies are definitely present, as previously suggested by Grewal and Dharwadkar (2002).

Comparing both countries in a broad sense, in US the programs are very clear, if a dealer develops the 6 or 5 output tasks it may increase considerably its margin, receiving a prize in cash at the end of the season. This is the way manufacturers expect to influence dealers marketing decisions. In Brazil, however, dealers have a wider array of activities and output measures to follow and if they perform well they will receive support but fundamentally it will come with strong influence of manufacturers over their daily marketing decisions. Therefore the idea of dependence and power is very important to understand how an incentive program will be formulated. At the next section, the paper offers a managerial framework to manage marketing channels based on these findings.

5. A Method for Managing Channels with Incentives

Several works in marketing channels have proposed managerial methods. Methods are a group of sequential business processes that marketing staff should implement. Methods should not be forgotten by the marketing literature since they link theory to practice in a more direct way (Srivastava et al 1999). Particularly about incentive channel programs methods, Gilliand (2003) and Narus and Anderson (1988) offered interesting ones.

The effective definition of which are the right processes and the ability of a marketing team to efficiently implement them is a key capability toward the creation of competitive advantage, as resource based theory would predict. Specifically to marketing channels, the channel advantage is the ability of a determined manufacturer to be the best value option to a dealer and, for this reason, the manufacturer has a privileged position at influencing the dealer’s marketing decisions (Anderson and Narus, 1990).

This paper reviewed the channel incentive related literature and brought six different incentive programs of companies trying to be the best option for dealers in two different market contexts. It helped the authors develop a managerial method consisted of sequential steps. In Figure 1, the method is related to the incentive programs conceptual model and in Figure 2 the steps toward its implementations are described.

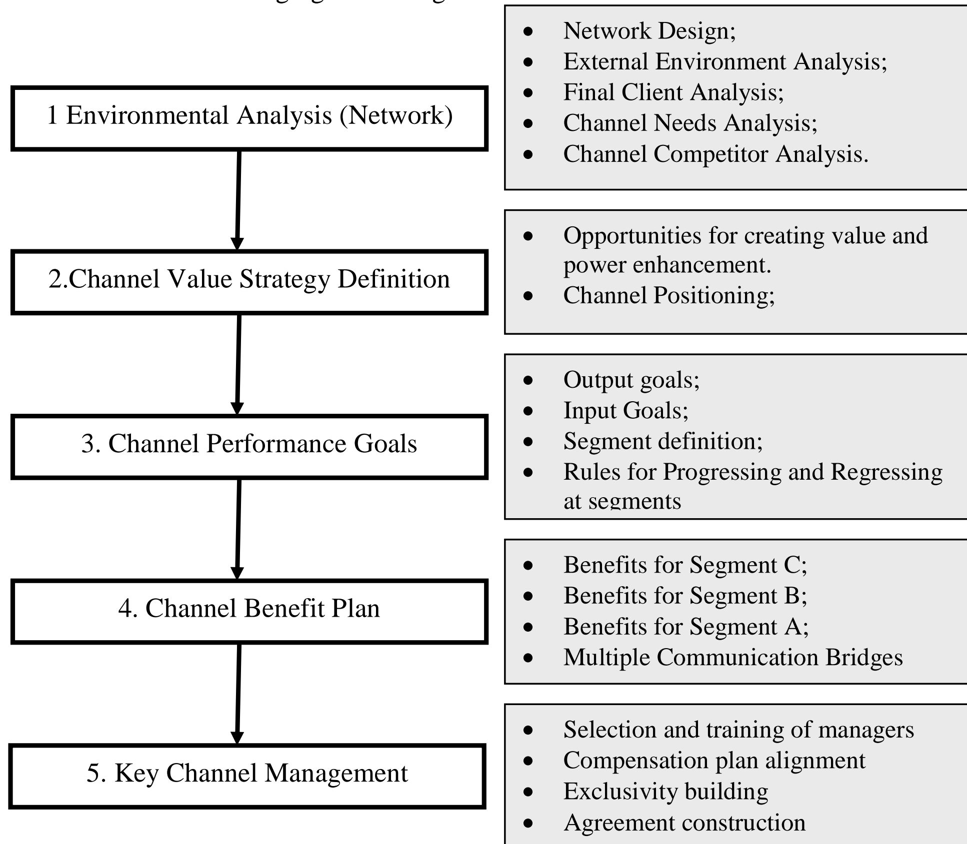
Figure 1: A Method for Managing Marketing Channels with Incentives

Composition of Incentive Programs	**Segment C**	**Segment B**	**Segment A Bilateral Power**
Performance Measures: *What tasks manufacturers will ask dealers to accomplish?*	• Out put measures	• Out put measures • "Input training"	• output • input measures
Benefits: *What manufacturers will offer dealers in exchange for their accomplishments?*	• Basic level of benefits (trust creation)	• Medium Level of Benefits • (deepening the relationship)	• High Level of Benefits (credible commitments)
Exclusivity: *Is exclusivity present in manufacturer-dealer relationship?*	• No presence	• Some presence	• High presence of exclusivity (win-win)
Contract Formalization Level *How formal and explicit is the contract between the parties?*	• Less	• More: building an agreement	• Very detailed: Contact used as a educational tool

Source: Elaborated by the authors.

The method suggests that the four dimensions of incentive programs have to be worked gradually by a Key Account Manager to move a dealer from a position less desired by a manufacturer (segment C) to a position most desired by the manufacturer (segment A). The general concept is that the manufacturer has to leverage its power position based on value creation at the same time that enrich its incentive program inserting more sophisticated measures, trying to influence the dealers` marketing decisions. Figure 1 tries to illustrate that.

Figure 2: A Method for Managing Marketing Channels with Incentives



Source: Authors.

The channel incentive program is composed of major 5 steps and each step is composed of a group of activities. The first phase is the need for an environmental analysis before designing the program itself. In this phase the network design, as suggested by Neves (2003), is fundamental to understand who are important network participants and their influences. It is consisted of a draw where all suppliers and channel alternatives, agents are placed and their functions described. As an example, the distributor's role in US affected very much how an incentive program could be designed. Then, trends regarding the external environment and how it affects the competitiveness of different members should be raised. Power structure might be under transition and its sources should be identified related to political, economical, social or technological factors. Another example of the importance of this step is the potential for growth of chemical generic products and private labels in Brazil (where it is still very low) alternating manufacturers' brand power.

Another important activity during phase one is studying the buying behavior of the final consumer. Buying Behavior frameworks such as Engels et al. (1995) might help at this

point. Considering the final consumer is fundamental, because there might be an alignment among final consumer needs, channel needs and the incentive programs. A fundamental question here is: how a dealer may be of maximum value to the final consumer? The answer will help manufacturers think of a program that do not deviate dealers from this direction.

Important activities to be performed still in phase one is developing a complete understanding of firm's channel needs and buying behavior. As Gilliland (2003) emphasizes understanding their needs and their objectives allows a better comprehension of dealers' rejection of manufacturers' incentive programs. Although certainly there are many differences in objectives from dealer to dealer, some groups of dealers might present similar objectives which are more in accordance to what the manufacturer idealizes. In summary, the manufacturer has to understand which are the main channels' characteristics, as well as, their needs and objectives. Finally, competitor's channels structure and mainly the characteristics of existing incentive programs are of great value. As Narus and Anderson (1988) suggested, the channel positioning of each competitor should be identified to understand their channel strengths and weaknesses (e.g. competitor alpha is well know for providing the best technical assistance to channels but lacks good margin results).

In phase two, based on the knowledge gathered from activities performed on phase one, the channel manager is ready to think of a value strategy definition that will be the basis of enhancing the manufacturer power position. Innovative products, efficient delivery, making available to the dealers services that can be sold together only with manufacturers products, margin increase among others are potential strategies that that manufacturer might think will create a different and privileged position as a dealer supplier. Options might be created increasing the dealer benefits or decreasing dealers' costs related to their operations, the core offer, or their buying procedures, as suggested by Ulaga and Eggert (2006). Once a manufacturer think itself as for instance a best service provider to dealers, it has to build its positioning, following the Narus and Anderson (1988) idea of communicating the positioning to dealers.

In phase 3, the manufacturer has to think of an ideal dealer considering output and input performance measures. This benchmark dealer has to be represented by concrete measures. In terms of results, what would be good figures regarding total sales, market share and margins? Regarding activities, what would be good important activities dealers should perform to help the manufacturer in the market place? About activities, a good framework is the one proposed by Coughlan et al (2002). Dealers will work delivering products (stocking, product mix sales, etc), communication (local promotional efforts, fair participations, field tests, etc) and services (application, product complaint handling) to final consumers and will help bringing orders, financial resources and information from final consumers. Risk and financing is commonly shared. As an example, farmers' credit analysis is a fundamental activity performed by ag-input dealers in Brazil. As a result of this analysis a manufacturer has in mind the ideal dealer in results and in activities.

It is suggested in phase 3 a segmentation scheme using the variables based on the developed performance measures. Marketing segmentation literature has not discussed in detail segmenting marketing channels. Most of the industrial segmentation techniques are based in manufacturing context. Departing from the ideal dealer (highest performance in results and activities) the manufacturer may test these variables on its own group of dealers to form segments based how close they are from the ideal dealer. Three or four segments may be formed. They are called here segments A, B and C as examples. It means that segment A is the dealer who is mostly in accordance with manufacturers expectations and dealer C is the least and B is a transition segment.

Still in phase 3, the manufacturer has to think of rules for upgrading or downgrading a dealer. In sales management, points systems have been used to measure salesmen performance and it is a basis for sales compensation. Points are used for standardizing the measure and weighting different factures (Zoltners et al, 2001). Thus it may be applied in channels. An important consideration is the difference in use of performance goals throughout the segments. As figure 1 suggests, output goals are better used, instead of input goals, for lower segment levels, since either the manufacturer does not have the power to demand input activities or the dealer does not have the interest yet. This is consistent with marketing control literature (Celli and Frazier, 1996).

In phase 4, the different benefits are offered to compensate the attainment of performance goals in each segment level. As expected, the higher level of benefits will be given to the higher segment level. However, there is an important differentiation regarding the type of benefits used. Considering the weight of each type of benefit compared to the total level of benefit granted to dealers, high impact benefits are used with more emphasis at the beginning for segment C for obtaining more attention and commitment from the dealer. This is aligned with influence strategy literature (Frazier and Summers 1984). On segment B, market support is added to the “benefit package” and some pledges to channel in order to signal the manufacturers’ commitment (Anderson and Weitz 1992). Penalization may be inserted at segment B meaning the dealer may lose actual package B benefits if it steps behind for any reason, considering manufacturer expectation. On segment A, there are best levels of high impact benefits as well as market support and pledges to the channel.

It is important to say that information sharing should be intensely used at all segments as it is the basis for deepening the relationship and allow trust creation, as suggested by Payan (2006). It is important that multiple communication bridges are created between the dealer and the manufacturers’ personnel for the continuous relationship.

Finally, step 5 has to do with implementing the incentive program through the use of a key account management strategy. A representative or account manager might be assigned to work with few dealers (if not just one) with the mission of taking a dealer from a lower segment to the highest one and to maintain the dealer in this high position. Special attention is given to the key account manager because it is clear from the literature, and also strong evidences from the cases, that the success of programs of this

nature is very dependent on who is responsible for implementing on both sides of the relationship.

The fifth step has as a first activity the selection and training of key account managers. Because it is such a delicate strategic position for creating the relationship with the dealers, the manufacturer has to think carefully on who is going to take it. Communication and relationship sales skills, as well as, technical competence regarding the final client business as well as the dealer business are fundamental. The key account manager has to develop a deep knowledge on the dealers business to make a difference and add value to the dealer operation. Cultural proximity between the dealer and the key account manager is very important too. All these requirements take time in recruiting, selecting and training the manufacturer salespeople.

The manufacturer also needs to align the incentives given to the dealers and to the key account managers. It means that the dealer success has to represent the key account manager success. If great part of the key account manager compensation plan is linked somehow to the results the dealers are conquering at the manufacturer incentive program, he or she will work in this direction, rather pushing sales and results in the short term. Organizational barriers are very important for salespeople results as discussed by Churchill et al. (2000).

The last two suggested activities in step 5 are related to the level of exclusivity and formalization the key account manager is supposed to build. Exclusivity as discussed in the conceptual model is not an absolute concept. The amount of exclusivity the dealer is going to give to the manufacturer is a result of the success of the relationship program as a whole. The method suggests that according to the progression of a channel from a segment C to A, product category exclusivity is going to increase. On the other hand, the manufacturer starts to be more selective in a certain region and it can assign more exclusive territories, trying to avoid brand intra competition, as the dealer perform the desired activities and reach the manufacturer goals.

The program is expected to be less formalized at the beginning of the relationship as the manufacturer is compensating the dealers mostly using high impact benefits for reaching output goals. As the dealer becomes more committed and the key account manager works more closely to him, the agreement gains in content, turning into a kind of joint business plan, with expectation from both sides. It is very important that the expectations and the benefits used are clear to the dealer. The agreement is used as an educational tool to guide both sides and it is one of the responsibilities of the key account manager to run it and review it every once or twice a year for continuous relationship growth.

6. Conclusions

The objectives of this paper were to understand incentive programs and how they could vary in different market context considering the power structure. The authors also wanted to offer a method to build and implement incentive programs.

Incentive programs were understood as a composition of four dimensions, being control, benefits, exclusivity and formalization. These dimensions would vary according to the distribution of power between the dealer and the manufacturer. It could be discussed that when the manufacturer is the powerful party the incentive programs include more complete set of performance goals as input measures, the benefits used are more diversified, exclusivity is more present and generally the agreement tend to me more formalized.

Taking the manufacturer perspective a managerial method was offered consisted of five steps. Many different considerations were inserted in the method not just from the previous literature but also from the observed cases which were produced for this article. Contributions from the cases are from instance the segmentation scheme and the emphasis in the key account management concept. The dimensions of the conceptual model are inserted in the method's steps.

This paper is not without limitations. First it was created based mostly on a single industry and therefore may face adaptations once one may intend to apply in other industries. Second, the incentive programs were analyzed mostly based on the set of documents manufacturers produced towards dealers and some interviews. Many facets of the relationship are probably left aside. Third, the managerial method offered has not been tested and offered to managers to see its feasibility.

Opportunities for further research are related to minimizing its limitations. First the conceptual model may be tested in a multiple industry context, and once power is measured, the contents of incentive programs used may be verified. Also characteristics of success incentive programs might be found in this kind of test to enrich the offered method in this article. A least suggestion would be for channel managers to evaluate the usefulness of the proposed method.

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Attachments

Interview Questions for Crop Input Dealers:

1. From what kind of firms do you buy the crop protection inputs you sell?
2. Considering crop protection products, is there a manufacturer that could be said to be the most important for you? Approximately what percentage of your total crop protection chemical purchases would this manufacturer represent?
3. Why do you think this manufacturer is your primary provider of crop protection products?
4. How do you feel your crop protection selling strategy to growers is influenced by your main crop protection products provider? (Examples of possible influences might be on sales territory, product mix, price, sales presentation, communication, services offered)
5. Which are the expectations your main crop protection manufacturer has for your firm to be considered a good dealer? (For example good sales volume, information provided to them, etc).

6. If from one day to the next your main crop protection manufacturer goes out of business, how long do you think it would take you to recover the same level of sales of crop protection products? Please explain.
7. If from one day to the next you go out of business, how long do you think it would take the manufacturer to recover the same level of sales of crop protection products in your area? Please explain.
8. In your relationship with crop protection manufacturers who has the power and how that has changed over the past five years? Why?
9. What is your opinion of the incentive program of your primary crop protection manufacturer? Could you describe the program in general?
10. How do you compare different incentive programs of crop protection manufacturers? What features do you like and dislike?
11. Would you have a suggestion of how incentive programs could be better implemented by manufacturers?
12. How do you see your relationship with manufacturers evolving in the future?

Interview Questions for Crop Protection Manufacturers

1. Does your company use the traditional marketing channel structure (manufacturer-distributor-retailer-grower), direct sales to retailers (retailer-grower) or direct sales to growers?
2. What is the relative importance of each channel in terms of total sales (rough estimate) and how has the importance changed over time?
3. Generally, retail programs of leading crop protection manufacturers here in the U.S. reward retailers in cash (rebates) according to their sales results. While general requirements involve minimum sales levels to participate in the programs, specific tasks are typically sales of specific products, sales in bulk instead of packages, early purchases, market share growth and early stock positions. How is the incentive program of your firm similar to or different from this general model?
4. Do you expect retailers to be exclusive or almost exclusive to your company with regard to crop protection product category sales?
5. Do you expect dealers to be confined within territorial limits? What is the policy of your firm in this area?
6. Do you feel that retailers are more independent players and less dependent on manufacturers or less independent players and more dependent on manufacturers? How has this changed over the past 5 years? Why?
7. What are your challenges regarding your firm's relationship with dealers?
8. How do you think the channel structure will change over the next 10 years?