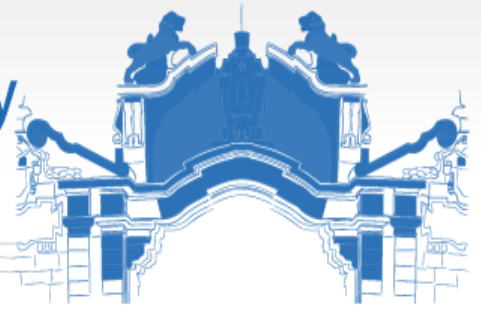




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THE PERFORMANCE AND EFFECTIVENESS OF INDIRECT CHANNEL DISTRIBUTION (THE CASE OF ETHIO TELECOM)

By: Mezgeb Alemu

Thesis Submitted to the Graduate Studies of the Addis Ababa University School
of Commerce in Partial Fulfillment for the Requirements of the Degree of Masters
of Arts in Logistics and Supply Chain Management

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Statement of Declaration

I declare that this research work entitled “**the performance and effectiveness of indirect channel distribution (the case of ethio telecom)**” was composed by myself, that the work contained herein is my own except where explicitly stated otherwise in the text, and that this work has not been submitted for any other degree or professional qualification.

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ABSTRACT

Despite the vast research on indirect channel distribution, little research exists about the distribution channel structure and practice in Ethiopian context. Effective distribution channel can be a source of strategic advantage for companies which engaged in the distribution of fast moving consumer goods to the larger population like ethio telecom. This study examines the performance and effectiveness of indirect distribution channel at ethio telecom. An analysis of the primary and secondary data shows that the channel has basic design problems like inappropriate and discriminatory territory management, channel conflicts, price cut, low revenue performance, inappropriate commission payment. Hence the channel is not effectively and efficiently functioning. Therefore the channel design and development should be revised to solve these problems which hindered the performance of the whole channel system. This study will increase understanding of indirect channel practice in Ethiopia and will motivate other researchers to engage in the area.

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ACRONYMS

ET	Ethio telecom
SWAAZ	South Addis Ababa Zone
WAAZ	West Addis Ababa Zone
NAAZ	North Addis Ababa Zone
EAAZ	East Addis Ababa Zon
CAAZ	Central Addis Ababa Zone
ER	East Region
SER	South East region
SWR	South West Region
SR	South Region
WR	West Region
SSWR	South of South Western Region
NR	North Region
NER	North East Region
NWR	North West Region
VC	Voucher Card
SIM	Subscriber Identification Module
FMGC	Fast Moving Consumer Goods

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

ET is a telecommunication company that operates across all geographic areas of Ethiopia. One can imagine how the marketing, sales and operation activities are vast and difficult to overcome using its own marketing, sales and distribution outlets. The core products of the company especially SIM cards and scratch air time cards are fast moving consumer goods (FMCG) and required everywhere in all the areas of the country. The company is responsible to deliver telecom services and products in all areas of the country and it has to distribute its main products to all the customers who needs it.

Companies which deal with fast-moving consumer goods (FMCG) of large volumes or large quantities should give high attention to their distribution channel and sales outlets management Avinash (2013). The companies can have three options to distribute their products, namely direct distribution channel, indirect distribution channel and a hybrid of both (Rosenbloom, 2012).

To make its products accessible and reachable to all of its customers, ET develops and implements multi-channel strategy (both direct and indirect outlets). The indirect distribution channel has many layers ranges from national distributors up to retailers. Currently ET uses its indirect channels of distribution primarily for the distribution of the company's core products of SIM cards and scratch air time cards.

Even though ET is a monopoly company which has no worry about competition, it has a mandate to serve the population. It should meet the expectation of all stakeholders be it individual consumer or institution. It has to be well established in a way that its products

can be accessible everywhere and any time. The channel is key not only because it helps to reach customers quickly but also the lion's share of its revenue comes from this channel.

If the indirect channel is key for the company, its performance and healthiness should be studied and improvements should be added on regular basis.

1.2. Problem Statement

Distribution channel is very important since there are a number of activities or movements that flow within it, In addition to product or merchandise flow. For example, According to Rosenbloom (2012) and Burnett (2011) there are at least five flows across the distribution channels: product flow, negotiation flow, ownership flow, information flow, promotion flow. Therefore these flows should be managed properly and effectively across the channel.

ET products (particularly physical voucher card and SIM cards) are Fast-moving consumer goods (FMCG). These goods are required throughout the country at a growing rate which requires high distribution effort and different distribution strategy or design. As described by Avinash (2013) an effective distribution channel can be a source of strategic advantage for companies. However, little research exists about the distribution channel structure in Ethiopia, which is dominated by traditional practices.

To reach customers easily and to satisfy their demand, ET designs indirect channel distribution approach in addition to its direct distribution and sales channel. A significance share of the products (i.e. physical voucher card, SIM and hand set) is distributed through this indirect channel. And also the lion's share of the revenue comes from this channel (Nehmya, 2014).

Apart from its unquestioned contribution both in reaching customers and generating revenue, the indirect channel of ET has basic problems. It has basic Channel management and design challenges and problems related to territory violation and over/under pricing which impairs proper performance of the channel should be studied and examined.

The flows across the indirect distribution channel particularly product flow, negotiation flow, ownership flow and information flow should be studied in a way that whether they are effective to reach the intended final customer or not. Nehmya (2014) studied the appropriateness of the indirect distribution channel in the same company under study and he identified there is major administrative problem especially related to infeasible territory control. But it is important to investigate how the performance is affected due to such administrative problems and what other challenges surround the channel as a whole. There are pricing problems, poorly implemented and discriminatory territory management, channel violations, non-participatory distribution target setting, ineffective policy and procedure are some of the challenges that surrounds the indirect channel.

However the above mentioned post implementation performance challenges of the indirect channel strategy are not well studied. Hence this study tries to assess and investigate the post implementation performance and of the indirect distribution channel. Channel management and design challenges that hinder the smooth and efficient flow of products will be studied.

1.3. Research Objective

The prime objective of this study is to assess the performance of ET's indirect channel in terms of its effectiveness, efficiency and equity.

Specific objective are presented as follow:

1. To assess the effectiveness and efficiency of ET's product distribution through indirect channels.
2. To assess the major challenges faced by distribution channel members in reaching the intended customers.
3. To evaluate indirect channel management and function at ET.

1.4. Research Question

The following are research questions derived from the research problem:

1. How effective and efficient is ET's product distribution through indirect channels?
2. How challenging is the distribution channel to the channel members in reaching the intended customers?
3. How is the indirect channel management and function at ET?

1.5. Scope of the Study

The study covers one of ET's outsourced business namely indirect channel distribution. As the channel mainly consists of the distribution and sale of SIM cards, physical voucher or scratch cards and handsets, the study covers the distribution of these products. The study explores the performance of products flow from the focal firm (ET) through the distributors and sub distributors up to retailers. The study assess and analyzes the effectiveness and performance of the distribution channel.

1.6. Significance of the study

This study is significant for ET and academicians. ET can use the findings of the research to improve the performance of the channel by revising its channel design and development strategy, by excelling the relationship into strategic rather than transactional,

by revising the commission payment system, by redefining vertical and horizontal channel relationships, by reconsidering territory implementation strategy and by developing action oriented channel management policies and regulations.

Other researchers can pursue their study focusing on this area as the sector is growing from year to year in Ethiopia. Since indirect channel is immature in Ethiopia and surrounded by different challenges and problems, definitely there are many topics for further study and this study will serve as a good reference.

1.7. Limitation of the study

Mainly due to financial constraints the study is conducted by focusing on ET's employees and major distributors. Input from customers and retailers is not included in the study. But a lot of effort is done to minimize the limitation by increasing interviewees and by incorporating more secondary data.

1.8. Definition of terms

- **Indirect distribution channel-** A chain of intermediaries through which a product moves in order to be made available for purchase by a consumer.
- **Distributors** – are mega distribution intermediaries at level one which deal directly with ET.
- **Sub-distributors** – are distribution intermediaries who engage in wholesales by taking ET products from the distributors to retailers.
- **Retailers** - are distribution intermediaries who engage in retail sales to end users by taking ET products from the distributors or sub distributors.
- **Distributor's chain-** The single line of chain that extends from ET to a distributor then to a sub distributor up to a retailer.

1.9. Organization of the study

The study is organized into five chapters. The first chapter deals with defining the problem, objective, research question and research scope. The second chapter is devoted to literature reviews related to indirect channel distribution design, management and structure as well as effectiveness and performance evaluation. The third chapter covers the research methodology. The fourth chapter deals with the presentation, analysis and interpretation of secondary and primary data. The fifth chapter is dedicated to conclusion and recommendation of the study.

CHAPTER TWO

RELATED LITERATURE REVIEW

Related works of theoretical and conceptual framework literatures as well as identified literature gap to the topic in Ethiopian context will be covered in this chapter.

2.1. Theoretical framework of the study

2.1.1. Defining channel of distribution

A distribution channel is a set of interdependent organizations (intermediaries) involved in the process of making a product or service available for use or consumption by the consumer or business user John (2012). When the level of distribution is zero, then the sales the distribution is called direct distribution (i.e. from producer to consumer directly). Here no middle men or intermediaries are required. But when the distribution channel entertains intermediaries to reach the ultimate consumer, then the distribution channel is said to be an indirect channel of distribution.

Therefore an indirect channel of distribution is an arrangement in which a company relies on other companies to perform a range several functions like logistics and distribution activities to reach the final consumers who needs the specific product of the company. The channel may range from a single middlemen to multiple middlemen depending on the geographic dispersion and/or the nature of the product

Channel intermediary covers all those firms placed between the manufacturer and the customer which can be firms or individuals such as wholesalers, agents, brokers, or retailers who help move a product from the producer to the consumer or business user (Jensen 2009).

Distribution channels (routes. Sales, sales channels, etc.) are used to link the point of production and consumption which is coordinated by a number of functions that moves products from producers to consumers Babl et al, (2010).

There are two concepts here to be distinguished one is the distribution channel and the other is the physical distribution. Babl *et al*, (2010) differentiated the two as retention points (distribution channels) and functional flows (physical distribution). While the first one consists of the characteristics of institutions, enterprises, consumers and other participant organizations, the second one can be described by its functional characteristics like the physical flow or movement of goods and others.

2.1.2. Flows in indirect channels of distribution

There are several types of flows that passes through indirect channels of distribution. Szopa and Pękała (2012) identified the following important streams of distribution channels: physical movement of completed products or services; actual transfer of ownership laws among participants of the channel; information about potential buyers, competition and demand; promotion; payments of invoices; negotiations; realization of orders; risk taking; shipping, transportation and storage of goods.

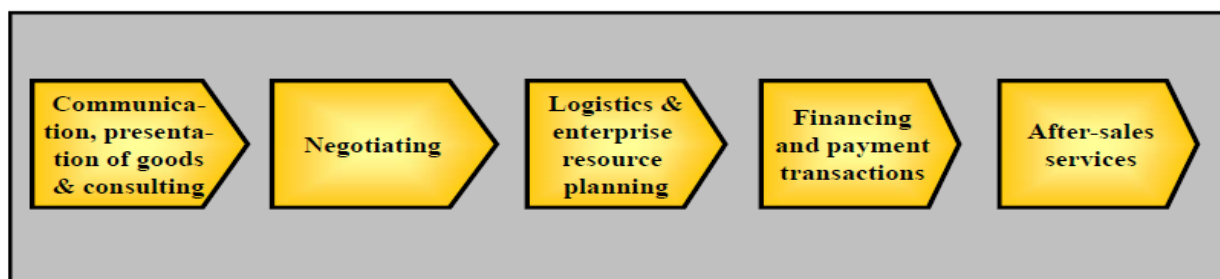
Some of the streams like the ownership rights, promotion, negotiation, risk, product flow to buyers and others like market information, payments, negotiations and contracts flows to the producers. All of these flows are inevitable and the responsibility for each of them lies upon at least one organizational unit.

2.1.3. Functions of Distribution Channels

Distribution intermediaries perform a range of activities and function. As stated by Jensen (2009), Burnett (2011), Szopa (2012) the various functions performed by distribution intermediaries/channels can be categorized into three basic functions

- I. **Transactional Function-** this function includes: buying (purchasing products for resale); selling (contracting potential customers, promoting products, and soliciting orders); risk taking (assuming business risks in the ownership of inventory that can become obsolete or deteriorate)
- II. **Logistical Function-** this function includes: assorting (creating product assortments from several sources to serve customers); storing (assembling and protecting products at a convenient location to offer better customer service); sorting (purchasing in large quantities and breaking into smaller amounts desired by customers); transporting (physically moving a product to customers)
- III. **Facilitating Function-** this function includes: financing (extending credit to customers); grading (inspecting, testing, or judging products, and assigning them quality grades); marketing information and research (providing information to customers and suppliers, including competitive conditions and trends)

On the other hand Tomczak (1999) discusses the functions sequentially with negotiation and aftersales services added as follow



2.1.4. Distribution channels design/Selection

It is important to have a well-designed distribution channel in order to be successful in any marketing or sales business. Companies must decide on a channel of distribution, which is the path a product takes from its producer or manufacturer to the final user, to

succeed in their business activities Schoell *et al* (1993). As described by John (2012) channel design involves those decisions in the development of new distribution and marketing channels where none had existed before, or the modification of existing channel distribution with the objectives of: increase the availability of the good or service; to potential customers; satisfy customer requirements by providing high levels of service; ensure promotional effort, obtain timely and detailed market information; ncrease cost-effectiveness and and maintain flexibility

The intensity of distribution should be considered during distribution design. According to Schoell *et al* (1993) there are three levels of distribution intensity:

- I. **Exclusive distribution**- a business that obtains goods from manufacturers and resells them to organizational users, other wholesalers, and retailers, also called distributors.
- II. **Selective Distribution**- distribution in which a limited number of outlets in a given geographic area sell a manufacturer's product
- III. **Intensive Distribution**-distribution that involves the use of all suitable outlets to sell a product

2.1.5. Territory management in distribution channels

Distribution territory comprises a number of present and potential customers, located within a given geographical area and assigned to a salesperson, branch, or intermediary (retailer or wholesaling intermediary).

Territory management is a customer group or geographic area over which either an individual distributor/salesperson or distribution/sales team has responsibility. A company has to establish a geographic demarcation (for example Country for a multinational

company and region/zone for a national company). There will be also further divisions in terms of distribution districts and cities (Vimi, 2011).

2.1.5.1. Designing distribution and sales territory

As described by Vimi (2011) there are two basic approaches to divide territory among channels of distribution or among sales persons.

a. Market build-up approach

In this approach, an aggregated estimation of the present and potential user demand for a product and their consumption capacity will be done. Understanding of how the market is built up, who are its present/potential users, how much do they consumer and at what frequency is necessary here.

For example, if the market potential for a product in a country say in area X is 10,000 unit, in area K 50,000 unit and in area F 100,000 unit; it shows the total market potential of 160, 000 units in the country. This leads to an estimation of total sales called required per area, and the number of other resources required. Distribution and sales territories are then formed in such a manner that the sales potential and work load is distributed among areas.

b. Work-load approach

This approach is designed by W. J. Talley as mentioned by Vimi (2011) on the basis of the workload performed by salespersons.

The following steps should be considered important when using the above approach:

1. Customers are grouped into class size according to the sales volume.
2. Optimum call frequencies for each class of customers are estimated.
3. Present and potential customers are then located geographically and arranged volume-wise and value-wise.

4. The number of present and potential customers in each volume/value group is then multiplied by the desired call frequency to get the total number of planned calls required for each geographical control unit.

2.1.5.2. Developing distribution territories

When territory demarcation and control is believed important for effective distribution, there should be proper delimitation and assignment of the territory for each channel members based on different basis of territorial demarcation. Vimi (2011) identified the following eight basis to form territory: geographical location, industry, product use, method of buying, channel of distribution, sales of potential, workload in territories, arbitrary and rational basis.

2.1.6. Choice factors of distribution channels

As distribution channels are very important in improving the marketing and sales effort of a company, the channels should be chosen very carefully. We have to consider and analyze various factors before we decide to work with the channels. As per Rosenbloom (2012) and Babi *et al* (2010) one should consider the following determinant factors in the choice of a distribution system: product characteristics, the characteristics of consumers, the characteristics of an intermediary, or market, characteristics of the producers and the environment in which it operates.

According to Babi *et al* (2010) if there is limited number of customers, strong spatial concentration of customers, great need for an explanation of products when shopping, technically complex products, a great need for customer service and a constant demand, then the channel should be direct distribution channel.

On the other hand when the goods are mass consumer goods demanded in large volume with large area, companies cannot meet and satisfy the demand by using their own

outlets. In this case the remedy option that the companies have is to use indirect distribution.

Babi *et al* (2010) identify the advantages and disadvantages of indirect distribution channels as follow

Table 2.1 advantages and disadvantages of indirect channel

Advantages	Disadvantages
Useful when location of home base is too far from consumers	service and quality for the customer will be low
keeping low storage costs	Producer removed from consumers
lower cost of financing	Less control over product
Greater sales volume potential	More expensive than direct distribution
lower costs of running the sale	fixing prices by the price of final consumption
lower cost of customer service when serving customers over trade	
lower management costs	
a high geographic presence of the product	
Frees producer to focus on production	
Middlemen are sales professionals	

Source: Babi et al (2010)

2.1.7. Measuring the performance of indirect channels

Performance may be define as the sum of all processes that will lead managers to taking appropriate actions in the present that will create a performing organization in the future.

Or doing today what will lead to measured value outcomes tomorrow Jensen (2009).

Channel performance can be seen from two perspectives macro or societal perspective and micro or managerial perspective.

As stated by Jensen (2009) and John (2012) there are three performance measures to measure the performance of indirect channels:

- I. **Effectiveness-** Providing the required service most cost effectively. Here issues like delivery effectives, stimulation of demand, customer request response will be considered.

- II. **Equity-** Extent to which marketing channel serves problem ridden markets and market segments, such as disadvantaged or geographically isolated consumers.
- III. **Efficiency (Output / Input)** - the productivity of deployed resources (Eg. manpower productivity and productivity of vehicle) and the profitability or financial efficiency with respect to return on investment (example control on overhead costs, Stock turns & margins and use of funds).

2.2. Conceptual framework of the study

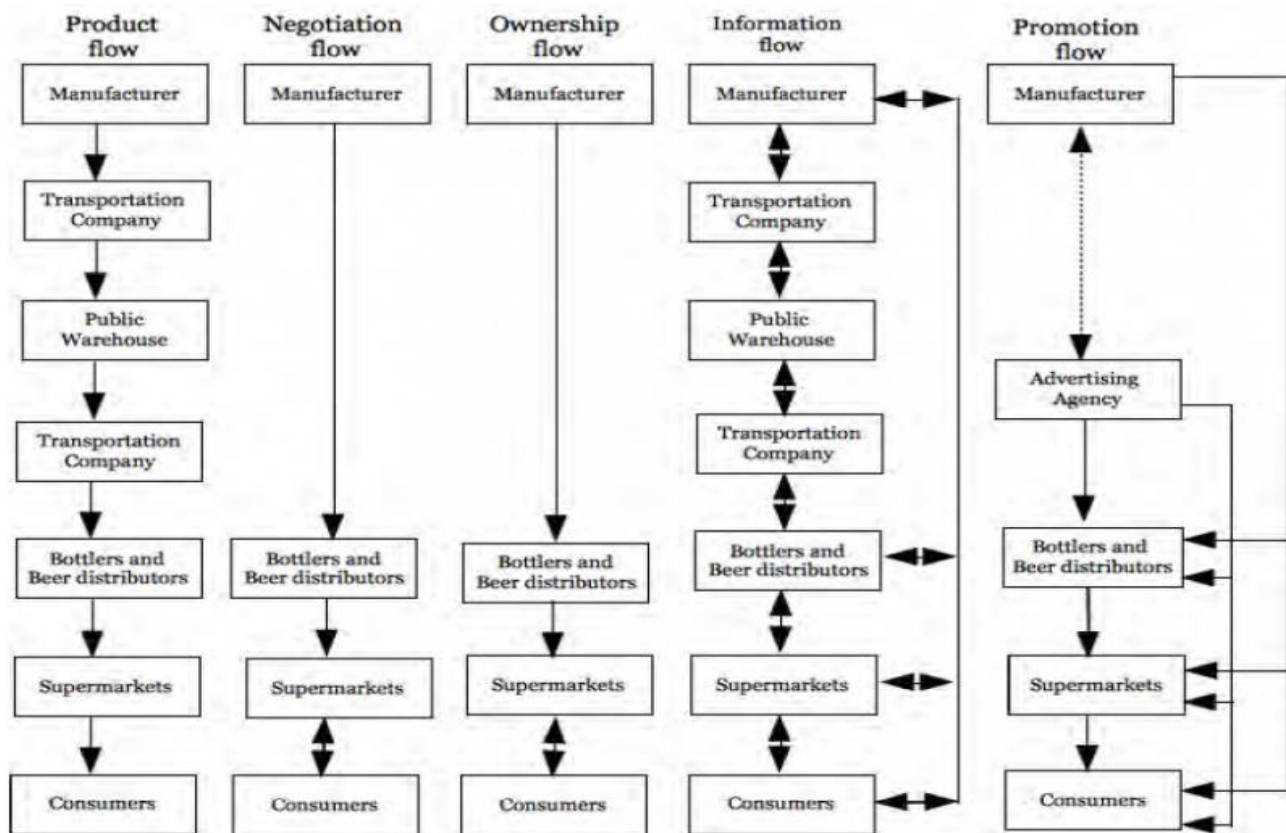
2.2.1. Flows in Indirect Channels of Distribution

Flow is a concept used to explain the channel mechanism. It encompasses the activities or functions that produce the service outputs demanded by end-users. Flows show linkages that tie channel members and other entities together in the distribution of goods and services.

As described by Rosenbloom (2012), Burnett (2011), there are five important flows as seen from channel managers' perspective namely product flow, negotiation flow, ownership flow, Information flow and promotion flow

The flows are depicted in the bellow chart to show the movement of each flow from the source to the destination (final consumer) as an example for a beer manufacturing company. Some flows like product and information flows (in this example) flows or passes in every of the participants of the channel (not only wholsalers, distributors, sub distributors, retailers and consumers) but others like negotiation and ownership flows only happen at wholsalers, distributors, sub distributors, retailers and consumers. They may not happen at transport companies or warehouses which may serve in between the main channel members.

Figure 2.1. The five flows in the indirect distribution channel



Source: Rosenbloom (2012)

- The product flow refers to the movement of the physical product from the manufacturer through all the parties who take physical possession of the product until it reaches the ultimate consumer.
- The negotiation flow encompasses the institutions that are associated with the actual exchange processes.
- The ownership flow shows the movement of title through the channel.
- The information flow identifies the individuals who participate in the flow of information either up or down the channel.
- The promotion flow refers to the flow of persuasive communication in the form of advertising, personal selling, sales promotion, and public relations.

These flows are not independent of one another. For example the flow of product will be affected by the negotiation, availability of transportation and information on demand.

On the other hand eight generic channel flows are identified, Rosenbloom (2012).

The following table shows the eight generic flows in the distribution channel with their corresponding costs.

Table 2.2 the eight flows in an indirect channel of distribution with their associated costs

The 8 generic channel flows	Associated cost
Physical Possession	Storage, delivery, sustainability
Ownership	Inventory, Shipping, Loss
Promotion	Selling, ads, promos, public relations, publicity, trade show.
Negotiation	Time, legal costs, templates, contracts
Financing	Credit terms, terms, conditions of sale, risks
Risking	Price guarantees, warranties, insurance, repair, after-sale support/service, reputation
Ordering	Administration, technology, time, order processing
Payment	Processing, collection, bad debt cost

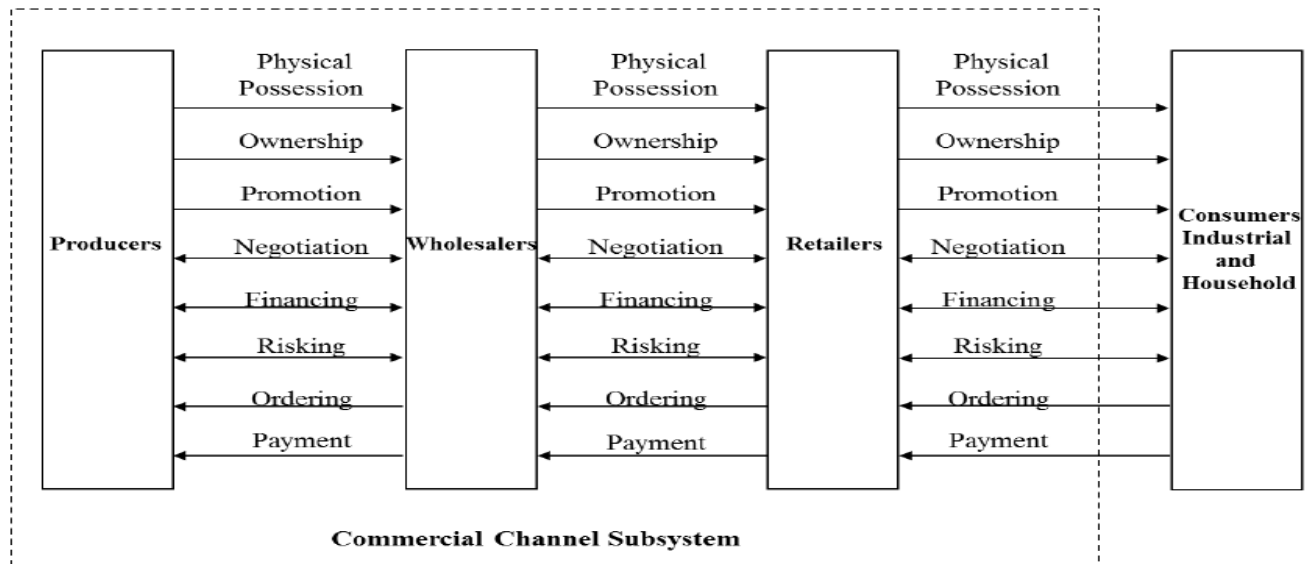
Source: Rosenbloom (2012)

As shown in the table above, every flow not only contributes to the production of valued service outputs but also carries associated costs.

Figure 2.2 bellow shows the flow system with two sub system flows within it namely the commercial channel subsystem and the consumer or end user subsystem. The commercial channel subsystem, that includes the producer too, will not directly consume the products but passes the product or service to the end user.

Figure 2.2 Chanel flows-subsystems.

Channel Flows



Source: John (2012)

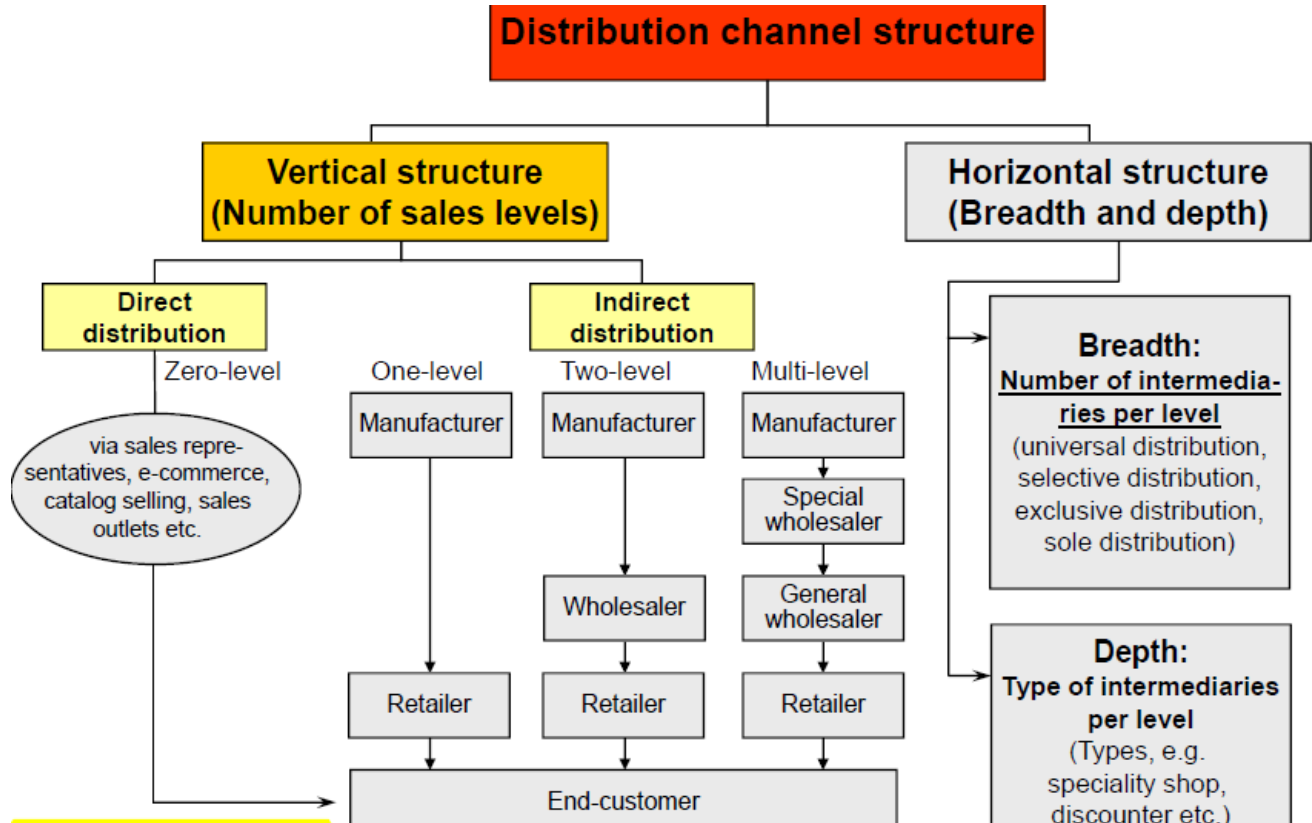
2.2.2. Vertical and Horizontal distribution channel structure

Bruhn (2007) divides channels structures into vertical structure and horizontal structure.

- I. **The vertical structure** considers the number any types of intermediary channels (direct channel which is zero level and indirect channel which goes from one level to manly levels to reach the customer).
- II. **The horizontal structure** considers the breadth and depth of the channel.
 - **Breadth-** Number of intermediaries per level (universal distribution, selective distribution, exclusive distribution and sole distribution)
 - **Depth:** Type of intermediaries per level (Types, e.g. specialty shop, discounter etc.)

The vertical and horizontal channel structures are better elaborated in the following diagram.

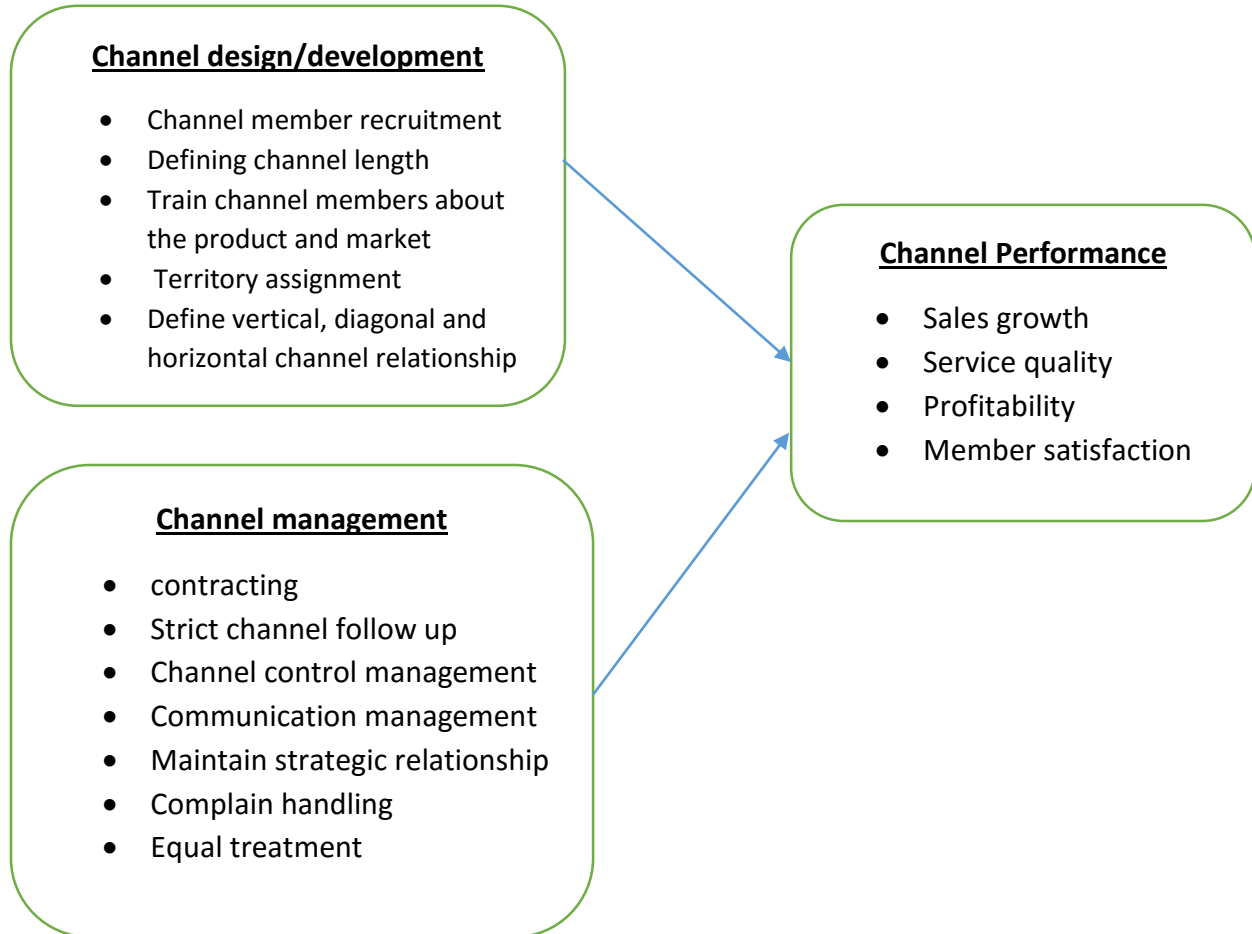
Figure 2.3. Vertical and horizontal distribution structure



Source: Bruhn (2007)

The below figure (figure 2.4) presents a conceived framework which attempts to explain how indirect channel performance is affected by channel design/development (like channel member recruitment, defining channel length, train channel members about the product and market, territory assignment etc.) and channel management (like contracting, strict channel follow up, channel control management, communication management, maintain strategic relationship, complain handling, secure equal treatment etc.). When there is proper channel design or development accompanied by good channel management it will improve the performance of the indirect channel as a whole.

Figure 2.4. Conceptual framework



Source: developed by the researcher, 2017

2.3. Identified Literature gap

There is generally literature gap on indirect channel of distribution in Ethiopian context. Especially when we narrow the topic for telecom specific product distribution literature is hardly available in Ethiopian context. Although the available works on distribution channel can be applied for fast moving telecom products, the nature and sensitivity of the products is unique (for example scratch cards are easily convertible to cash, SIM card sales require proper documentation of customer identity, the products are very light in weight but needs high care). These unique natures of the fast moving telecom products may need

customized distribution channel design, channel management, territory management, sales commission, conflict handling etc. This work will contribute in narrowing this gap.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter discuss the methodology research design of data analysis, collection, sources, population and sample size of the study.

3.1. Description of the study area

The study is conducted focusing on the indirect distribution channel of ET. It covers all major distributors all over the country. The indirect channel department (organized under residential sales division) develops and manages solely the indirect channel distribution system. The department has its own indirect channel managers (at regional level for regions and at zonal level for Addis Ababa). The main functions of the indirect channel department are designing and developing the distribution channel, recruit new channel members, territory control, price control, and regular follow up of sales performance of the channel. There are a number of distributors (national distributors, regional or local distributors, small and medium enterprises) that interact directly with the company.

3.2. Research approach and design

The research is mainly a descriptive type as it describes, contrasts and analyze the existing situation and practice related to the problem identified. It explores the applicability of different indirect channel distribution theories and practices to the company under study.

3.3. Population and Sample

The total target population for the study is around 290. There are around 95 distributors and 195 employees who work in the indirect channel of ET (Source: ET Human Resource Division as of Jan 20, 2017 and ET Indirect Channel Department).

Since the population under study is heterogeneous, the population is categorized into two groups of respondents (ET staffs and distributors) to secure representative data from all channel actors. While questionnaires are distributed and collected to/from distributors and their staffs and ET staffs, interview responses were received from owners of distributors and ET managers and indirect channel point of sales coordinators.

From Glenn (1992) the sample size is determined as follows by assuming a 95% confidence level, 0.5 standard deviation, and a margin of error (confidence interval) of +/- 10%.

$$\text{Sample Size } (n) = (Z\text{-score})^2 * \text{StdDev} * (1\text{-StdDev}) / (\text{margin of error})^2$$

$$n = ((1.96)^2 * .5(.5)) / (.1)^2$$

$$n = 0.9604 / 0.01$$

n= 96 respondents are approached. This amounts to 33.1% or one third of the population size.

Fifty seven distributors (46 via questionnaire and 11 via interview) and thirty nine ET staffs (27 via questionnaire and 12 via interview) were included in the study.

3.4. Data source and type

Primary and secondary data sources are used in the study both quantitatively and qualitatively. The primary data are collected mainly from channel members i.e. distributors and ET staffs. While the secondary data are collected from various literatures, prior researches of the area and from ET internal documents (agreements,

procedures, charters, policy, case studies, analysis, reports, sales and marketing data etc.).

3.5. Data collection Procedure

The primary data are collected through questionnaires and interviews. The questionnaires are distributed into the target sample population and collected in two phases. The first preliminary data are collected from 10 respondents of each category (from distributors and ET staffs) to test the validity or consistency of the data (using Cronbach's alpha test). The result was 0.773 and 0.770 for distributors and staffs respectively which shows good consistency. After testing the data for its consistency, the questionnaires are distributed fully and side by side interview is conducted for selected interviewees from each category of respondents. Cronbach's alpha value for the full questionnaire also shows good consistency (0.795 and 0.773 respectively for distributors and ET staffs).

Secondary data are collected mainly from ET after formal approval and permission is gained from respective office of the company, other secondary data are collected from various sources mentioned above.

3.6. Method of data analysis

To arrive at a good result the collected primary and secondary data are organized, presented and analyzed using various descriptive statistical tools whichever is suitable for interpretation and easily understanding depending on each data type.

3.7. Ethical Considerations

Any confidential information or data of the company are not used. Data collected from primary sources are only used for academic purpose and will not be disclosed for any third party.

CHAPTER FOUR

RESULTS, DISCUSSION, AND INTERPRETATION

The primary data collected from both respondents groups i.e. distributors and ET staffs are summarized, and presented in a frequency table including mean for each questionnaire responses. Secondary data that show the last four years sales performance of the indirect channel main distributors is also summarized per region or zone and presented. Both primary and secondary data are analyzed, and discussed in this chapter.

4.1. General Information of respondents

Table 4.1. General Information of respondents

General Information of respondents			
Respondent Group	No of Respondents (for questionnaire)	No of Respondents (for interview)	Total
ET Employees	27	12	39
Distributors	46	11	57
Grand Total			96

Source: primary data collected, 2017

4.2. Analysis of the effectiveness and efficiency of product distribution through indirect channel

Respondents were required to rate the items in the instrument on the basis of a five (5) point Likert scale (1=Strongly Disagree, 2=Disagree, 3=Not Sure, 4=Agree and 5=Strongly Agree). This implies that for purposes of interpreting the findings, Means that are close to 1 or 2 reflect disagreement, while Means close to 4 or five reflect agreement. Means close to 3 reflect uncertainty with the statement.

In this section, the study considers mainly revenue generation and cost saving, sales target achievement, strategic relationship, territory management, price setting, product availability and accessibility, commission payment and others to assess the effectiveness and efficiency of indirect channel distribution. Results are obtained from questionnaires, interviews and secondary data analysis from both respondent groups.

4.2.1. Evaluation of distribution coverage, revenue generation and cost saving

The results indicated that in terms of revenue generation the channel is performing very well. 77.8% of the respondents agree that the revenue generation is good (see No.1 below in table 4.2). Interview result also shows monthly and yearly revenue and distribution performance is good but it is usually below target. The (mean=3.77) shows the revenue generation and distribution is relatively good. However performing well in revenue generation does not mean the channel is efficient. The channel is not efficiently functioning in terms of revenue generation and cost saving. See table 4.2 No.5 below with (mean=2.08). Also we can see 77.8% of the respondents either disagree or strongly disagree with the statement “the channel is efficiently functioning in terms of cost saving and revenue generation”. From the interview response it can be conclude that it is costly and inefficient to control territory violation and price cut of voucher cards. Even though the revenue generation good it is no achieved in an efficient way.

The channel is also not effective in distributing the products in all areas at seasons. There is a frequent shortage of low denomination voucher cards (mean=2.15). The response shows that 77.8% of the respondents disagree or strongly disagree to this statement (see No.6 below in table 4.2).

Table 4.2 Summary of employees' response about the effectiveness and efficiency of product distribution through indirect channel

Statements to assess the effectiveness and efficiency of ET's product distribution through indirect channels												
No	Questionnaire Statements	SA		A		N		D		SD		Mean
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
1	The channel performance is very good and meets company expectation in terms of revenue generation and distribution	2	7.4	19	70	2	7.4	3	11	0	0	3.77
2	The flow of products along the distribution channel (from the top up to the final consumer) is well defined and there is no major problem	0	0	1	3.7	2	7.4	16	59	8	30	1.85
3	Distributors can provide the required service and advise to customers	0	0	2	7.4	3	11	18	67	4	14.8	2.11
4	Currently there is no distribution problem in every region/woreda/kebele (our products are easily accessible for every end customer in the country).	2	7.4	20	74	3	11	2	7.4	0	0	3.81
5	The channel is efficiently functioning in terms of cost saving and revenue generation	0	0	2	7.4	3	11	16	59	5	19	2.08
6	The channel is effective in distributing ET products in all seasons and areas	0	0	1	3.7	4	15	19	70	2	7.4	2.15
7	ET offers special incentive for large volume sales	0	0	11	41	3	11	13	48	0	0	2.93
8	There is no price difference if a channel member buys in any distributor	1	3.7	0	0	3	11	17	63	6	22	2
9	Usually the company achieves its sales/revenue which is targeted from the indirect channel	0	0	0	0	5	19	19	70	3	11	2.07
10	When the company plans its annual sales/revenue target, it considers the capacity and capability of its indirect channel members	0	0	0	0	1	3.7	9	33	17	63	1.41
11	Territory demarcation and control is properly implemented	0	0	0	0	0	0	12	44	15	56	1.44
12	Distributing ET product is taken as one of key revenue sources and important business activity by distributors	1	3.7	15	56	4	15	7	26	0	0	3.37
13	ET is dependent upon big companies instead of organizing small distributors	5	19	15	56	4	15	3	11	0	0	3.81
14	SIM card and voucher card distribution is properly planned and managed centrally	6	22	17	63	3	11	1	3.7	0	0	4.04

Source : Primary data collected, 2017

Where:

SA= Strongly Agree

S= Agree

N=Neutral

D= Disagree

SD= Strongly Disagree

Freq= Frequency

4.2.2. Evaluation of Distribution and sales performance (against target)

When we see the sales target vs. achievement, the finding from primary sources indicates that (see table 4.2. No.9 above) the company usually fails to achieve its regular sales target (mean=2.07). The employees respond that the company is not achieving its sales target. The sales volume target setting and other variables need to be assessed. One of the main reasons for this is that the company fails to incorporate the sales and distribution capacity of the channel members. Employees strongly disagree with the statement “the company considers the capacity and capability of its indirect channel members when it plans its periodic sales target”. See No.10 above in table 4.2 with (mean 1.41). The company should incorporate the capacity and capability of its distributors when it plan its periodic sales target.

The above finding from primary data is also supported by the secondary data findings. Four year sales performance is analyzed (July 2013-June 2017) to further strengthen the primary data result. As it can be seen bellow (table 4.3) the yearly performance was 91%, 86%, 85% and 70% for the years 2013/2014, 2014/2015, 2015/2016 and 2016/2017 respectively. The aggregate four year sales performance was below its target, only 83% of the target was achieved.

When we see the performance of each territory against the target set for them all the territories perform below 79%. Especially the performance of South Addis Ababa Zone (SAAZ) and North Addis Ababa Zone (NAAZ) shows the least performance for the last four years. These two sales territories perform only 28% and 53% of their target respectively. Hence either the sales plan or the sales capability of the distributors or both should be assessed.

Table 4.3 Annual Voucher card sales performance of indirect channel per region

Annual Voucher card sales performance of indirect channel per region												
	July 2016-June2017 (10 Month Average)			(July 2015-Jun 2016)			July 2014-Jun 2015			July 2013-Jun 2014		
Zone/Region	Target	Sales	%	Target	Sales	%	Target	Sales	%	Target	Sales	%
CAAZ	265,242,929	7,497,500	3%	384543214.7	261910000	68%	286247802.6	276372500	97%	239282763.4	192240550	80%
EAAZ	613,193,254	438,590,000	72%	769086429.5	585932140	76%	572495605.2	357481250	62%	373516923.5	396697600	106%
NAAZ	90,489,714	20,200,000	22%	769086429.5	107517500	14%	572495605.2	423317885	74%	478565526.7	485155015	101%
SAAZ	148,011,510	27,404,000	19%	353036196.7	0	0%	286247802.6	45305000	16%	239282763.4	187837000	79%
SWAAZ	218,011,510	341,392,500	157%	384543214.7	174114390	45%	342530247.2	225409280	66%	371219677.1	55910000	15%
WAAZ	630,924,376	546,577,185	87%	465510669.6	443740000	95%	545052037.2	427162740	78%	390190150.4	86491150	22%
ER	1,306,013,353	668,508,925	51%	919626050.7	781224800	85%	578723192.1	434160000	75%	768477098.3	512778500	67%
NER	821,888,891	328,987,115	40%	844768402.2	692794265	82%	615831596.5	433703000	70%	749759528.3	554438000	74%
NR	1,098,028,587	711,727,640	65%	1035146612	780432000	75%	733332352.4	556002700	76%	701750615.2	628791000	90%
NWR	1,626,184,467	697,000,625	43%	1383592844	1063360000	77%	1114590442	613117000	55%	1089705820	1099927815	101%
SER	980,067,249	665,760,325	68%	1041178048	791371965	76%	1377309234	940670500	68%	885879195.4	915598500	103%
SR	2,505,325,805	1,523,228,500	61%	2837809031	3004231930	106%	1921080036	1541365980	80%	1316580604	860452500	65%
SWR	364,278,224	237,290,000	65%	384373993.2	229150000	60%	339739119.9	202821450	60%	472713297.9	273570905	58%
WR	616,420,762	275,682,700	45%	785760480.1	291328000	37%	384177839.4	208420000	54%	510567903.5	313890445	61%
EPS	5,200,000,000	3,712,294,200	71%	5570000000	4208500000	76%	3498000000	3453020000	99%	2409610273	2581232500	107%
HIDASE	10,841,000,000	8,824,736,310	81%	10530882395	10778625245	102%	7112685000	7353422005	103%	4831248182	5316778265	110%
Total	27,059,837,709	19,026,877,525	70%	28,458,944,011	24,194,232,235	85%	20,280,537,912	17,491,751,290	86%	15,828,350,322	14,461,789,745	91%

Source- ET (summarized and organized by the researcher, 2017)

4.2.3. Analysis of distribution planning and product flow along the channel

The flow of products is random, complicated and chaotic. As per the channel management and design strategy of the company each sub distributor is required to purchase products from distributors and retailers are expected to buy from their respective upstream sub distributors. In general channel violation i.e. horizontal or diagonal transaction is strictly forbidden. But this rule is frequently violated mainly due to

price differences across the channel members (which is also illegal act as per the contract between ET and distributors and between distributors and sub distributors).

The result shows that the flow of products along the distribution channel i.e. from ET across the downstream intermediary distributors and finally to the end customers is not properly defined and managed. 88.9% of the respondents are not happy with the flow of products along the distribution channel (see No.2 above in table 4.2). The mean (1.85) of the respondents shows disagreement. Hence the movement or the flow of products along the distribution channel is problematic and not properly defined.

On the other hand SIM card and Voucher card distribution planning and management is good (mean = 4.04, in table 4.2 No.14 above). But there is problem in recovering the defective SIM cards and voucher cards back (revers logistics). Therefore while the distribution of products is planned properly functioning, the revers logistics for those products which are not properly sold due to various reason is not planned properly.

4.2.4. Study of service provision to customers by ET and distributors

The result shows that distributors are not providing the required service and consultation for customers in an efficient and effective way (mean=2.11). 81.5% of the respondent employees argue as the service is poor (see No.3 above in table 4.2). But the result from distributors is on the contrary with the employs. Most of the distributors believe that they are providing effective and efficient service and advise to customers. 62.3% of respondents distributors agree with it with (mean=3.52 see table 4.4 No 5 below).

On the other hand the result shows that distributors are not happy with the consultancy and training service they get from ET (mean=1.76). 93.4% of them either disagree or strongly disagree for the statement that ET provides the necessary training and

consultancy (see table 4.4 No.3 below). Results from employees also revealed that the focus is only on cost reduction and revenue generation but the support given to develop quality channel of distribution is too low.

Table 4.4 Summary of distributors' response about the effectiveness and efficiency of product distribution through indirect channel

Statements to assess the effectiveness and efficiency of ET's product distribution through indirect channels												
No	Questionnaire Statements	SA		A		N		D		SD		Mean
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
1	The current territory management helps to maximize sales and revenue for both ET and distributors	2	4	22	48	3	6.5	13	28	5	11	3.07
2	The sales targets set each week/month are mutually agreed with ET	0	0	0	0	0	0	22	48	24	52	1.48
3	ET supports distributors to achieve their target by providing the necessary training and consultancy	0	0	0	0	3	6.5	29	63	14	30	1.76
4	ET offers special incentive for large volume sales	0	0	1	2.2	6	13	28	61	11	24	1.93
5	Distributors can provide the required service and advise to customers effectively and efficiently	3	7	25	54	10	22	6	13	1	2.2	3.51
6	ET's channel management is effective in managing its stakeholders	1	2	17	37	12	26	9	20	5	11	3
7	ET's channel design and strategy is revised regularly to improve itself by incorporating feedback from distributors	0	0	0	0	5	11	30	65	11	24	1.87
8	There is no price deference if a product is bought in any channel member	0	0	0	0	4	8.7	30	65	12	26	1.51
9	Territory demarcation and control is properly implemented	0	0	0	0	2	4.3	18	39	23	50	1.83

Source : Primary data collected, 2017

Where:

SA= Strongly Agree

S= Agree

N=Neutral

D= Disagree

SD= Strongly Disagree

Freq= Frequency

4.2.5. Evaluation of territory management and its contribution to sales and revenue maximization

As it can be seen from (table 4.4 No.1 above) above most of the distributors (52.1%) agree or strongly agree that the current territory management helps to maximize revenue for both ET and distributors. While 30% of the distributors disagree or strongly disagree with it. When we see the mean (mean=3.07) the average is more of neutral.

But from the detail analysis of the data one can notice that most of the respondents (78.6%) who agreed with this statement are national distributors (nationally distributors are not subject to territory control) and others which disagree with it are local/regional distributors which are affected by the territory management. Therefore the territory management divides the distributors into two camps one camp which is benefited from the control (as it get benefited at the cost of others) and the other which is a victim and loser of it. The result from ET Employees clearly shows that the current territory management is not effectively implemented (see table 4.2 No.11)

The sales performance also doesn't support the advantage of territory control. As described in table 4.3 those distributors which are confined by territory do not perform as much as the national distributors which are not confined by territory. The overall sales performance against its target for the regions/zones is 67% while the overall sales performance against its target for the national distributors is 91%. This shows territory control is one of the factors for lower sales performance and also it is a basis for discrimination as far as it does not govern all channel members equally.

4.2.6. Assessing sales commission and incentive payment

The interview result shows that the only financial incentive that ET offers is sales commission based on achievement of sales target and other criteria. If distributors meet their sales target they will be paid the predefined uniform sales commission otherwise there is no any incentive paid for any extraordinary sales achievement. The data collected from distributors also show that there is no special incentive provided for extraordinary sales achievement apart from the flat commission rate (mean=1.93) with 84.8% argument against the statement (see table 4.4 No.4 above). But there is no clear understanding or information by employees whether there is extra incentive or not for extraordinary sales record (mean=2.93 in table 4.2 No.7).

4.2.7. Assessing the dynamics of channel design/strategy and stakeholder management

The contemporary channel is very dynamic and the behavior and performance of stakeholders is not predictable. Hence the channel design and structure should be robust and changing together with the environment.

But from the findings of the study, ET's channel design and strategy seems static and away from distributors input and feedback. The channel strategy and design is not revised regularly to improve itself by incorporating input from distributors (mean=1.87). 89.1% of the result show the channel design is more of static and doesn't update itself with input gained from stakeholders (see table 4.4 No.7 above)

In terms of stakeholder management, the result from distributors is not clear whether there is good stakeholder management or not (mean=3.00). The responses are not skewed to one direction; 31.9% of the respondents agree or disagree, 27% neutral and 40.9% agree or strongly agree with the statement that there is good stakeholder

management (see table 4.4 No.6 above). The result does not enable to conclude whether there is effective stakeholder management or not.

4.2.8. Analysis of price setting and determination across the distribution channel

The result shows that price difference is common across all distributors (mean=1.51). As sub distributors or retailers move from one upstream distributor to another (by switching their line of distribution), it is likely they can find price cut. In table 4.4. No.8 above one can see that distributors strongly sense that there is no uniform pricing across channel members even though the price is predetermined and set by ET. The same response is also obtained from employees in which 85% of them argues that it is common to find price difference across the channel members (see table 4.2 No.9).

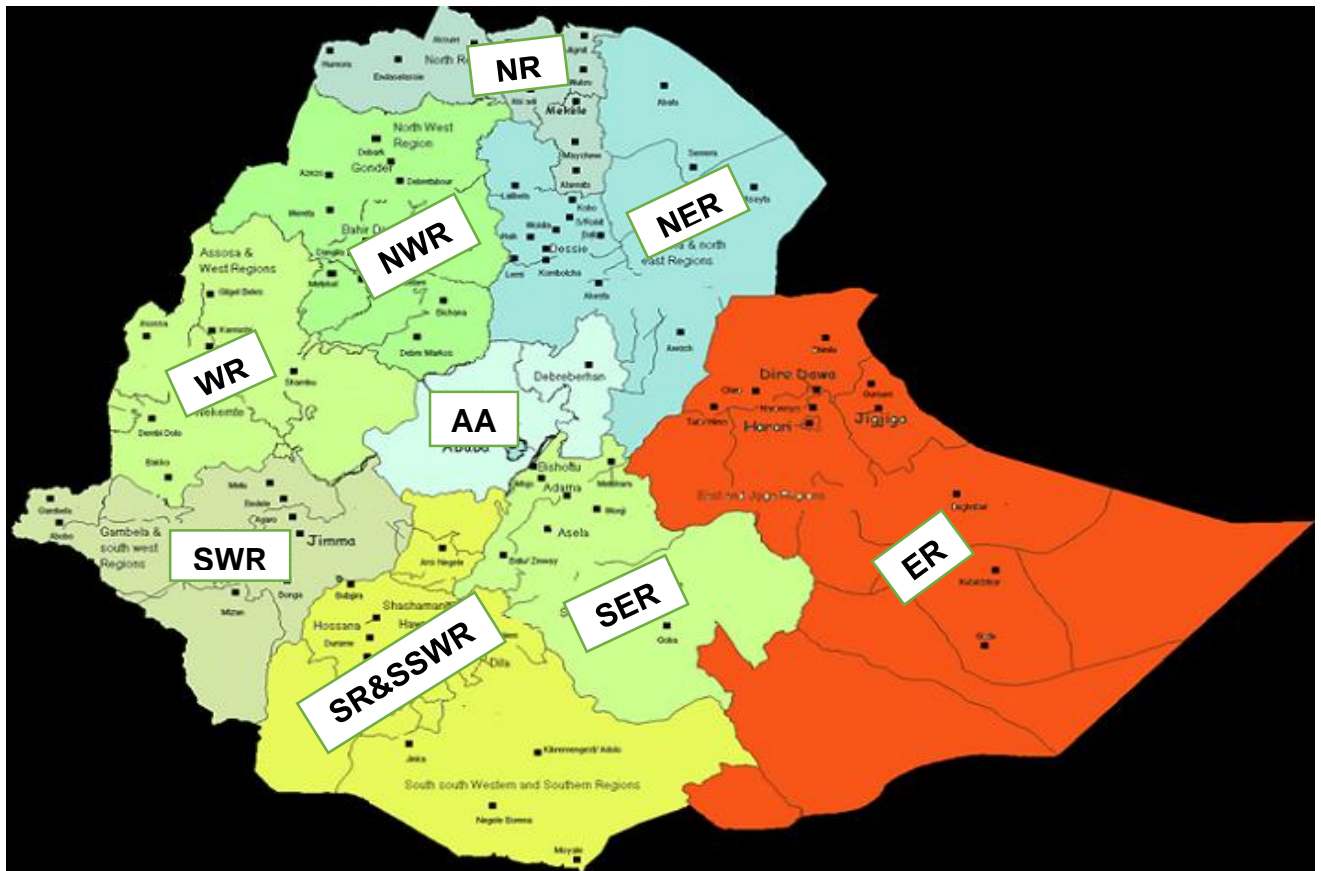
All distributors and sub distributors sign an agreement to strictly follow the agreed uniform price across the channel but in most cases they violated what they agreed to follow. The products are obtained with uniform price and with uniform commission system from the supplier, ET. The products are also standard, light and fast moving products and the operating cost of sales is almost the same. The only motivation for the price difference is to achieve regular sales target because fail to meet the sales target leads to loss of a significant margin of sales commission. In most cases there is price cut for voucher cards and as far as the sales commission margin that is going to be lost is greater than the loss of revenue from price cut, there will be price cut. This positive difference is the major cause that forces distributors or sub distributors to cut their price especially for voucher cards.

4.2.9. Evaluation of territory demarcation, implementation and control

ET's channel management is very complex, chaotic, discriminatory and difficult to implement in practice. It is discriminatory because all distributors are not subject to govern with it. Ethiopian postal service enterprise and Hidase telecom are the two dominant distributors and territory management doesn't apply for them. They have a right to sell the products anywhere without any geographic control. Other distributors are expected to sale the products within its own demarcated distribution region. This creates unfair competition, channel conflict and unfair treatment among channel members.

According to ET's internal documentation there are nine (9) sales territories that ET demarcates. The sales territories are the followings: Addis Ababa (AA), North West region (NWR), North region (NR), North east region (NER), East region (ER), South east region (SER), South region and south of south region (SR&SSWR), West Region (WR), South west region (SWR) - See the bellow map for clear view of the current sales territory demarcation of ET.

Figure 4.1 ET's sales territory demarcation



Source: ET documentation, 2017

Each channel member is expected to sell the products within its own territory. As per the contractual documents and signed agreements between ET and each distributor, territory violation by a distributor and its distribution chain (sub distributor and/or retailer) will lead to contract termination.

But the data collected from distributors and ET employees show territory control is poorly implemented. 95% of respondent distributors disagree with the argument that there is proper territory control and implementation (see table 4.4 No.9) and 100% of the respondent employees also disagree with this argument (see table 4.2 No.11).

4.3. Assessment of the major challenges faced by distribution channel members in reaching its customers

The findings are presented in the following manner to study the major challenges that hinder distribution channel members to reach their customers

The result shows that channel conflict is a growing challenge for ET. There is a growing concern that the channel conflict will be a challenge for ET with 81.4 % disagreement and (mean=1.8) for the statement mentioned in table 4.5 No.1 below.

In terms of conflict handling mechanism, the result shows that it is not well developed in the channel (mean=1.88 in table 4.5 No.2). Conflict of interest is one challenge in any channel unless it is managed properly and the sources are controlled. The current territory management is one source of channel conflict (mean=1.81 in table 4.5 No.3). The same response is also obtained from distributors. 91.1% of the respondent distributors agree that the current territory management doesn't improve sales management rather aggravates conflict of interest (see table 4.6 No.1).

The result from both group of respondents shows that ET discriminates among distributors. Especially national distributors enjoy full freedom from territory control and three month credit facility both of which are denied for other distributors (credit facility is only thirty days for other distributors). See the result in table 4.5 No.5&11 and table 4.6 No.3 with mean=1.85 and 3.15 respectively. The mean for distributors is near to neutral because it is affected by national distributors which get benefit by the discrimination.

Table 4.5 summary of finding from employees' about the main challenges

Statements to assess the major challenges faced by distribution channel members in reaching the intended customers												
No	Questionnaire Statements	SA		A		N		D		SD		Mean
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
1	Channel conflict is at its minimum level and will not be a challenge for ET	0	0	1	3.7	4	15	13	48	9	33	1.89
2	ET develops various mechanisms to solve conflicts that arise vertically, horizontally and at multiple levels	0	0	0	0	4	15	15	56	7	26	1.88
3	The current territory management practice helps to improve sales and avoids conflict of interest	0	0	0	0	2	7.4	18	67	7	26	1.81
4	ET supports distributors to achieve their target by providing the necessary training and consultancy	0	0	4	15	6	22	16	59	1	3.7	2.48
5	ET serves all distributors equally without any discrimination	0	0	1	3.7	7	26	14	52	5	19	2.15
6	ET avails the products in the required quantity on time	0	0	16	59	5	19	5	19	1	3.7	3.33
7	The current territory management has a problem and needs solution	5	19	16	59	3	11	1	3.7	0	0	4
8	There is clear procedure and criteria to select new channel members	0	0	14	52	7	26	6	22	0	0	3.3
9	There is clear procedure and criteria to blacklist and finally suspended channel members from the channel	0	0	0	0	3	11	19	70	4	15	2.04
10	There are regular workshops and meetings with channel members to enhance experience sharing and to avoid wrong doings.	0	0	4	15	3	11	19	70	0	0	2.42
11	Territory management is universally applied to all distributors without any discrimination	0	0	0	0	3	11	17	63	7	26	1.85
12	ET has good complaint management Strategy	0	0	0	0	5	19	13	48	9	33	1.85

Source : Primary data collected, 2017

Where:

SA= Strongly Agree

S= Agree

N=Neutral

D= Disagree

SD= Strongly Disagree

Freq= Frequency

As the result shows ET does not empower distributors by giving trainings and regular workshops or by providing other supports like consultancy, arranging experience sharing sessions with other channel members (see the result in table 4.5 No.4&10 with mean means 2.48&2.42 respectively).

The company has no good complaint handling strategy (mean=1.85) and 81.4% of the responses from employees (see table 4.5 No.12). Table 4.6 No.7 shows that findings from distributors also show that there is no good compliant handling strategy. And the company doesn't take the complaint from the channel as an opportunity to develop a good complaint management strategy. There is also no clear criteria how to black list and finally suspend channel members from the channel as the terms and conditions mentioned in the contract are vague and general to be applied.

The study also shows that sales commission is not fairly distributed among channel members at each level. Usually the channel members at the bottom of the pyramid gets the highest share of the commission.

Both distributors and ET staffs argue that the current territory management is not practical as the products are fast moving products which are difficult to control the movement or flow. Territory management is also discriminatory as all of the channel members are not governed by it.

Table 4.6 summary of finding from distributors' about the main challenges

Statements to assess the major challenges faced by distribution channel members in reaching the intended customers													
No	Questionnaire Statements	SA		A		N		D		SD		Mean	
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%		
1	The current territory management improves sales, territory conflict and reduces conflict of interest among distributors	0	0	0	0	4	8.7	27	59	15	33	1.76	
2	The current territory management has problems and needs adjustment	4	9	25	54.3	9	20	8	17	0	0	3.54	
3	ET serves all distributors equally without any discrimination	0	0	26	56.5	2	4.3	17	37	1	2.2	3.15	
4	ET avails the products in the required quantity on time to its distributors	0	0	37	80.4	5	11	4	8.7	0	0	3.72	
5	The sales commission provided by ET is fairly shared across the channel members at each level	0	0	2	4.3	5	11	28	61	9	20	2	
6	Sales commission is not a source of conflict among the channel members	0	0	0	0	5	11	29	63	12	26	1.85	
7	ET takes complain from distributors as an opportunity to improve the channel and has good compliant handling strategy	0	0	5	10.9	11	24	18	39	11	24	2.22	

Source : Primary data collected, 2017

Where:

SA= Strongly Agree

S= Agree

N=Neutral

D= Disagree

SD= Strongly Disagree

Freq= Frequency

4.4. Evaluation of indirect channel management and function at ET

Employees were requested to give their opinion about the indirect channel management and function at ET. The result is shown in the following table and discussed subsequently.

There result shows that the purpose of the indirect channel management and design is to increase market share, revenue and to reduce channel conflict (mean=4.04). (See table 4.7 No.1 below). On the other hand the result shows that the channel lacks common and shared goal that all channel members work for it. 74% of the response shows that the

current channel management strategy lacks a core goal that all channel members jointly share and work to realize it (mean=2.26 - see table 4.7 No.2 below).

Regarding to territory management, the result reveals that the territory management and design is inefficient. First of all it has basic design problems and not inclusive and second it is one of the inherent cause for channel conflict and discrimination as it is designed for some distributors not for all (see the result in table 4.7 No.3&10 below).

As it is indicated in table 4.7 No.4 below the sources of channel conflict are emanated from the channel design itself rather than the day to day activities or transactions (1.77). For example the territory management is discriminatory and leads to channel conflict; it leads to channel violation in which one channel member purchases from other suppliers other than its upstream provider; it leads to price cut which emanates from the commission system (because commission is subject to sales target). These are emanated from the design itself not from the day to day activities of the channel.

Currently the channel management strategy is no dynamic to incorporate constructive views from employees and distributors (mean=2.07, 1.85- see table 4.7 No.5&7 below). The channel management and design should be continuously improved by incorporating channel conflict resolutions, constructive feedbacks from channel members, by changing impractical procedures and articles, by developing strategic relationship with its main distributors.

Table 4.7 summary of finding from employees' about the indirect channel management and function at ET

Statements to evaluate the indirect channel management and function at ET												
No	Questionnaire Statements	SA		A		N		D		SD		Mean
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
1	ET designs its indirect channel of distribution in a way to increase its market share/revenue and to reduce channel conflict	7	26	16	59	2	7.4	2	7.4	0	0	4.04
2	The current channel management strategy has a core goal that all channel members jointly share and work to realize it	0	0	2	7.4	5	19	18	67	2	7.4	2.26
3	The current territory management strategy is appropriate and there is no any other better alternative (at least for now)	0	0	3	11	3	11	17	63	4	15	2.19
4	The sources of channel conflict are not emanated from the design rather from the day to day transactions/activities	0	0	0	0	3	11	14	52	9	33	1.77
5	ET improves its channel management strategy by taking channel conflicts as constructive	0	0	4	15	2	7.4	13	48	8	30	2.07
6	ET channel management structure helps to provide good support to channel members	0	0	3	11	3	11	17	63	4	15	2.42
7	ET channel design and strategy is revised regularly to improve itself by incorporating feedbacks from employees and distributors	0	0	0	0	3	11	17	63	7	26	1.85
8	The current channel length from ET up to the final retailer is appropriate and manageable	0	0	2	7.4	2	7.4	19	70	4	15	2.07
9	There is no clear relationship and control mechanism between distributors, sub distributors and retailers.	4	15	17	63	4	15	2	7.4	0	0	3.85
10	The current territory management is not a good channel management solution and has basic problems	3	11	19	70	4	15	0	0	0	0	3.96
11	ET has a strategic relationship with its mega distributors	2	7.4	11	41	5	19	8	30	1	3.7	3.19

Source : Primary data collected, 2017

Where:

SA= Strongly Agree

S= Agree

N=Neutral

D= Disagree

SD= Strongly Disagree

Freq= Frequency

The result shows that the current channel length from ET up to the final retailer is not appropriate and manageable (mean=2.07 in table 4.7). The relationship between ET and its distributors' is manageable but when we go down to the chain there are a lot of management and control problems. For example a distributor may deals with various number of sub distributors and the sub distributor deals with several retailers. The channel members' behavior and interest is too complex and unpredictable, especially when we go downward along the chain. The distributor cannot manage its downstream members properly as they are too mobile and may deal with other suppliers from another chain due to price cut advantage (although it is illegal act as per the contract) and there is no working solution for the distributor which helps to enforce its sub distributors and for the sub distributor to enforce its retailers unless terminating the business which may in turn lead to less sales achievement and hence loss of commission.

Multichannel management is the design, deployment, coordination, and evaluation of channels through which firms and customers interact Neslin *et al* (2006). Entrance and exit of channel members will affect the performance of the channel positively or negatively. When there is a new entrant there are associated costs like cost of tendering, cost of recruitment, cost of evaluation, cost of training and development, cost of low experience, cost of inefficient customer handling, etc. On the other hand when channel member exits the channel, it will reduce the channel's competitive advantage as the member will leave with its experience and accumulated knowledge of the channel.

The bellow table shows the exit and entrance trend for the last 4 years. As it can be seen in the table, there is a significant number of new entrants and exits of channel members

every year. The company should improve its channel management strategy and approach to minimize the exit of members.

Table 4.8 channel members entrance and exit analysis

Channel members entrance and exit analysis		
Year	No. of major distributors	Observation
Jun-13	39	
Jun-14	54	17 new channel members Join and 2 leave the channel compare to the previous year
Jun-15	48	4 new channel members Join and 10 leave the channel compare to the previous year
Jun-16	48	1 new channel members Join and 1 leave the channel compare to the previous year
May-17	85	41 new channel members Join and 4 leave the channel compare to the previous year

Source: ET (summarized and organized by the researcher, 2017)

4.5. Discussion and interpretation

ET's indirect channel is key and mandatory to reach customers easily. Without the implementation of indirect channel of distribution, one can imagine how it is difficult to reach and satisfy the demand of tens of millions of customers on daily basis. The revenue generated from this channel accounts the lion's share of the company total revenue (Nehmya, 2014).

Results show that there are significant problems with territory control and implementation. Different secret shopping results also shows that there is territory violation by the distributors and there is poor territory implementation or follow up by ET. The sales performance also doesn't support the advantage of territory control. As table 4.3 shows those distributors who are confined by territory do not perform as much as the national

distributors who are not limited by territory. The overall sales performance against its target for the regions/zones is 67% while the overall sales performance against its target for the national distributors is 91%. This shows territory control is one of the factors for lower sales performance and also it is a basis for discrimination as far as it does not govern all channel members equally.

Territory control is not universally applied. Some channel members are free from territory control while others are controlled. Except Ethiopian postal service enterprise and Hidase telecom which are national distributors without any territory limit, other distributors are expected to sale the products within its own demarcated distribution region.

The territory management divides the country into nine regions including Addis Ababa (see figure 4.1). Therefore as per the terms and conditions of the standard contract entered between ET and a distributors; if a distributor is registered in Addis Ababa, it is expected to sale the products in Addis Ababa only. But as per the results found from employees this territory management is not properly implemented and it is normal to find products given to distributors of one geographic region in other several regions. On the other hand controlling such fast moving consumer products is not effective as it can be found from every ordinary retailers. It is clearly shown that the territory management is not equally applied for all distributors and hence it is one source of discrimination.

Territory management divides the distributors into two camps one camp which is benefited from the control (as it get benefited at the cost of others) and the other which is a victim and loser of it. Employees of ET also conclude that territory management is not effectively implemented (see table 4.2 No.11)

The movement or the flow of products along the distribution channel is problematic and not properly defined. Each sub distributor is required to purchase products from its distributors and retailers are expected to buy from their upstream sub distributors. But this rule is usually violated mainly due to difference in price across the channel members which is illegal act as per the contract signed between ET and distributors; between distributors and its sub distributors as well as between sub distributors and retailers. Therefore As per the contract each member of a single channel line should only purchase from its upstream channel partners. Horizontal or diagonal purchase is strictly forbidden. But channel violation is common and committed by the majority of the channel members. It shows that during sales plan target setting the capacity and capability of channel members/distributors is not incorporated. Overlooking distributors' capacity during sales target planning might be one of the reasons that the company fails to achieve its periodic sales target as the targets may be overstated (In section 4.2 we saw the underperformance of actual sales vs. target sales). It is also one of the causes for territory violation and under rice. Therefore incorporating the ability and capacity of its channel members is important during the periodic sales plans.

Sometimes there are extra ordinary sales achievements but the company lacks comprehensive package to reward such good performances. In addition to its usual sales commission, the company should motivate outstanding performers by developing a special package. Especially when the sales performance is achieved as per the terms and conditions of the contract (without price, territory and chain violation), such outstanding performance should be rewarded.

All distributors and sub distributors sign an agreement to strictly follow the uniform price set by ET across the channel but in most cases they violated what they agreed to follow. The products are obtained with uniform price and with uniform commission system from the supplier (ET) and also they are standard, light, fast moving and the operating cost of sales activities is almost the same. The only factor for the price difference (usually price cut is observed for the voucher cards) is to achieve regular sales target because failing to meet the sales target leads to loss of a significance portion of the sales commission margin. As far as the sales commission margin that is going to be lost is greater than the loss of revenue from price cut, there will be price cut. This positive difference is the main cause that forces distributors or sub distributors to cut their price.

Different secret shopping results also shows that there is territory violation by the distributors and there is poor territory implementation or follow up by ET.

The sales performance also doesn't support the benefit of territory control. As the result from section 4.2 shows those distributors who are confined by territory do not perform as much as the national distributors who are not confined by territory. The overall sales performance against its target for the regions/zones is 67% while the overall sales performance against its target for the national distributors is 91%. This shows territory control is one of the factors for lower sales performance and also it is a basis for discrimination as far as it does not govern all channel members equally.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter the whole study will be summarized in short, conclusions will be derived and recommendations are suggested

5.1. Summary of findings

The study shows that the performance and effectiveness of ET's indirect channel has problems and needs improvement. The main problems of the channel are:

- I. Poor territory implementation- the territory management is not applied for all of the channel members, some exempted from it. This clearly shows discrimination among channel members and it is one source of channel conflict.
- II. Price cut and territory violation- there is not uniform price although it is supposed to be and the price is set by ET. The price cut is mainly caused by the sales target (over sales target) and commission payment system.
- III. The channel has basic design problems- the channel length is tall and the control mechanism and relationship for each stage is not clearly defined. The implemented territory management is discriminatory and it doesn't help sales improvement.
- IV. The relationship between ET and its channel members is not strategic. As a result there are regular exits and entrances of channel members. There are no proper supports and channel enhancement tools for mutual growth and better customer satisfaction.
- V. Periodic sales targets plans are not participatory and this leads underperformance of the sales targets and one cause for price differences.

5.2. Conclusions

Indirect channel plays a key role to reach customers easily and to boost revenue. But the performance and effectiveness is not good and has basic channel design problems. Price and territory control are not implemented properly and proper action is not taken usually. There are also channel design problems and most of the channel challenges are emanated from this design itself. The design becomes one source of channel conflict and discrimination since it is not applied for all members. Sales target settings are not participatory and the relationship between channel members and ET is not strategic.

5.3. Recommendations

Indirect distribution channels plays a key role to reach customers easily and to generate revenue. If the challenges that surrounds the channel are solved and improved the performance and effectiveness of the channel will be improved. The channel management strategy should be dynamic and there should be always room to incorporate channel member feedbacks.

The company should revise its territory management approach. Either it should be applied for all channel members or it should be removed. But as per the study, it should be removed as it hinders sales performance and it is the source of many violations. There should be a participatory periodic sales planning which incorporates the selling capacity of its distributors to improve the sales target vs. performance gap.

There should be strategic relationship between ET and distributors to improve distribution efficiency and customer satisfaction. Regular trainings and enough awareness creation programs should be developed for channel members to improve the channel performance and to avoid conflicts and violations. There should be continuous assessment of channel

members performance and behavior. Workable rules and regulation should be developed to reduce channel conflict and to avoid illegal actions by channel members. Terms and conditions should be re-designed in a way suitable for implementation and should be seriously applied.

5.4. Further research area

Further research can be done to study the applicability of territory control for fast moving consumer goods in Ethiopian context.

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Appendix 1: Semi-structured interview

Addis Ababa University

School of Commerce

Department of Logistics and Supply Chain Management

The development of the indirect distribution channel structure, its performance and the management of channel conflict in ET

A. Semi-structured interview (for ET managers)

1. General

--- Please describe your position in your company? How long have you held this position?

--- Please describe your company products distributed or sold by indirect distribution channels generally?

2. Current channel structure

--- Please describe the indirect distribution channels structure and design?

3. Channel Member treatment

--- Does ETe discriminate channel members on the basis of credit facility, territory management and resource provision (like office, vehicle...)?

4. Sources of conflict and conflict management

--- Are there any disagreements or conflicts between channel members?

--- In your opinion, what are the sources of their disagreements or conflicts?

--- How ET handles the conflicts raised and what kind of options considered to minimize the occurrence of channel conflicts?

--- Has your company ever tried the approach (avoidance, accommodation, compromise/ collaboration, or competition) to resolve the channel conflicts?

5. Contracts, terms and conditions

--- What are the selection criteria for distributors? Are you happy with it?

--- What are the rewards and the punishments to the distributors as per the contracts?

--- How do you control your distributors and sub distributors for territory violation and other inappropriate activities?

6. What are indirect channel problems related to:

- Territory control
- Channel design
- Pricing and commission

7. Supplement

--- Are there any further issues which you feel are important for the understanding of the development of the multi-channel structure and the management of channel conflict?

B. Semi-structured interview (for ET Staffs)

1. Does ET regularly train its distributors?
2. How do you manage two or more channel partners in the same geographic area (if any)?
3. Is there proper contract between ET and distributors which, at least, explains territory definition, business term and termination clauses?
4. What are the main products distributed and sold by indirect channel? Which product line is challenging for controlling and tracking
5. Are all products distributed by all channel members? If no, what is the basis for discrimination?
6. How many indirect channel member categories does ET have? Could you list them
7. What are indirect channel problems related to:
 - Territory control
 - Channel design
 - Pricing and commission

Appendix 2: Questionnaires to be filled by Distributors

Addis Ababa University

School of Commerce

Department of Logistics and Supply Chain Management

Dear respondent:-

The purpose of this questionnaire is to collect primary information to fulfill research data requirement about ET's indirect distribution channel for the partial fulfillment of the requirements of master's degree in logistics and supply chain management. The information you provide is confidential and will be used only for academic purpose and will not be disclosed to third party. I kindly request your cooperation to take few minutes to respond the following questions and would like to say thank you for the valuable information that you will provide and for your precious time spent to complete the questionnaire. I Believe you will respond to each question to the best of your knowledge.

Part I: General information

1. Indicate your category

National distributor

Regional/local distributor

2. For how long you serve as a distributor of ET products?

Less than 2 years

2-5 years

More than 5 years

Part II

Kindly indicate your level of agreement to the following statements by marking the numeric response using the following rating scale

Where 1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree

5=Strongly Agree

	Questions (Variables)	1	2	3	4	5
1. Statements to assess the effectiveness and efficiency of ET's product distribution through indirect channels						
1.1.	The current territory management helps to maximize sales and revenue for both ET and distributors					
1.2.	The sales targets set each week/month are mutually agreed with ET					
1.3.	ET supports distributors to achieve their target by providing the necessary training and consultancy					
1.4.	ET offers special incentive for large volume sales					
1.5.	Distributors can provide the required service and advise to customers effectively and efficiently					
1.6.	ET's channel management is effective in managing its stakeholders					
1.7.	ET's channel design and strategy is revised regularly to improve itself by incorporating feedbacks from distributors					
1.8.	ET rewards better for distributors when there is outstanding weekly/monthly/quarterly/yearly sales performance					
1.9.	There is no price deference if a product is bought in any channel member					
1.10.	Territory demarcation and control is properly implemented					
2. Statements to assess the major challenges faced by distribution channel members in reaching the intended customers						
2.1.	The current territory management improves sales territory conflict management and reduces conflict of interest among distributors					
2.2.	The current territory management has problems and needs adjustment					
2.3.	ET serves all distributors equally without any discrimination					
2.4.	ET avails the products in the required quantity on time to its distributors					
2.5.	The sales commission provided by ET is fairly shared across the channel members at each level					
2.6.	Sales commission is not a source of conflict among the channel members					
2.7.	ET takes complain from distributors as an opportunity to improve the channel and has good compliant handling strategy					

1. What should be done to improve the effectiveness and the efficiency of ET's indirect distribution channel? _____

2. What are the main challenges that ET distribution channel and channel members face? _____

Thank You

Appendix 3: Questionnaires to be filled by ET staffs

Addis Ababa University

School of Commerce

Department of Logistics and Supply Chain Management

Dear respondent:-

The purpose of this questionnaire is to collect primary information to fulfill research data requirement about ET's indirect distribution channel for the partial fulfillment of the requirements of master's degree in logistics and supply chain management. The information you provide is confidential and will be used only for academic purpose and will not be disclosed to third party. I kindly request your cooperation to take few minutes to respond the following questions and would like to say thank you for the valuable information that you will provide and for you precious time spent to complete the questionnaire. I Believe you will respond to each question to the best of your knowledge.

Part I: Demographic information

i. Gender Male Female

ii. Education level

Diploma 1st degree Master's Degree PhD.

Others Specify _____

iii. Service year

Bellow 5 year 5-10 11-15 16-20 greater than 20

iv. Current Section _____

v. Current position

Professional Specialist Coordinator Supervisor Manager Officer

Part II

Kindly indicate your level of agreement to the following statements by marking the numeric response using the following rating scale

Where 1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree
5=Strongly Agree

Questions (Variables)		1	2	3	4	5
1. Statements to assess the effectiveness and efficiency of ET's product distribution through indirect channels						
1.1.	The channel performance is very good and meets company expectation in terms of revenue generation and distribution					
1.2.	The flow of products along the distribution channel (from the top up to the final consumer) is well defined and there is no major problem					
1.3.	Distributors can provide the required service and advise to customers					
1.4.	Currently there is no distribution problem in every region/woreda/kebele (our products are easily accessible for every end customer in the country).					
1.5.	The channel is efficiently functioning in terms of cost saving and revenue generation					
1.6.	The channel is effective in distributing ET products in all seasons and areas					
1.7.	ET offers special incentive for large volume sales					
1.8.	There is no price difference if a channel member buys in any distributor					
1.9.	Usually the company achieves its sales/revenue which is targeted from the indirect channel					
1.10.	When the company plans its annual sales/revenue target, it considers the capacity and capability of its indirect channel members					
1.11.	Territory demarcation and control is properly implemented					
1.12.	Distributing ET product is taken as one of key revenue sources and important business activity by distributors					
1.13.	ET is dependent upon big companies instead of organizing small distributors					
1.14.	SIM card and voucher card distribution is properly planned and managed centrally					
2. Statements to assess the major challenges faced by distribution channel members in reaching the intended customers						
2.1.	Channel conflict is at its minimum level and will not be a challenge for ET					

2.2.	ET develops various mechanisms to solve conflicts that arise vertically, horizontally and at multiple levels					
2.3.	The current territory management practice helps to improve sales and avoids conflict of interest					
2.4.	ET supports distributors to achieve their target by providing the necessary training and consultancy					
2.5.	ET serves all distributors equally without any discrimination					
2.6.	ET avails the products in the required quantity on time					
2.7.	The current territory management has a problem and needs solution					
2.8.	There is clear procedure and criteria to select new channel members					
2.9.	There is clear procedure and criteria to blacklist and finally suspended channel members from the channel					
2.10.	There are regular workshops and meetings with channel members to enhance experience sharing and to avoid wrong doings.					
2.11.	Territory management is universally applied to all distributors without any discrimination					
2.12.	ET has good complaint management mechanism					
3. Statements to evaluate the indirect channel management and function at ET						
3.1.	ET designs its indirect channel of distribution in a way to increase its market share/revenue and to reduce channel conflict					
3.2.	The current channel management strategy has a core goal that all channel members jointly share and work to realize it					
3.3.	The current territory management strategy is appropriate and there is no any other better alternative (at least for now)					
3.4.	The sources of channel conflict are not emanated from the design rather from the day to day transactions/activities					
3.5.	ET improves its channel management strategy by taking channel conflicts as constructive					
3.6.	ET channel management structure helps to provide good support to channel members					
3.7.	ET channel design and strategy is revised regularly to improve itself by incorporating feedbacks from employees and distributors					
3.8.	The current channel length from ET up to the final retailer is appropriate and manageable					
3.9.	There is no clear relationship and control mechanism between distributors, sub distributors and retailers.					
3.10.	The current territory management is not a good channel management solution and has basic problems					
3.11.	ET has a strategic relationship with its mega distributors					

1. What should be done to improve the effectiveness and the efficiency of ET's indirect distribution channel? _____

2. What are the main challenges that ET distribution channel and channel members face?

3. How do you evaluate ET's indirect channel management strategy and structure?

Thank You