

Jun Oheki

**Strategic Management between
Company and
Nonprofit Organization
:Marketing Channel Evolution**

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Strategic Management between Company and Nonprofit Organization : Marketing Channel Evolution

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Foreword

At present, most people would agree that the rise of information technology has brought many benefits to company and consumer. Especially as can be seen in the diffusion of Internet, information technologies are developing rapidly. Complex and varied relationships (company-to-nonprofit organization relationships, new manufacture-to-distributor channel relationships, etc.) are being formed on a global level along with this popularity. Such dimensions are referred to as “the information revolution”.

“The information revolution” can be largely identified along three aspects, when inspected from a technological point of view. The first aspect is the development of broadcasting. In concrete terms, these are efforts to realize various residential services that utilize two-way cable televisions and multi-channel broadcasting with communication satellites by using digital method.

The second aspect entails the development of telephone services (mobile communications, television phones). It is generally understood that in the future mobile communications will become increasingly important. From this point forward, mobile communications does not simply consider that telephones will become increasingly sophisticated. Mobile communications are expected to evolve into mobile computers. In the United States, as well as in Japan, those in the telecommunications companies are acutely aware of this current.

The third aspect involves the development of computer linkages. As for concrete applications, the following fields make use of Internet: telecommuting (working at home), electronic banking care, international electronic commerce, electronic civil service, electronic settlements, remote education, remote medical and the like.

The present developments of these three aspects indicate that they interact with one another and, especially, that there is integration in the

applications of the three aspects. Broadcasting, telephones, and computer linkages were separate means of communication, up until now. However these three means of communication will be fused into computer linkage, in the future.

In the meaning, major advanced in information technologies have been among the most exciting and far-reaching developments in science and technology in the late twentieth century. The rapid pace of information technology innovation and diffusion is maintained well into the twenty-first century as computing, telecommunications, and broadcast and print media continue to converge on common digital-based techniques.

This information revolution has generated vigorous debate around a number of 'hot button' issues, such as concerns over the growing gaps between information 'have' and 'have not'. However, it has also generated many marketing channel visions which have been concentrated on concepts like "the virtual company" (Davidow and Malone, 1993), "the clicks and mortar" (Pottruck and Pearce, 2000) and "the one to one future" (Peppers and Rogers, 1993). So, one of the most recent concerns about marketing channel is the effect that "business strategic alliance" can have on the marketing channel. This business strategic alliance has two means on this study. The one is business strategic between manufacture and distributor. The other is business strategic alliance between company and nonprofit organization.

Although nonprofit organization does not have established definition, its most extended meaning is "a private organization that is systematically prohibited from distributing any profit outside the organization". Nonprofit organization functions like companies and its objective is not to make a profit but to pass it along to the society. It means the organization of social participation that started from the grass-roots activity. For example, their nonprofit organization is Global Reporting Initiative (GRI), Conservation International, Catalyst, Social Network, Linux, Gnutella, You Tube, Common Ground Community, and so on.

On the other hand, nongovernmental organization is distinguished from government activities and refers to an activity organization of private and civil groups. The term "nongovernmental organization" was originally designated in the Charter of the United Nations and was initially used in the field of the international company. However, it is now not only used for the international activity groups but also for any organizations that aim to protect the global profit and common profit for all humanity in each region that go beyond the concepts of the "nation" or national profit". The differences of them are: nonprofit organization emphasizes on "nonprofit" and nongovernmental organization emphasizes on "nongovernmental".

According to Lohrendahl (1997), the common characteristic of the nonprofit organization lies in the “connection of humanity, but not capital”.

These marketing channel visions have driven the opening of new strategic management between company and nonprofit organization. Company-to-nonprofit organization channel relationship is increasing and becoming more strategically important. In Japan, and in several other countries, it is often said that company-to-nonprofit organization relationships have much to be desired. For example, their relationships are Hewlett-Packard and the National Science Resources Center; Reebok and Amnesty International; MCI WorldCom and The National Geographic Society; Georgia-Pacific and The Nature Conservancy; Starbucks and CARE; NBC and You Tube; MTV and You Tube; Time Warner and Bit Torrent; and Timberland and City Year.

And, we need to understand that the Internet is the exemplar of the future marketing channel. Internet technology offers powerful tools for multiple entities. This will drastically change the nature of marketing channel strategy. Kotler (2002) addressed, “What is happening now is not the evolution of the technology, but it is “channel evolution” of connecting one organization with another. It is like reshuffling cards and beginning a new marketing competition.” He argues that the core of the information revolution is the transition from broadcasting to dialog, or from one-way to interaction.

Austin, a professor of Business Administration at Harvard University Graduate School of Business Administration of the United States, considers that the key to the future strategic management is various forms of business strategic alliance between multiple entities (Austin, 2000a, 2000b). Especially, business strategic alliance between company and nonprofit organization is emphasized. If we consider how to use information technologies, information technologies make it possible to envisage a future with diverse and individualized inter-organizational relationships and marketing channel supported by such modes of inter-organizations.

This study critically examines the visions and realities that have already shaped marketing channel in order to provide practical insights into how the long-term marketing channel implications in the information age can be addressed. In doing so, it provides much evidence to help readers understand the ways company-to-nonprofit organization channel relationship are shaping international electronic commerce —as well as being shaped by them. Most importantly, this journey into the international electronic commerce problem surrounding marketing not only challenges prevailing wisdom about the effects of Internet technology, it also provides

direction for marketing channel to achieve the opportunities presented by the profusion of information technology innovations.

In this study, channel relationship in Internet such as international electronic commerce, and the business of peripheral devices of terminal machines, platform, such as the personal computer, content of information, contents, communication system, distribution, will be defined as “affiliated business of international electronic commerce”. Which of the marketing channel competition shall develop by open development of promotion by the information technology, in the market of the affiliated business on international electronic commerce? This study discusses how information technologies provide marketing channels for company-to-nonprofit organization communication and how such marketing channels the dynamics of the marketplace.

This study will deal with the following issues. One of the issues is to clarify how and why the Japanese manufactures, who used to use their power to manipulate the distributors in distribution keiretsu, failed to convert the marketing channel strategy in the 1980's and 1990's and the retail distributors or nonprofit organization, who were gaining control of the distribution industry, have come to develop the business strategic alliance in the Internet. The other issue is to understand how this was implicated in the marketing channel theory.

The study subject of this study is the shifting of distribution keiretsu when the marketing channel management led by the manufactures came to a standstill. Affiliated business of the international electronic commerce, which is often discussed in the marketing channel study in Japan, will become the review subject to examine how the manufactures modified and converted the marketing channel strategy and to discuss the fast-growing two types of business strategic alliance (manufacture-to-distributor channel relationships, company-to-nonprofit organization relationships).

The above issues are the main concentrate of this study because of the basic understanding that distribution keiretsu, where the manufactures had unilateral control over the purchasing and sales activity of the retail distributors, are making the transition to the business strategic management, where the innovation emergence is emphasized. The following analysis method will be used to examine the issues.

The method consists of surveying the existing marketing channel theory, organizing the characteristics and the problems, analyzing the strategic alliance in the information age, and giving feedback to the marketing channel theory based on the inter-organizational relationships. During these courses, they are important to pay close attention to the

prerequisite of marketing channel. Without the prerequisite, the validity of the marketing channel theory, which signifies the manufacture-to-distributor channel relationship, will decline. Consequently, it is essential to examine the relationship between the prerequisite, strategic alliance (manufacture-to-distributor channel relationships, company-to-nonprofit organization relationships) and the marketing channel theory. Based on the issues and the method, the concept of the business strategic alliance will be mainly studied and examined.

Chapter 1

Introduction: Overview of Marketing Channel

1. Preface:
Distribution Keiretsu and Business Strategic Alliance
2. Object of Study
3. Explanation of Format

1. Preface: Distribution Keiretsu and Business Strategic Alliance

In the 1940's, most companies had taken a great interest on the distribution and procurement of their management resources inside their companies and most efforts were concentrated in the same manner as well. The Japanese companies in the early 1960's included the lack of management resource for their companies by executing distribution keiretsu to use the external management resources for their expansions.

In the 1990's, as can be seen in the popularity of information technology, complex and varied relationships are being formed on the global scale. At the 2000's, the strategic connection between the companies called the business strategic alliance with their competition appeared as a new company activity. The business strategic alliance between company and nonprofit organization appeared, too. And this business strategic alliance is increasing and becoming more strategically important. By these business strategic alliances, the companies had changed their traditional marketing channels and corporate strategy rapidly. The companies had the intention to convert their marketing channels to cooperate from being their competitions by forming an organization different from itself.

As the development of their marketing channel theories and corporate strategies, this study takes consideration on the business strategic alliance to create knowledge to unify manufacture and distributor or to unify company and nonprofit organization. This study indicates clarifying the strategy role of the information technology and having the executed business strategic alliance.

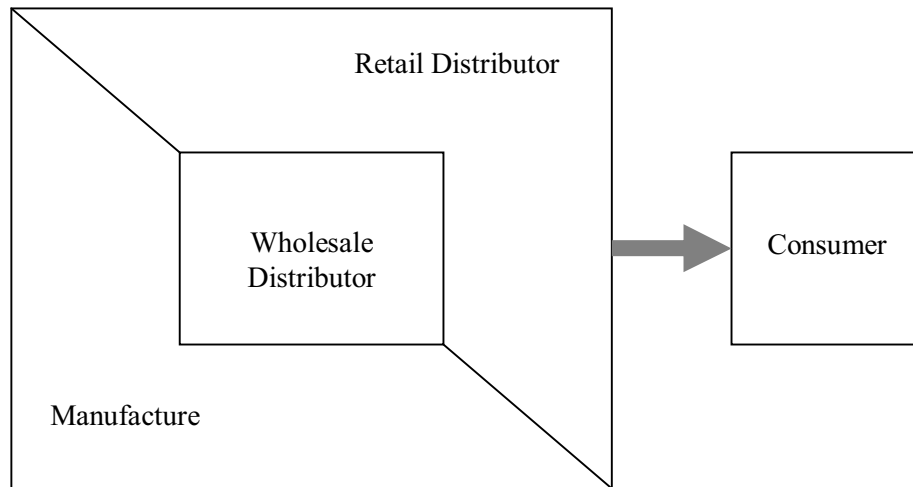
2. Object of Study

One of the most recent concerns about marketing is the effect that “information technology” can have on marketing channel. Other is the effect that business strategic alliance, especially company-to-nonprofit organization channel relationship can have on marketing channel. Buchanan (1992) has shown that in some cases distribution keiretsu can be put business strategic alliances by information technology. These days, the manufacture-to-distributor channel relationship and company-to-nonprofit relationship is gaining a great deal of attention in marketing and management study worker. This is because the manufacture-to-distributor cooperative relationship and company-to-nonprofit marketing cooperative relationship, described as “business strategic alliance” has been or is recognized to have a major influence on the success or failure of company in the information age. In the meaning, inter-organizational relationships are elementary part of current business. Companies have a wide variety of external relationships with other organizations.

This issue will be examined as a marketing channel theory in the marketing study. Since the marketing channel theory has accumulated study results on the manufacture-distributor channel relationship, they will be used for explanations throughout this study. Therefore, this study follows the practice of the marketing channel theory.

As explained below, the actor in the marketing channel management has been, in many cases, assumed to be the manufacture, whether express or implied (See Figure 1-1). These assumptions continued until recently in Japan and until the 1960s in the United States. When the manufacture was the marketing channel captain, discussing the issues on the distributor management from an approach of the manufacture was very effective. However, as more and more retail distributors or nonprofit organization became the marketing channel captains, the marketing channel theory that did not specify the manufacture as an actor became necessary. However, the discussion from the viewpoint of the manufacture has not become meaningless. The fact of matter, the marketing channel management with the manufacture as an actor instead of a marketing channel captain has become important under some restricted conditions.

Figure 1-1 Vertical Marketing System



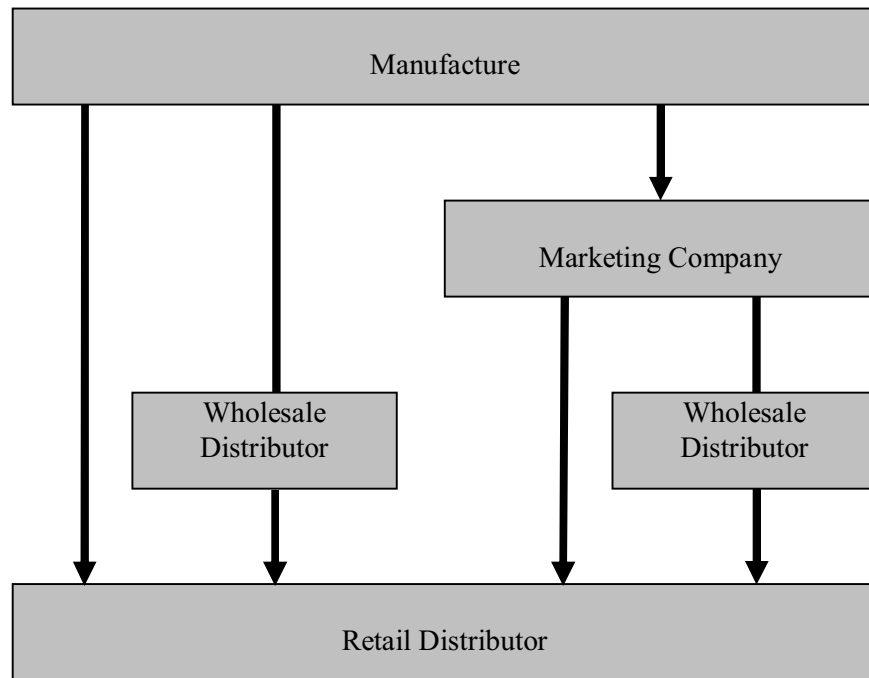
Source: Kotler (1984) *Marketing Essentials*, Prentice-Hall, p.280.

However, this is only applied to a part of the manufacture-to-distributor channel relationship and does not represent the entire relationship. For that reason, the marketing channel theory will be examined as manufacture-to-distributor channel relationship theory that does not specify the manufacture as an actor. In this study, the definition on “Marketing Channel” follows below.

Marketing channel: The structure of intra-company organization units and extra-company agents and dealers, wholesale distributor, retail distributor, and nonprofit organization through which a commodity, product or service is marketed.

Distribution keiretsu is often discussed in the marketing channel study in Japan (See Figure 1-2). This study will become the review subject to examine how the manufactures modified and converted the marketing channel strategy and to discuss the fast-growing business strategic alliance led by the retail distributors or nonprofit organization. Why did the manufactures try to change the traditional marketing channel strategy? What kind of marketing channel strategy did they want to develop?

Figure 1-2 Distribution System



What kind of marketing channel did the manufactures lead? How was the business strategic alliance between company and nonprofit organization related with the marketing channel strategy and its change? Finding answers to these questions is the purpose of this study.

The manufacture-distributor marketing relationship is centrally concentrated because of the basic understanding that the marketing channel relationship, where the manufactures had unilateral control over the purchasing and sales activity of the retail distributors, is making the transition to the marketing channel relationship, where their bilateral relationship in wider ranging areas as well as the innovation emergence are emphasized.

Although both distribution keiretsu and business strategic alliance are categorized as the long-term manufacture-distributor marketing relationship, they are significantly different in terms of the emphasis on the innovation through bilateral cooperation and learning in a wider range of cooperation area. The structure of distribution keiretsu and the business strategic alliance are given comparative review because it will be useful in

reviewing the traditional marketing channel theory and improving the weakness.

The task of this study is to analyze distribution keiretsu and examine the changes in their marketing channel strategies. In order to meet the task, it is necessary to pay attention to what kind of distribution role performed. As the marketing multi-channel distribution developed, the manufactures and the distributor performed different distributive function to each marketing channel.

Therefore, it became necessary to control the difference with marketing channel, i.e. vertical integration or distribution keiretsu, which is to integrate and transfer the function. The manufactures integrated the distributive functions of some wholesale distributors or retail distributors to enforce the control, but they also transferred the functions to other distributors to increase the efficiency in exchange for the decreased level of control. The functions are integrated further if a marketing channel is easy to control.

On the contrary, the functions are transferred to a marketing channel that is difficult to control. It is important to discuss the vertical integration or distribution keiretsu from the approach of function sharing relationship.

Using these approaches, the marketing channel strategy of a company was examined in details and implications were extracted, which in turn gave feedback to the marketing channel theory. Therefore, there will be occasional back-and-forth or longer explanations before reaching a conclusion.

3. Explanation of Format

The uniqueness of the modern marketing awareness lies in its multi-layered, structured “relationship” that is accompanied by the informatization. Today, there are many changes and re-creations at all marketing levels, which are emerging as “marketing channel” issues. There are plans of the proposition to question whether unerring information technology can be appreciated as well as the formation of new marketing channel. Specifically, the issues of new phase in the marketing channel are

manifested as they are in parallel with those of the business strategic alliance (company-to-nonprofit organization relationships, new manufacture-to-distributor channel relationships, etc.) In this study, we will specify these viewpoints and examine the business strategic alliance as the new marketing channel in order to understand the position of co-relationship, which is intertwined by the viability structure and the existence conditions of the information technology in the marketing channel, and their contexts.

This informatization (development of information technology) and the globalization subsume the relationship that influence, penetrate, and regulate each other to make the existing framework obsolete.

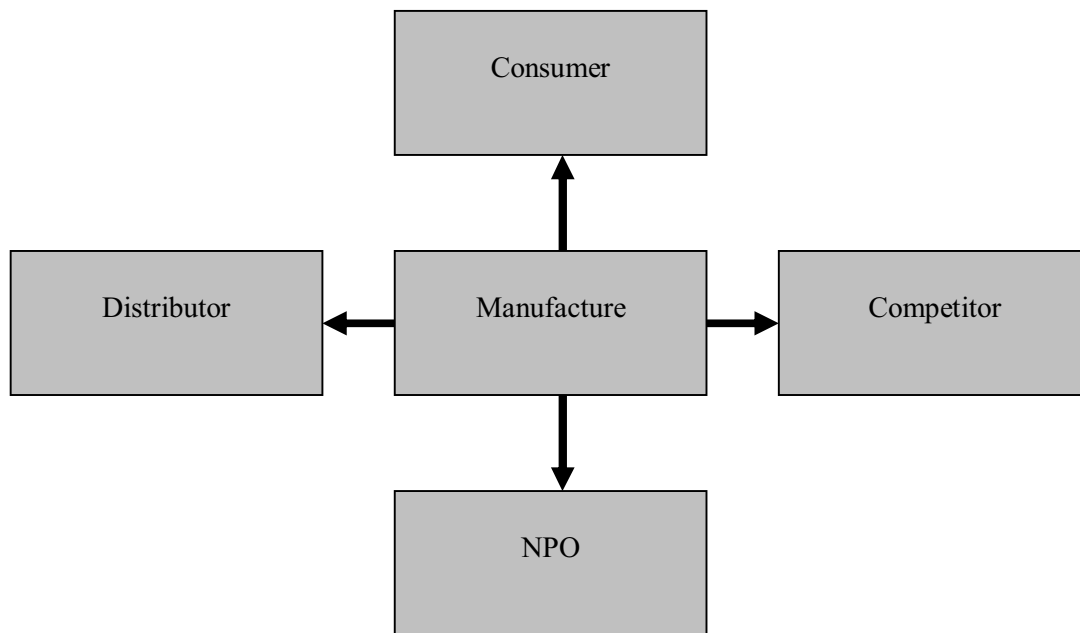
The most important intersectional territory of the informatization and the globalization is “the international electronic commerce”. To look back on how the marketing channel and information technology developed serves as a reference on how to regulate “the international electronic commerce” and how the marketing channel on the computer linkage can develop. A recent study of the marketing channel theory clarified that the mechanism of “trust” is making a significant contribution. It is considered to have important meaning for the market on the Internet as well. Internet auctions make the collaborative transactions with strangers possible by providing information on the Internet.

Today’s marketing channel surrounding is causing the informatization on one end; and on the other, developing under the complex regulations of the competition and globalization. This is the reason why it is necessary to establish a new framework by appreciating the information technology.

Kotler, a professor of Northwestern University of the United States, called it “holistic marketing revolution” of the in his book, “Marketing Moves” published in 2002, and insisted that it surpasses the industrial revolution of the of the 18th century. In fact, the “holistic marketing revolution”, which is the global network progress brought by the development of the information technology, developed as it covered the entire “existing marketing systems” such as marketing channels to promote the reorganization of the marketing systems. Additionally, the revolution regards the networking of the systems including the nonprofit organization as vital work.

No marketing channel of any form can obtain the validity without achieving the application of the information technology. It is important to comprehend that the re-measure for the informatization that is beyond distribution keiretsu framework is to acknowledge the business strategic alliance. The selection of strategic alliance partner is very important (See Figure 1-3).

Figure 1-3 Partner of Business Strategic Alliance

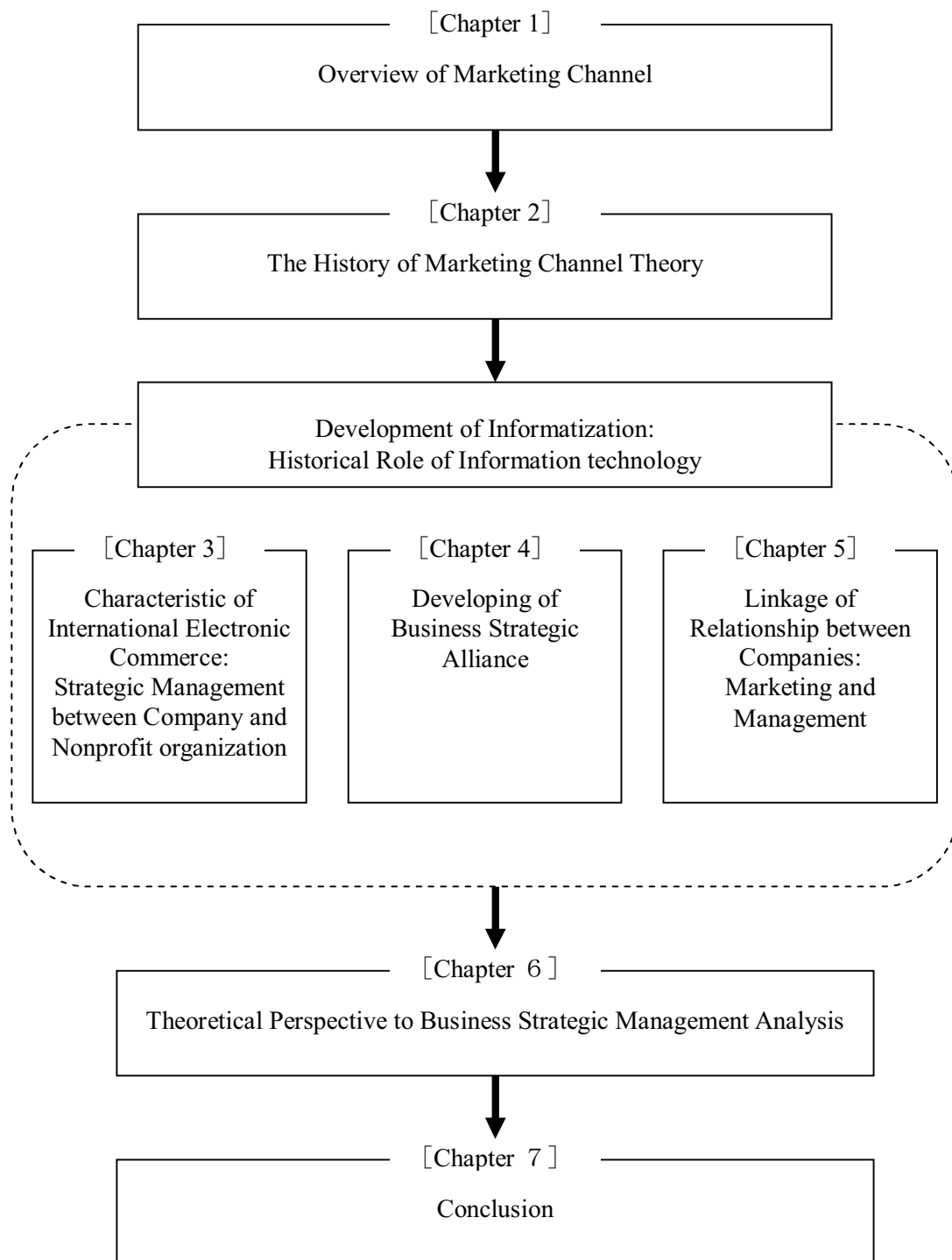


First, in this chapter, we will show the logical pattern of this entire study, and give an overview of the marketing channel (See Figure 1-4).

In Chapter 2, the history of the traditional marketing channel theory will be reviewed to examine how the prerequisite has changed. The objective of Chapter 2 is to recognize distribution keiretsu issue in the history of the marketing channel theory. The marketing channel theory is still in the transitional period before the subsequent marketing channel strategy was established.

Based on the analyzed framework of the marketing channel theory in Chapter 2, Chapter 3 will reveal “the international electronic commerce” led by the Internet, the success factors, and stability factors. The most important intersectional territory of the informatization and the globalization is “the international electronic commerce”. This was the modification and conversion of the earlier marketing channel strategy. The objective is to comprehensively understand why the international electronic commerce gained ground on it rapidly became widespread. Another objective is to understand company-to-nonprofit organization channel relationship, too.

Figure 1-4 Explanation of Structure



Chapter 4 is to recognize the innovation issue in the development of the marketing channel. Especially, the business strategic alliance has drawn a lot of attention since the 1990's in Japan. In Chapter 4, the leading business of strategic alliance is examined. This Chapter, business strategic alliance cases in the pioneering company in the field of business strategic alliance will be introduced to explain how and why the business strategic alliance reached a success point in spite of the rapid growth.

In Chapter 5, before analyzing the new marketing channel theory, it is necessary to determine from what approach it should be examined as the example is explained. The aim of Chapter 5 is to reveal marketing channel competition.

In Chapter 6, more specific framework of analysis will be presented after organizing the concept of business strategic alliance and studying the discussion on the marketing channel. This chapter studied strategic alliance in United States, which is pioneering nation in the ground of company-to-nonprofit organization channel relationship.

In Chapter 7 offers a conclusion of this study as well as discussion of problems in the future study.

Chapter 2

History of Marketing Channel Theory

1. Introduction
2. Summary of Existing Marketing Channel Study
3. Change of Marketing Channel Strategy Prerequisite
4. Environmental Factors: Informatization

1. Introduction

Before discussing the marketing channel and information technology, it is necessary to determine from what perspective it should be examined as the history of the channel theory is reviewed.

The task of Chapter 2 is to reveal how the manufactures reviewed, modified and converted the marketing channel strategy in the point of marketing channel theory view when the traditional strategy of distribution keiretsu gradually lost its effectiveness.

2. Summary of Existing Marketing Channel Study

2.1 Theory of Power and Conflict

“Theory of power and conflict” has established a position as a central paradigm of the marketing channel theory in the United States since 1960’s. This marketing channel theory was advocated by Stern who considered that the economic approach would concentrate too much on the price manipulation while the traditional organizational approach or functional approach would explain only the historical aspect of theory (Stern, 1969). Thus, he introduced the social system theory to study the marketing channel. Stern listed role, power, conflict and communication as four behaviors in the marketing channel. He defined that the conflict was controlled by role, communication and power in the marketing channel.

Many scholars participated in the study to develop an empirical study and established a cycle of study, which consisted of the presentation of a theory, examination of theory, and the modification of marketing channel theory in the 1970’s. This method significantly helped the development of the prior marketing channel studies. The behavioral aspect of the marketing channel relationship was concentrated and brought the direct implication with “the management skills”.

At the same time, the paradigm posed three critical issues to the marketing channel study after the 1980's. The first theoretical issue is the lack of analysis on the economic aspect. It was an inevitable result as it was based on the social system theory. As it emphasized the behavioral aspect, any results caused by the behaviors were regarded as psychological elements such as satisfaction or dissatisfaction. Thus, the structural aspect that influenced the behavioral aspect was neglected. As a result, the market structure in theory of industrial organization was not considered to have a great impact on the outcome despite the fact that it actually did.

The second theoretical issue was that theory of power and conflict did not give adequate consideration on the compatibility with the environmental factor. In other words, it did not explain what types of marketing channel relationship or management were effective under certain environments. Theory could not describe how the marketing channel relationship or management shifted historically because the environmental change, which influenced the historical change, was not taken into account in the marketing channel theory.

The third theoretical issue was that the business strategic alliance in the marketing channel was not regarded as an important variable. Stern (1969), Reve and Stern (1979), or Gaski (1984) evidently disregarded it as an independent constructive concept. This is because they regarded the business strategic alliance as submission to the control by the power or conflict-free circumstance.

While Ishii (1983) was a follower of theory, Ishii (1983) settled for the second problem. He considered that the uncertainty of the environment and the information processing structure regulated the power relationship and conflict. He regarded the environmental factor as a great influence on the marketing channel relationship and management. He emphasized the information processing ability in the power base at the same time. As the first and third theoretical problems remained settled, the difference of the power base of the information processing ability became a concentrate of the manufacture-to-distributor channel relationship discussion.

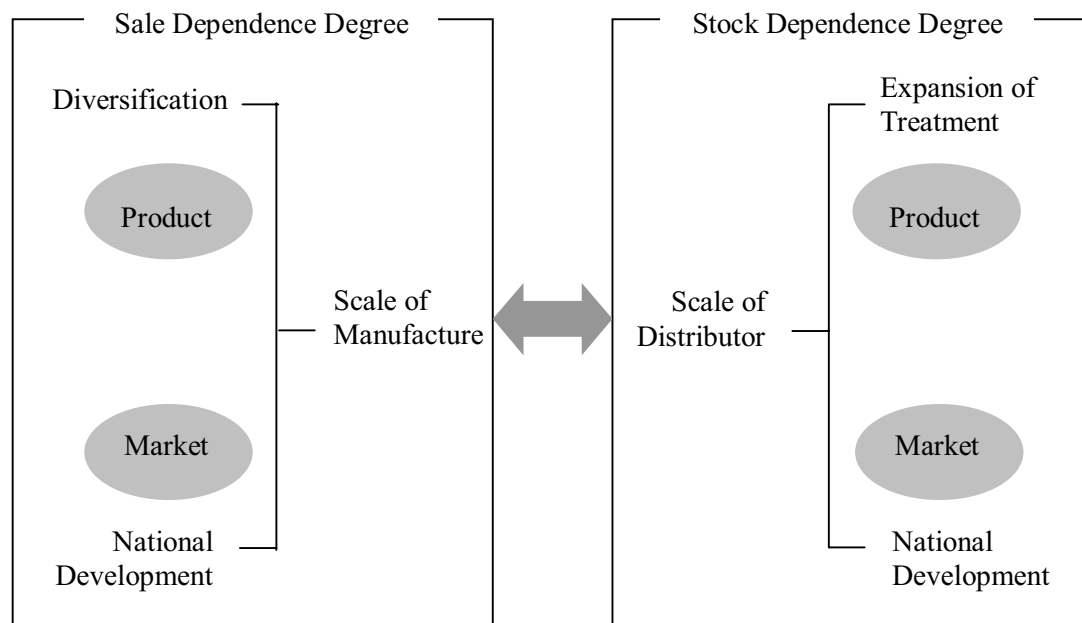
2.2 Theory of Channel Negotiation

“Theory of marketing channel negotiation “was proposed in Japan around the same time as” the theory of power and conflict”. This theory has two peculiarities (Furo, 1968). One is to emphasize the bilateral peculiarity of the manufacture-to-distributor channel relationship, which is

a contradictory element between agency relationship and buyer-to-seller relationship. More specifically, the manufacture passes the risk of unsold items in the final market to the retail distributors by selling products to the independent business owner; and on the other hand, the manufacture incorporates the agency relationship by influencing on the retail distributor's decision-making and controlling it to its advantage. Another point of view is to understand the manufacture-distributor channel relationship by reviewing relationship between their competitive practice and their relationship with consumers, in addition to a mere dyadic relationship.

In other Ishihara (1982) approach, Figure 2-1 emphasizes the need to relate the manufacture-distributor channel relationship with two separate "marketing interactions", which are the competition between the manufacture and wholesale distributors ("price realization competition") and the manufacture-consumer relationship ("price realization process").

Figure 2-1 Channel Negotiation Model



Source: Modified Version of Ishihara (1982) *Structure of Marketing Competition*, Chikura Inc.

Theory of commercial economy assumes that if the manufacture takes charge of the marketing channel management, a merchant with social peculiarity is not willing to participate in the marketing channel system. The assumption significantly differs from the reality and regarded that the manufacture had unilateral control over the retail distributors. In theory of marketing channel negotiation, a party who “emphasizes the relationship with consumers” is the manufacture, not the retail distributors. Thus, marketing channel theory needs to properly evaluate the retail distributor’s influence on the consumer and the wholesale distributor’s loyalty to the stores in particular and incorporate them into the framework of analysis.

2.3 Theory of Transaction Cost

To analyze the economic aspect for marketing channel, Stern and Reve (1980) introduced Coase’s “theory of transaction cost”. Since then, marketing channel studies based on perspective gradually started to emerge. The political economy approach eventually declined, although it was studied empirically. On the contrary, there were many studies that incorporated the theory of transaction cost to a certain degree. Most of them just used only the effective aspects of it as an example of their approaches, while few used it as a chief approach. Before the disadvantages and advantages of perspective were put to use, they were evaluated.

Study objectives of the transaction cost perspective ranges from the general marketing channel, the buyer-to-seller relationship of industry goods, to the marketing channel in international marketing. However this study will only concentrate on the terms applied to marketing channel.

The theory of transaction cost, according to Stump and Heide, dealt with the exchange management between companies who shares an objective partly (Stump and Heide, 1996). It needs to be controlled to prevent any transaction risks caused by opportunism if they invest in asset specificity. One prevention method is to contain the opportunism by selecting or completely integrate the transaction method. Another method is to establish a mechanism that controls the opportunism under a given transaction method. There are two types of mechanism: ex-ante mechanism for partner selection and incentive planning; and ex-post mechanism for monitoring.

The theory of transaction cost restored the analysis of economic aspects such as performance and cost in the marketing channel theory, as

the political economy perspective. It also attempted to reveal the instability of the marketing channel and the control mechanism with the use of methods such as asset specificity and opportunism. Although only one aspect of the manufacture-to-distributor channel relationship became the theme of the perspective, it was still a meaningful attempt. At once time, the transaction cost had the following problems.

In the theory of transaction cost, first of all, a goal of marketing channel management was only the reduction of transaction cost of the manufacture, which controlled the opportunism of the retail distributors and retail distributions. This was a very limited perspective because of the following two aspects. It measured the economic performance solely based on the efficiency standard instead of the effectiveness standard. Also, it concentrated only on the results in the marketing channel system and neglected the influence on the outside of the system and its consequent results. This was because theory regarded that the manufacture made the retail distributors supply the distribution service and disregarded the aspect of sales transaction between the manufacture as a seller and the retail distributors as a buyer. In short the perspective cannot deal with issues such as how the manufacture increases sales, ensures a profit, receives loyalty from consumers, and establish competitiveness, through the management of the retail distributors.

The second problem is that the transaction cost perspective emphasized the control of the opportunism in the manufacture-distributor marketing relationship. This implies the neglect of a trading partner's self-directed behavior, which ultimately positions the unilaterally controlled partner. With such positioning, the cooperation from the trading partner cannot be guaranteed.

2.4 Integration of Existing Marketing Channel Studies

There were other efforts to combine the transaction cost perspective with other types of perspective, after the political economy perspective attempted to integrate the behavioral science perspective and the transaction cost perspective. As theory of power and conflict was losing its power as a paradigm, search for a new mainstream paradigm began. Takashima (1994) and Heide (1994) attempted to integrate major perspectives of the marketing channel study. Heide (1994) represented that the relationship management, which was emphasized in the marketing channel theory, was based on the various frameworks of the rational

analysis; and, regardless of the substantially different assumptions, the differences were not examined systematically. Like the typical theoretical perspective to analyze the relationship management (i.e. inter-organizational governance), he reviewed microeconomics paradigm, behavioral study paradigm, management resource dependency theory, transaction cost perspective and relational contract theory in the marketing channel theory. He then extracted three types of governance including market governance and, as non-market governance, unilateral/hierarchical governance and bilateral governance. These governances were characterized with three levels of relationship including beginning, continuation, and termination.

The experiment of integration asserted the peculiarity of each theory and the bilateral relationship and, as a result, new bilateral governance was proposed. However, the integration was solely based on the type of governance and its process and the integration of the manufacture-distributor marketing relationship with other area was not taken into account. Therefore, it was rather a combined use of effective portions in the leading theories than the integration of each theory. Takashima (1994) made a new attack two closely connected problems of systematizing the marketing channel theory and solving marketing channel issues. The systematization and integration of the existing marketing channel theory will develop newly unified marketing channel theory, which will be utilized to solve the current marketing channel issues. How was the marketing channel theory integrated? Based on the internal structural attribute in the marketing channel described in the negotiation theory, the peculiarities of negotiation theory, power theory, conflict theory, expansion organization theory, and structural choice theory will be revealed first and issues that each theory addressed will be organized.

The basic theory of the marketing channel contains discussions on the internal structural attribute and its development/adjustment and the decision on the structural variable. Takashima says that the internal structural attribute was developed by the establishment of power relationship and cooperative relationship; and the internal structural attribute was accommodated by the adjustment of the marketing channel communication. He then examined the basic elements and development process of the internal structural attribute based on the negotiation theory and proposed the extension of the negotiation theory in order to overcome the restrictions of negotiation theory. In regard to the establishment of the power relationship, he integrated the base theory and dependency theory of the power theory and the transaction dependency theory of the negotiation theory; and then clarified the relationship with the behavioral aspect by

complementing the weakness of ignoring the economic aspect with theory of industrial organization.

Since the theory of negotiation was unable to deal with the cooperative aspect in establishing a cooperative relationship, Takashima revealed the peculiarities of conflict theory, internal market theory, and relational exchange theory, and then named three basic peculiarities of cooperative relationship, which were cooperation as practice, long-term relationship and social union. He also mentioned the extended organization theory. With regard to the adjustment by the channel communication, Takashima pointed out that the collaborative behavior was not properly extracted. After criticizing the previous studies, he conceptualized two management methods of centralized management and decentralized management. As for the structural determination, Takashima criticized the structural choice theory for examining the planning phase separately from the phase of cooperative development and insisted the need to primarily consider the phase of cooperative development to examine its influence on the planning phase.

Takashima's attempt was very unique in the following four respects. Firstly, he examined the attributes of various perspectives and presented their peculiarities and the interrelationship. Secondly, he emphasized not only the marketing channel management itself but also the stage of the product distribution that influenced the marketing channel management; and in particular, he incorporated the differentiated problems in them. Thirdly, he introduced the principle of postponement and speculation as a framework of analyzing distribution method. And fourthly, he thoroughly examined the marketing channel structure from the internal structural attribute.

However, as for the problem on cooperation, Takashima reviewed only the control to force the cooperation and the cooperation relationship and did not examine the bilateral cooperation. Furthermore, it is doubtful that the centralized management method presented as a new management method would become a functional theory for the marketing channel distributors.

2.5 Theoretical Issues

The main marketing channel theories have been studied as looking back their history. The problem represent earlier was that most marketing channel theories emphasized on the integration using power disparity. All marketing channel theory including theory of power and conflict, theory of channel negotiation, and even the theory of transaction cost that does not stress the power disparity, emphasize the restrained control by the opportunism or, in other words, the power method. In connection with these issues, a fact that many perspective dealt with relationship between large companies and small to medium companies can be represented.

Commonly, the manufacture was specified or implicitly assumed as a manager of the marketing channel, which was particularly applicable to older perspectives or the ones developed in Japan. A lot of theories also regarded the manufacture-to-distributor channel relationship formation as the only issue and did not mention the company-to-nonprofit organization relationship type of marketing channel which takes an important position in the information industry. The common problems of marketing channel theories are summarized as the emphasis on the control by the power disparity, the specification of the manufacture as a management entity, and consideration of the relationship between large companies and small to medium companies as a main subject.

3. Change of Marketing Channel Strategy Prerequisite

3.1 Prerequisite of Marketing Channel Strategy

Most traditional marketing channel theories emphasized on the control by the power disparity, as explained earlier, concentrated on the relationship between large companies and small to medium companies, and specified the manufacture as a management entity. This indicates that the prerequisite of theories was to emphasize “company”, in which a marketing channel captain with great power, often the manufacture, had unilateral

control over other marketing channel members with less power. Less power means that they are smaller in size and their accumulated sales information is so poor that the manager does not desire to take advantage of it.

The prerequisite of the marketing channel theory is changing due to the power shift from the manufacture to the retail distributors and ever changing power balance. Additionally, in the information age, the prerequisite of marketing channel theory is changing due to the rise from company to nonprofit organization, too.

As the retail distributors gained control and became a centralized sales marketing channel for the manufacture, the condition of unilateral control disappeared and the manufacture had to respect the self-help of the other marketing channel members in the informatization age.

The characteristic of the modern marketing channel awareness lies in its multi-layered, structured relationship that is accompanied by the informatization. Today, there are many changes and re-structures at all the marketing channel, which are emerging as “information technology” issues. Specifically, the issues of new phase in the information technology are manifested as they agree with those of the marketing channel.

The retail distributor’s ability and the nonprofit organization’s ability became powerful enough for manufacture to appraise their presence, as the retail distributors and nonprofit organizations improved the ability to process the consumers information as indicated by the application of the Point of Sale. This is particularly applicable to the Japanese market where the life cycle of new products has become shorter and the trend of consumer needs is hard to forecast. Informatization is becoming a prerequisite to formulate a new marketing channel strategy, as the old prerequisite gives way,

3.2 Theory and Strategy

The new marketing channel strategy called the marketing channel relationship, business strategic alliance. Business strategic alliance is both manufacture-distributor channel relationship and company-to-nonprofit organization channel relationship. As the prerequisite changed, approaches of the marketing channel theory are also trying to incorporate such change. For example, the behavioral science approach typically found in theory of power and conflict concentrates on the analysis of cooperative relationship by emphasizing the concept of trust. As seen in the study by Heide (1994),

the theory of transaction cost is reviewing the governance structure of the marketing channel from the unilateral point of view. The marketing channel theories based on the negotiation theory, the multi-marketing channel management from the marketing channel retail distributors to the mass retail distributors and a new divisional relationship between the manufacture and the distributors are reexamined in Japan.

Theoretical transition to business strategic alliance theory was led by the United States and did not start in Japan until recently. Japan is also behind in the transition of the marketing channel strategy, which is especially applicable to the industries that used to be analyzed as a typical case of the traditional marketing channel strategy. The consumer-electronic and cosmetics industries are one of the examples and their transition to business strategic alliance is not progressing steadily. What caused this reversal phenomenon is the underdeveloped prerequisite. In the consumer-electronic and cosmetic industries, it took longer to establish conditions of the self-directive manufacture-distributor marketing relationship and the possession of information ability that is appealing to each other because the manufacture had absolute power to control the retail distributors for a long period of time.

In the other word, the relationship of marketing channel theory, marketing channel strategy, and the prerequisite can also be explained as follows. In the industries where distribution keiretsu has been developed, the marketing channel theory and strategy are hard to shift to the next level because the prerequisite has become unyielding on the contrary, in the industries where the power of the manufacture is not very strong and distribution keiretsu is moderate, the marketing channel theory and strategy have smooth transition because the prerequisite has already made an early shift. Since the later case reflects mainstream trend, any industry that maintains the old marketing channel theory, marketing channel strategy and prerequisite and makes a slow transition is considered to be old-fashioned. As explained earlier, the difficulty of transition is mainly caused by the undeveloped prerequisite (i.e. environmental factors).

In the meaning, the environment of the marketing channel is in the midst of extremely multifaceted, complex changes such as the rapid informatization, the globalization and the softening of the economy. It is an important issue to determine which environmental factors are critical in the transition.

As mutual recognition, we can understand that the structure of the marketing channel is changing in some form. At the same time, the viewpoint of positioning the marketing channel restructuring in the center of the changes becomes essential as we recognize the remarkable

innovation of the “information technologies” since the second half of 1990’s.

The uniqueness of the modern marketing channel awareness lies in its multi-layered, structured “relationship” that is accompanied by the informatization. At present, there are many changes and re-creations at all marketing channels, which are emerging as “information technology” issues. Specifically, the issues of new phase in the information technology are manifested as they are in parallel with those of marketing channel.

4. Environmental Factors: Informatization

4.1 Rising of International Electronic Commerce

If the rising new marketing channel has the same nature as stated above, it is necessary to consider various aspects of the environmental factors and its substance. There is an issue to define the change of the new marketing channel in relationship with the developing of the “information technology”. Before starting the process, we will sort out the backgrounds that brought the rise of the new marketing channel and look at the actual conditions. The informatization and the globalization subsume the relationship that influence, penetrate, and regulate each other to make the existing framework obsolete.

This development of informatization first brought changes in the economic territory. Although it may bring the informational, global economic structure, the type of marketing that reflects the economic structure still remains unknown. However, it is certain that our marketing is commonly established by the flow that is exchanged through the linkage of the company.

As the linkage of the company progresses and commercial-space is formed on the Internet, people are envisioning international electronic commerce businesses all around the globe. The conditions for commercial uses of the Internet are gradually being met.

In Japan, some people are worried that it may not be possible to have international electronic commerce as has been accomplished in the United

States. However, in reality, various Internet markets have emerged, and many companies have spaces in Internet malls.

A lot of world wide web sites have been established which are truly varied and filled with local characteristics all over Japan. These sites represent such products as used clothing and sundry goods. Ordering and receiving orders over the Internet has become fairly common. Generally, manufactures and retail distributors are bypassing wholesale businesses, and an environment for simply conducting business without much overhead expense is being formed. The age of home businesses which use information technology has come. It is virtually the age of service and product on demand. The newspapers, magazines, and books have been sent through the Internet.

Therefore, the system needed today is a dialog-type of open linkage which can be accessed from anywhere, a linkage such as the Internet. The industries that are forced to go through changes in their mode of business will have to carry out innovations before fully utilizing the know-how, information, and linkage technology that have been accumulated so far.

4.2 Informatization

Informatization and globalization are fact. You can't stop them, they have already happened, they are here to stay. As explained in the preceding chapter1, this informatization and the globalization subsume the relationship that influence, penetrate, and regulate each other.

Especially, from an information point of view, the Telecommunications Act was drastically revised in February 1996 in the United States. Competition has become stiffer in long-distance communications, local communications, and cable televisions along with the changes brought by this revision. Every one of the businesses in these fields has built telecommunications linkages that cover all of the United States. Long-distance telecommunications businesses have built linkages that cover all of the United States by cooperate with competitive access providers, radio communication businesses and cable television business. Local telecommunication businesses have built linkages that cover the entire United States, by inter-connect with each other and cooperate with cable television businesses.

Additionally, cable television businesses have cooperated with telecommunication businesses, inter-connect with other cable television businesses, and cooperate with competitive access providers. Each business

has accomplished the acquisition and cooperation with other telecommunication and broadcasting businesses from the point of business expansion and survival concerns. Pacific Bell, which is a local telecommunications business, has used its trunk line and connecting homes via a cable television linkage from each node. The action is for integrating broadcasting and telephones into a computer linkage.

We need to understand the international electronic commerce and strategic management between company and nonprofit organization revolution, when we think about the future of informatization and marketing channel. As has already been mentioned, technologically speaking, the information revolution originated with the confluence of the three aspects of development in broadcasting, telephones, and computer linkages, with computer linkage being the most basic pillar.

First of all, we must consider that the progress in mobile communications will evolve into mobile computers. For the progress of mobile communications, it will be very important to secure radio bands, which will clash with ground wave broadcasting. From this point forward, it can be expected, that radio bands used for ground broadcasting will be used for mobile communications. Then, what will be used for broadcasting? For this objective, the utilization of digital satellites and cable television will be important. It is expected that there will be a major growth in broadcasting using broadcasting satellites and communications satellites. It will be commonly found that satellite broadcasting will be received at cable television stations which will in turn connect with homes.

Despite, it can be easily expected that media will emerge that utilizes the two-way communication capabilities of the Internet. In the broadcasting business, this will inevitably force changes. At presently, an advertising business which uses world wide web pages is emerging, and this will carry a large significance for the information industry. It is possible to capture all of the IP addresses who access the home page, when running an advertising business on a world wide web page. In the mass media, this means that unlike conventional advertising, it is possible to know the reactions and liking of consumers directly. Simultaneously, it is possible to give or receive orders, and by the use of electronic money, the Internet will become the market itself. Furthermore, the influence of Internet advertising is global, and it is possible to access global markets at a low cost.

Very rapid growth can be expected for marketing and advertising on the Internet. In addition to conventional text information and still pictures, it sends and receives voice and moving pictures with the high quality. As a matter of fact, it can also be expected that advertising fees for mass media sources will go down. This means that it will be difficult for current mass

media providers who depend on advertising as a one-way process to shift to a form of media which is two-way in nature. There will be new approaches created for the media with the combination of digital, low-orbiting communications satellites and two-way cable television.

Notwithstanding, if one wants to plan to build dialog and interactive type of new marketing channel which is based on linkages, especially in order to understand international electronic commerce as the current task, there are a lot of issues that must be resolved. Of these, one of the most essential tasks is the forming of a new marketing channel for electronic settlement that is reliable.

From the approach of informatization, we have studied the environment factors by discriminating the meaning of the “transfiguration” in the development of the informatization; and also reviewed the background of the rise of the marketing channel in the modern world. I would like to designate the aspect of the marketing in chapter 3 by exploring its true meaning in relationship with the principle of the international electronic commerce field that is in common with the marketing.

Chapter 3

Characteristics of International Electronic Commerce: Strategic Management between Company and Nonprofit Organization

1. Introduction
2. International Electronic Commerce
3. Development of Commercial Distribution:
Characteristic of Internet
4. External Network
5. Rule of Increasing Returns
6. Rise of Nonprofit Organization and
Open Development
7. Strategic Management between
Company and Nonprofit Organization
8. Summary

1. Introduction

In the preceding chapter, the history of the traditional marketing channel theory reviewed to examine how the prerequisite had changed. The task of chapter 2 was to understand the distribution keiretsu problem in the history of the marketing channel theory.

In chapter 3, in consideration of the informatization, an influence and directivity of the future of the marketing channel of our country has been outlined.

First, in next 2 section, we will show the logical pattern of this entire study, and give an overview of how the international electric commerce was made. In Section 3, the attributes of Internet will be examined. In Section 4 and Section 5, definite decisions as to the present theoretical frontier have been positioned, in relationship to Internet characteristic related company including international electric commerce. In Section 6, and Section 7, the Internet and company-to-nonprofit organization channel relationship has been referenced. And the last Section 8, the summary of this chapter reviewed to business strategic alliance.

In addition, at the present time, as a new field of marketing study, the importance of the international electric commerce is just beginning to be recognized and very rapidly at that. In this study, the International electric commerce has been studied carefully and in detail, as it will be a cornerstone to the new field study development covered by marketing channel theory.

2. International Electronic Commerce

2.1 Outline of International Electronic Commerce

The United States Political power announced the comprehensive promotion policy of the International electric commerce being utilized by the Internet in 1997. In connection with this, also in our country, through

various International electric commerce experiments of the Ministry of International Trade and Industry, we have been carried on toward full-scale use of International electric commerce.

<Outline of the International electric commerce revived policy>

The International electric commerce revived policy has been referenced in 3 main areas, Finance, Legal system, and Market access.

(1) Finance

Transactions involving information and service through the Internet environments should be free from custom duty. All countries and areas can conduct trade without obstacles to profits. New taxation should not be imposed on commercial transactions on the linkage.

The Electronic transaction system has been an unsuitable technical innovation as its rigid structure is not compatible to the rapid progress. Therefore, a suitable system of transaction is to be employed and monitored flexibly.

(2) Legal system

The system for settling disputes will be unified internationally and an electronic anonymity (sign) system will be used in connection with commercial transactions on the Internet.

This will protect copyright, patent right and trademarks efficiently and prevent the appearance of fraudulent copies of products. In order to protect the copyright and the neighboring right of information or an image and sound that are transmitted by Internet, the framework of copyright protection will be established in one system, the World Intellectual Property Organization (WIPO).

In order to prevent unjust appropriation of the individual information collected by the Internet, the United States Government supports the independent match of a private-sector organization. In order to prevent surreptitious use and alteration of information or data that is connected with compromising safety and security of a state.

The government proposes building a public code system which can be trusted in cooperation with the industrial world.

(3) Market access

The industrial world regulates independently images detrimental to minors, and the United States government will support it.

2.2 Characteristics of International Electronic Commerce

The President's special adviser Ira Magagina, head of the International Trade Policy Bureau, compiled the above information, in 1995. In this revived policy, the role of a country is limited by the structure of copyright protection and maintenance of tax related system, etc., therefore a private sector framework structure will be implemented for the safety and ethics standards, etc. At the same time, there is the possibility of acquired right by imposing a tax on International electric commerce by the government of each country, and Bashefski Office of the United States Trade Representative (USTR) has been working on producing a structured Global Standard through the World Trade Organization (WTO), and additionally is striving toward founding a free trade linkage of the Internet in the future.

The United States Political power accomplished that the market scale of international electric commerce expand to 300 billion dollars (about 38 trillion Japanese yen) for five years. Incidentally the United States International electric commerce market scale in the next 1998 fiscal year reached about 10 billion dollars (1,252,500 million Japanese yen, according to the Communications Report in Heisei 10th fiscal year). Moreover, Japan's International electric commerce market in the fiscal year was about 650 million dollars (81,800 million Japanese yen) an expanded to a little less than 3 times that of the preceding year (about 226 million dollars, 28,500 million Japanese yen).

In the background of the comprehensive policy presentation for International electric commerce by the United States Political power, the intention of the United States is obviously promoting their lead in the commercial space organization of Internet. The United States will receive the benefit of the Internet, and also take the place of National Security, by raising "a new Export Industry". In other words, net export expansions in the United States will be greater than before. The net export dependence (export/GDP) in the 1960's of the United States economy was no more than 4 1/2 %, however in the first twentieth century, it was no less than 19% illustrating its increasing importance.

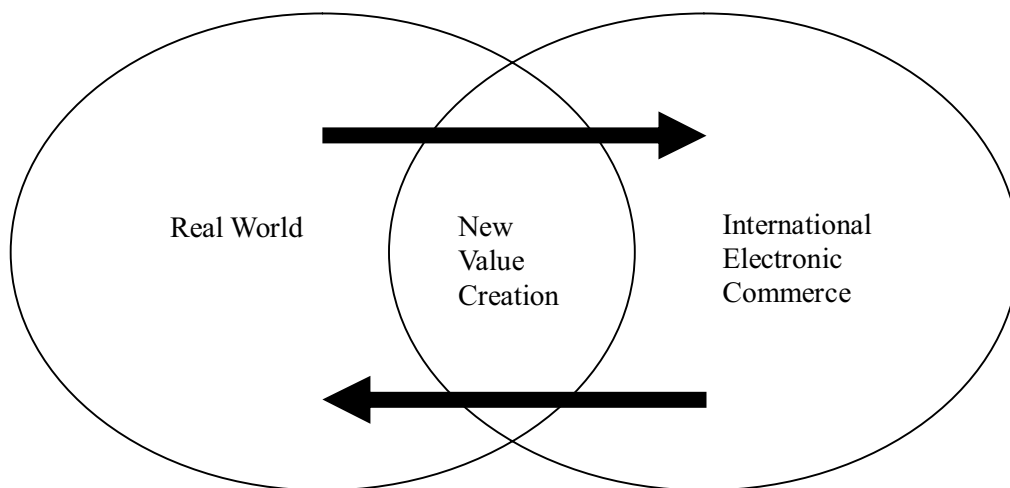
The export value of the software industry, which includes computer software and the United States contents (music, movie, etc.) is in excess of about 400 billion dollars every year, and serves as a precious top earner for the United States, and currently the currency of package-software has been a core, and it's expected to increase its value in International electric commerce in the future. The software domain of the United States precedes other countries, and demonstrates the right of initiative. If the government

of each country imposes a tax on their International electric commerce, it is logical to suppose that the United States, a soft major nation, will suffer considerable loss.

Therefore, the United States Political power has suggested an initiative to the private-sector in a move to restructure operational rules such as safety and ethics standards, etc., and to eliminate, preferably, the economic regulations of governments. By assuming the Laissez Faire policy the Internet, the United States Political power has been indirectly keeping the regulations of the governments of countries, the United States central core companies such as Micro Soft and Dell, Inc., etc., which already have initiative in the Internet domain benefit by establishing a new rule of free trade. The purpose of establishing a new rule is composite, it will not only improve the domestic commercial space of Internet, and secure environmental prepotency of international electric commerce, but it will also embrace International electric commerce globally while maintaining supremacy of the United States through the marketing channel strategy aspect (See Figure 3-1).

In the overview of circumstances of the United States, the contemporary marketing channel in Japan has established contact with the United States extensively and crosses with multi-phased sections, too. This complicated structure and special feature in Internet needs to be analyzed, and the world current of contemporary depths must be accounted thoroughly to develop the future.

Figure 3-1 New Marketing Channel Strategy



3. Development of Commercial Distribution: Characteristic of Internet

3.1 Base of Internet

In this study, a company and a nonprofit organization business in Internet such as international electronic commerce, and the business of peripheral devices of terminal machines, platform, such as the personal computer, content of information, contents, communication system, distribution, will be defined as “affiliated business of the international electronic commerce”. Which of the marketing channel competition shall develop by open development of promotion by the Internet, in the market of the affiliated companies in Internet?

It starts from “the foreign exchange and foreign trade control law (enforced in April, 1998)”, taking an account of the Electronic Money additional new payment procedure, the promotion of Electronic Money has been developed in the market of the affiliated companies of Internet.

Development of Electronic Money has been initiated by the West, and the world scramble has started for a standardization of the system. Several experimental verifications and environmental improvements are in progress in Japan. The Electronic Money is defined as follows, “Electronic computerization of money value used in commercial transactions, and to be applied settlement of accounts by conserving and transferring”. In terms of concept about currencies, there are two types of electronic money. One is digital cash (electronic cash). The other form is the electronic settlement system being developed which digitizes checks, credit cards, and debit cards. This is an electronic means of transacting payment instructions by using encryption in the cyber market transaction.

As a means of settlement of electronically transferred funds, electronic cash satisfies the following three conditions: (a) transferability (certain monetary values are transferred electronically through computer linkages and the like); (b) privacy (the information is maintained as privileged by stores and banks); and (c) relativity (at the time of transaction, there is no third party present except the customer and the store). There are two kinds of electronic cash: (1) IC card type and (2) network type. On the other hand, the electronic settlement system does not satisfy any of the conditions of transferability, privacy, and relativity that are characteristic of electronic money. There are three kinds of methods of electronic settlement: (1) check

method, (2) credit card method, and (3) debit card method.

In consideration with a current operation of transaction of account in Japan, examining the promotion of Electronic Money in the future, it will be outlined in the following 3 points.

First, if the transaction system of the conventional multilevel structure changes to the decentralized structure of the aggregation of an open subsystem using Electronic Money, the possibility of major changes within the international financial system will be expected.

Second, Electronic Money would not only be a mere payment method, like a credit card, but realize the possibility of becoming the new transaction method which will supersede cash currency, becoming the deposit currency and the deposit money of the central bank of the future.

Third, utilizing the electronic cash transaction means the avoiding using the existing internal transaction systems. If the transaction of the engrossment rate increases, the transaction orders that the bank has taken charge of as exclusive activities conventionally, will have the capability of transformation.

3.2 Relationships of Internet and Perfect Competitive Market

Procedure for the development of the Electronic Money, which represents the function of Internet, the first study will be the bases of Internet. In this study, it will be necessarily to observe two aspects, which are “the relationship of Internet and the perfect competitive market”, and “the relationship of Internet and speed”.

The first study is that “the relationships of Internet and the perfect competitive market”. Generally, in economics, the long-term perfect competitive market is defined as the market which subsumes the following four conditions.

- (1) Perfect information,
- (2) Freedom of entry recession,
- (3) Homogeneous capital goods,
- (4) Polymorphism of supply and demand persons.

In the long-term perfect competitive market, the excess profits of a company serve as zero and the consumer’s utility maximization will be met. In Internet, since all the information can be correctly transmitted to all

participants and with no cost and transactions are executed unconditionally outwardly meet the assumption of the long-term perfect competitive market.

Suppose then that, in comparison with the existing market, there must be an outlook of Internet where the perfect competitive theory has become a reality.

Although it is nearly a perfect market, one factor of an obstacle is to the existence of the perfect market. And that is the processing capability of the human mind that analyzes and judges the information is not perfect. The conclusion is that Internet is a different market from the perfect competitive market that was originally assumed in economics.

The imperfection of the information processing capability, in the social science problem, is known as the NP problem with which, actual calculation within a time is impossible. The NP problem is “a problem received with in a polynomial time with the indeterminate Turing machine”, and it will take the index function order time, according to the problem dimensions, to solve its social science problem.

As the digit number of a problem becomes larger (the bit length of a public key in this), the NP problem will carry the connotation difficulty much more. The proportional curve shows cube of the public key length, it will draw away from the index function order, as the length becomes larger with the increment value of the difficulty of cube.

As verified above, the information processing capability of the human mind is subsumed of an imperfect nature and is hard to profess that a perfect competitive will exist in Internet.

3.3 Relationship of Internet and Speed

The Second study is “the relationship of Internet and speed”. It is marvelously rapid compared to the existing speed of the technical innovation of company, and the appearance of the new marketing service, in Internet (Bill Gates, 1997). In the open marketing environment, time for information acquisition, and for searching for informational combinations and expenses can be saved, as a result, therefore, the time for the appearance of the new appropriate technology will be exponentially shortened. Likewise, the electronic process of transaction activities will stimulate a rise in efficiency and the productivity of company.

Furthermore, the life cycles are terrifically rapid, such as the improvement of the personal computer, etc., which induces the innovation of technology and service, and broadens the linkage. According to general

opinion, the speed of the alterations within Internet will not slow down, it will be the same or faster over the next 20 years. Therefore, it can be said that companies need to regard quick correspondences as a requirement parallel with the speed of the alterations in Internet. It is unmistakably Agile Competition (Goldman, Presis and Nagel, 1996).

4. External Network

4.1 Attribution of External Network

The marketing attributes of Internet related companies, which are utilizing the aspects of Internet, revealed to two integrated parts “the external network” and “the rule of progressive harvest”. Although this is the phenomenon of real world also, it will progress with increasing speed in the Internet. First, we will examine the external network theory.

The external network is that the acquirable advantage can be gained from the goods in connection with an increase in size, (the market share and the number of users), of the network (expected).

Although the cost of technology follows study development, it is costless to copy the technology. Dosi (1982) advocated it with the attribute of in-propriety. Dosi affirmed that the result of technical changes will be occupied internally by the subject that produced new technology in some measure, finally, it will be affected by the attribute of the impossible occupancy of technology. Of course, copying the “information” of Internet will not require time and cost. Also, along these lines of the problems of copying information have been discussed in groups of problems raised by Mises, Heyek and Lange, the progress of contention of economical calculation. By retracing progress, the original issue of the problems above can be found within the problem of the free rider to public goods.

Each subject is not eliminated from consumption, once it's supplied, the incentive that each subject tends to honestly express in preference of public goods is not active, the tendency is to free ride the preference display raised by others, and this produces an insufficient supply of public goods. This is attributed to technology and information, and the system

and rights which protect private possession of technical-development results, such as design rights and patent rights, etc in marketing channel competition.

However, when the external network is affective in marketing channel, technology of identical standard to gain the greater market share is essential, and not only is the static factor of the private return of development essential, but the development speed of technology, the concerned company, and the change of the exclusive position which is the dynamic factor, in the market of the group which produces an identical standard. In other words, all factor result from both sides of the static and dynamic factor.

A company of marketing channel will take the many marketing subjects to their bandwagon in order to construct the acquired foundation.

In the initial stages, it is important to gain the greater market share. Then having “the standard” technology to reflect to own company, and the patent of “the technical presentation” of the reversed strategy will be executed. Therefore, the marketing channel competition of the Internet related to the companies has been competed to produce contrasted marketing channel strategy, this promotes individual technology (the open strategy) through “the standard”, and exclusive possessive technology (the closed strategy), that is “the intellectual property rights”, both the closed and open, “the compound strategy”.

Mansell (1995) indicated that 3 subjects are of importance in such marketing channel strategy, the increment of the importance of the function by standardizing the architecture (the technical specification) achieves a role in the early stage. The architecture rule aims at the monopoly and the oligopoly in the market, becoming militant of competition of architecture monopoly in the pre-production. Basen (1995) maneuvered to position the factors to conclude the adoption process to set standardization, and time to set the standardization of the strategy, and offered to suggest to the problem group such as the preference to set standardization. According to the existing analysis, the analysis of Rohlfs (1974) and Oren=Smith (1981), who were the pioneering study of consumer structure and monopolistic company actions where the external network exists. Farwell=Saloner (1986) suggested that the decision making of the user for goods, which is affected by the external network, induces the adoption of non-optimized technologies from a social outlook, while the installed base and uncompleted information system exists. In this study, we will amplify this fact by approach the discussions of Leibenstein (1950) which were carried out in astonishment to the Band Wagon effect, and Katz=Shaprio (1985) (1992) (1994), in relationship to the attribute of International electronic commerce related company.

4.2 Factor of External Network

Now, in marketing theory, the problem of the exposition of selection in preference action has occupied the essential position. Marketing theory has been localized to give perspective to subjects that can be observed for practical purposes, and proscribe metaphysical concepts in order to establish it as a modernistic positive science. In marketing theory, the listed evaluation of the result and the opportunity aggregation in marketing activity, in confrontation of the subject in marketing activity, is generally called the characteristics of the subject. The opportunity aggregation of each of the subjects confronted, can be observed objective comparatively, however, evaluation of the subject, preference of the subject in other words, is referred to as the subjective side and a direct observation is impossible, the important concern is to be or not to be able to trace back of the actual procedure of the preference of the subject.

This problem can be applied to theory of revealed preference, of course. The weak axiom of an actual selection act will be assumed, and approved to be able to reproduce as a maximization act of preference to be rationalized. Although the matter that needs to be listed in action of the subject and the relationship to preference are different with each kind of problem, in this study, we will research the attribute of the subject in Internet related company.

The first, analysis of Leibenstein (1950) discusses the system as a winner of the market in the end, if the market is provided with a comparable system to each at the same time, according to the inter lace of the market share of the future in consumption structure. The purpose of the analysis is to clarify how a de fact standard is generated in which systems with differing technical superiority or inferiority operate in coexistence and codependence.

Morgenstern indicates that the sum of an individual demand curve does not apply to a total-demand curve, as a consumptive external effect, Leibenstein (1950) arranged the factors as follows. Three external effects are, the band wagon effect meaning the tendency to consume goods which other subjects consume, the snob effect meaning the tendency to consume goods which others do not consume, the Veblen effect meaning the tendency of consumers who like higher prices with whom consumption increases when prices are higher. The external network is theorized by opening eyes to the Band Wagon effect and the direct physical effect of a linkage. In competition between linkages that provide the same quality of service, when a new subscription subject chooses a linkage, the linkage

with the most existing subscription subjects will be chosen. The reason is because the direction of the linkage with many subscription subjects is thought to offer a higher level of use for new subscription subjects, if the same quality of service is provided. Simultaneously, it also means that the existing subscription subject of a linkage enjoys the advantage of the new subscription subject. That is by both new and existing subjects' action of the others enters go directly into of their own the utility function.

The above is study of a consumptive external effect which was given first in generalization by Leibenstein (1950). When Katz=Shapiro (1985) carried out expansion application of the analysis about the external effect of Leibenstein as a positive external effect of demand in the oligopoly market, it became the provided examination of the standardization process with new analysis tools.

As an external effect of the linkage of consumption of the oligopoly market, Katz=Shapiro (1985) presented the following point and proved the profit of initiative watch in standardization competition in sequential move.

- (1) Produce the indirect influence to which standardization passed complementary goods. The synergistic effect used to measure the rate of a selling market of hardware, such as personal computers, video apparatus, and a game machine, indicating the kind and diversity of software that can be use from theory.
- (2) The number of uses itself should specify the quality of goods directly. External effect of the linkage by the direct physics effect in information communication markets, such as a telephone and facsimile.
- (3) External effects of a service linkage that the aftercare purchase influences a user's use in the case of a computer, etc.
- (4) Since the information acquisition is easy for existing popular goods, choose existing goods with a popular user.
- (5) The height of the rate of market occupancy suggests merit in the quality of goods.
- (6) Mental band wagon effect.

Study of Katz=Shapiro (1985) (1986) (1992) can tell what is evaluated in that the view large 1 dimension was opened to the analysis of consumer structure in standardization process. In addition, if Katz=Shapiro deserves that standardization competition also tries actual-proof study of government intervention, it was viewed in the paper in 1994, and the aspect was inherited by Leveque (1995).

As a factor that the exterior nature of this linkage actualizes, it will be shown as follows.

- (1) Although, development of Internet stimulates each subject to expand the selection range of goods, the information processing is not secure completely.
- (2) Indirect influence usage passed complementary at the time of purchase on each subject in the market where a high-tech innovation is intense and technical standardization is expected to be seen in the market of International electronic commerce related business.
- (3) The circulation strategy which can be located in a line with a shop front expanded only line goods by selling by computerization of the circulation represented by POS, etc. The fact and width of selection restrain selection of each subject.
- (4) Information offer of goods should also incline toward specific goods by the specific medium that each subject uses.

Though the company that is the supply subject of goods may perform informational strategic distortion actively so the information on oneself may calculate what influence it has to the determination of each subject, it may lead to personal advantage. It cannot be understated that these are considerable problems. If based on the importance of such a problem, probably, the strategic problem of preference exposition can also shows that the concentrate naturally hit especially in marketing theory among the problem groups of the strategic operation about disclosure.

The scholar of this and subsequent scholars are energetically tackling these problems. It depends like Weibull (1995) showed in the process supposing strategic mutual subsidiary, partial fusion in the minute game theory or theory of social selection is generated, various concepts, work method, and analysis tools have been introduced, and a very active marketing study is revealed.

5. The Rule of Increasing Returns

5.1 Increasing Returns

The Rule of Increasing Returns by Professor Arthur, of the Santa Fe Research Institute in the United States, has been attracting attention to the field of marketing theory. Establishing the de facto standards and dominating Internet markets are thought to be leading forces in the United States economy as well as generating improvements in information technologies. This has also resulted in the current conditions of enormous profit generation.

Arthur's theories described this phenomenon. He believed the Rule of Diminishing Returns described by traditional theories was not functioning in the case of international electronic commerce related business. The Rule of Diminishing Returns is an economics concept that recognizes a limited scale of profit that diminishes over time. Conceptually, even successful products and technologies in a market eventually reach a limit of profitability and consequently stabilize to predictable a price and market share.

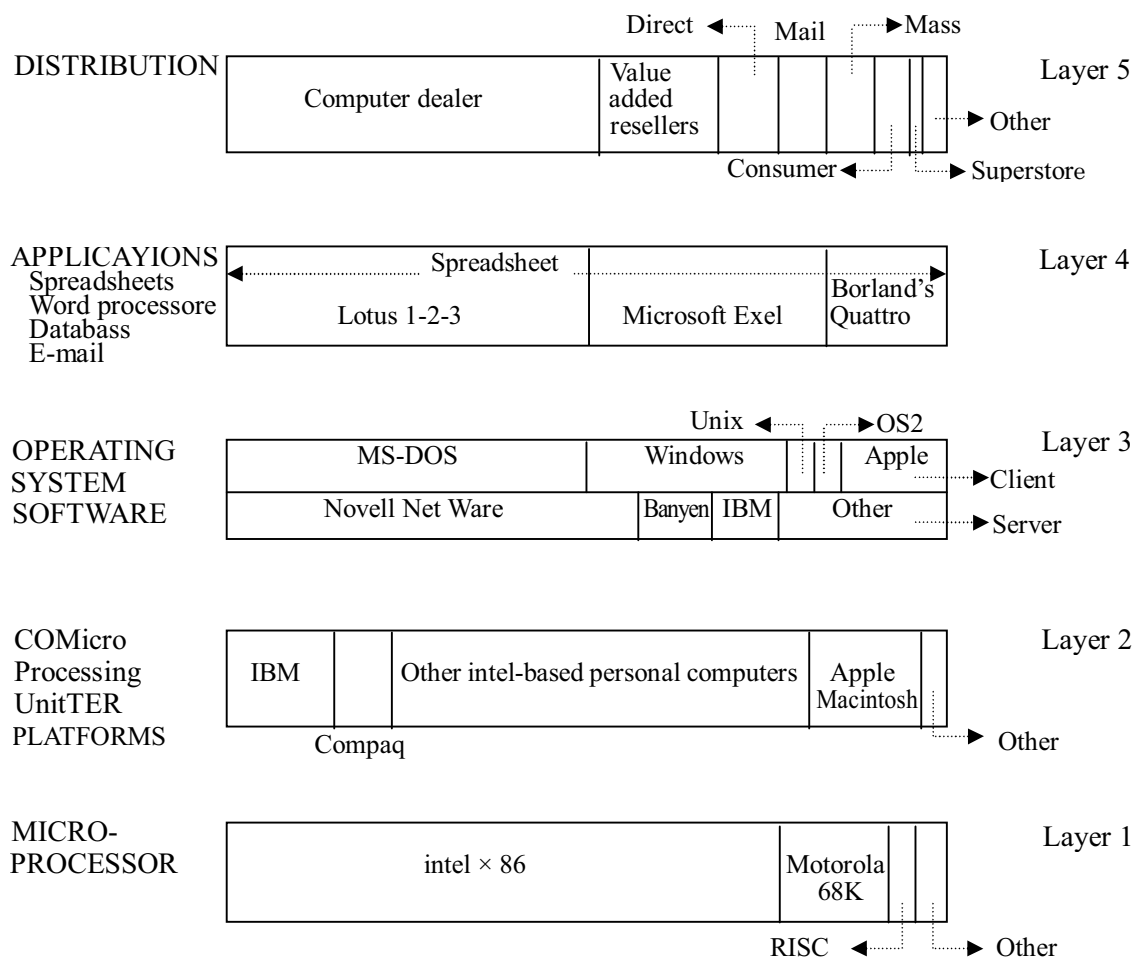
Contrarily, increasing returns is a concept describing circumstances in which increasing production generates proportionally more profits than the corresponding investment. This concept can be applied to a company or to entire industry producing the same products.

Once a successful company establishes market leadership, its products or technologies lock in the market. However, increasing returns is a rather temporary phenomenon, existing until a new innovation comes along. Even the de facto standard formed by a specified innovation never creates a permanent monopolistic or oligopolistic market. The innovation is periodically substituted, creating circumstances in which the estimated value of future developments in products and technology increases and the depreciation of assets that produce those products and technologies also increase.

If another market of increasing returns comes into existence, the process of diffusing profits in the economy continues. Traditional theory may be helpful for analyzing the manufacturing field, but cannot be applied to the new marketing sectors evolving within information communication technologies: international electronic commerce related business. Arthur noticed four features;

- (1) Study and development costs require enormous investments in new fields, but the incremental cost per unit is extremely low.
- (2) There is a linkage effect that as more products are used, each product increases in value.
- (3) There is a tendency towards lock-in once consumers decide on a particular product.
- (4) When sales double, production and service provided costs decrease in a steady ratio.

Figure 3-2 Information Industry in 1990



Source: *Economist*, London, 1993, February.

Arthur integrated these information industry features and described that increasing returns as a theory would be significant. For example, it is Figure 3-2. Their Figure is information industry in 1990's.

When the good products, services, and strategies earn the market share and accumulative effect, it will generate a further accumulative effect in today's market and global competition. The numbers of industries that earn the accumulative effect are increasing. The decrease in cost is one of the fields affected by the economical efficiency with traditional scale. However, such industries have different characteristics. As mentioned before, the first field is the de facto standard. There is no clear definition to this standard, but this study defines it as "The standard that actually came to pass as a result of market competition occupying in large numbers in this market despite of their presence and approval on the standardization organization."

The de jure standard was mainly occupied before, but it is hard to make a distinction at the present since both standards are similar. With a competing strategy point of view, the traditional competing strategy would not always be accepted due to the increase of importance in the standard. The significance of the de facto standard is especially high for the global merchandise demanded commonly in the world. However, there are more cases that it is impossible for a single company to take the initiative. Depending on the alliance through its own core-competence open to the public and provided, it is necessary to structure a partner or a group with partners who can be on the same negotiation table and suppress the major markets of Japan, the United States, and Europe.

The second field generating the accumulative effect is the network externality. The model cases can be seen in transportation and distribution industries including the communication, media, and airlines. Especially, the results of strategy alliance that interlocks and covers the global market in communications, the media, and the air transportation industry, control the prosperity and decline of a company. The hardware and software industry in addition to "the international electronic commerce" and "the electronic money" "industry structuring the platform of communications, the broadcasting, and the archive industry involved with information affects the multiplication accumulation effect by the accumulation of many elements. Moreover, many of the de facto standards intervene and the network externality functions by the competition between these standards. Therefore, it is difficult for the standard at an inferior position to turn the table to the standard at superior position.

The third field generated by the accumulative effect is a field for which the mechanism of the gradual increasing gain works, according to W.

B. Arthur. It can be seen often in the information industry including the computer hardware and operating systems, aircraft, missile, communication, etc and it is beyond the de facto standard. According to Arthur, this mechanism is seen in the information industry and it is difficult for the other companies to follow this company, which can shoulder the enormous Research and Development costs. And, once the user starts using a product, it is not easy to link up with the user's network and replace the product with another company's product since using the high-tech product requires a certain mastering procedure.

For such industries, the information industry using a smaller amount of material resources to produce a product by repositioning the knowledge and operated with the mechanism of a gradual increasing gain are necessary. The service industry based on software, another words the information industry, is also shifting in the world of gradual increasing gain. The financial institution, the air transportation, and the retail shop franchising are the typical types. In the field of the information industry, the de facto standard, the network externality, and the mechanism of gradual increasing gain exists in complexity.

These international electronic commerce related business also provides a new outlook on the business of goods handling.

That is, information in the nature of a public asset and having no cost of use becomes the object of commercial transactions. The following is a study of information goods based on their recognition as goods.

5.2 Information Goods

Information goods refer to information packaged for a certain purpose, such as high profitability, minimum cost, and high efficiency.

Pure Economic Summary by Walras (1877) is thought to share the idea of information goods described here. This says that individuals maximize utility (individual balance) and the supply and demand for all goods and services are balanced (market balance). These two elements are expressed by simultaneous equations. When an unknown quantity can be expressed by a variable in these equations, a balanced solution can be exist. In other words, theory describes that value relies on subjective utility. From this point of view, it is possible that the cost on information goods does not necessarily compensate for the investment required to produce the information.

However, in Walras theory, the view that forms a fixed utility curve is

central to accumulating individual utility into the society's economy. Consequently, the utility curve slopes downward to the right with increasing numbers.

Both always have a point of intersection demonstrating a stable value. The social utility curve can be realized by fundamental long term stability. Therefore the amount of production and the price can be determined as the point of intersection with production expense curve.

However, fundamentally, information goods do not appear to display this stable relationship. According to Walras theory, social utility is rapidly changed or may even disappear occasionally due to a radical drop to the right in the curve may temporally appear. Thus, there is a possibility that profit may not be generated even if the cost of information goods exceeds the expense or if a new economic object enters the market.

Since the value of information goods may deteriorate or vanish by the time a new participant establishes a market supply.

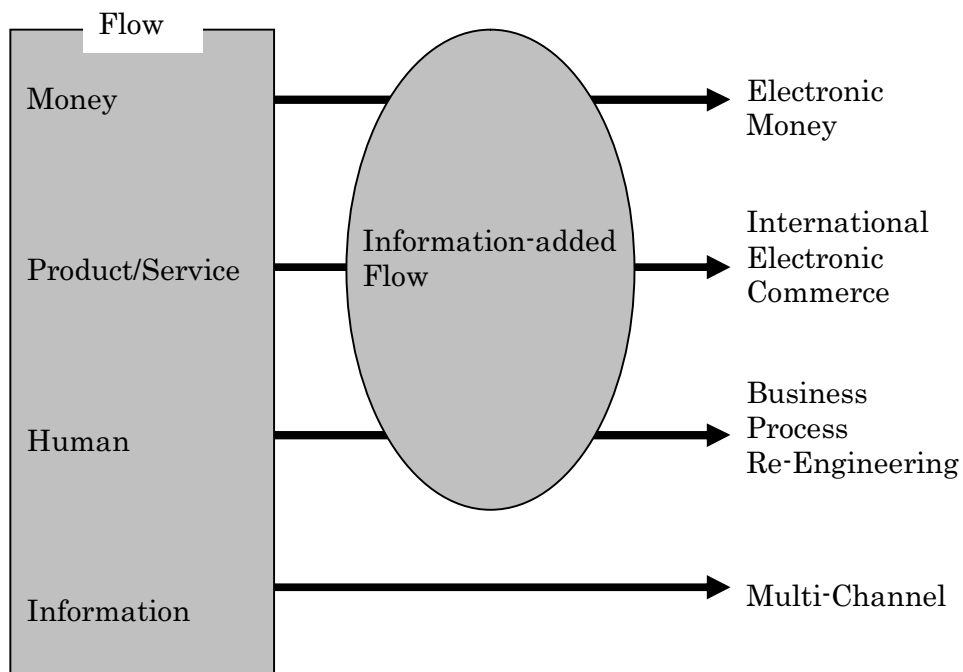
The utility curve rapidly dropping at our point since only an economic minority with initiative have strong demand while the economic majority do not demonstrate demand. In this case, information value is established at a low production level and with price exceeding expenses. After information value is widely recognized, the utility curve shifts to another point. This results in high prices and rapid increases in the amount of production. This leads to maximum information value. In addition, with the passing of time, the individual utility curve perspectives the social utility as advocated by Walras.

Information value actually disappears with the equalization of production expenses and prices. This issue relates to linkage externality and requires a comprehensive understanding in order to grasp information goods. This is the reason that information goods are essentially formed where value has nothing to do with expense, and as an inevitable conclusion, the value never approaches close to expense. The characteristics information goods are displaying in Internet indeed possess the basic difference of utility value theory applied to goods and general services suggested by Walras.

6. Rise of Nonprofit Organization and Open Development

As noted previously, information technologies display an accumulating degree of the mechanics of “open development” as applied to information goods and the features of Internet. International electronic commerce related business, expected to be centralized through future company growth, display altering marketing channel and market mechanisms under the dominating open development mechanism. Especially, it is thought that new Internet technologies convert existing closed marketing channels into open marketing channels (See Figure 3-3). In other words, the open development of promotion by the Internet in marketing channel is that nonprofit organization entry for marketing channel. In this situation, there is a company-to-nonprofit organization channel relationship.

Figure 3-3 Open Marketing Channels



The main idea is that the expansion of the economic market range created by Internet's commercial space relies on the division of labor. In other words, the subdivision of labor accelerates the identification of points requiring revision, reduces costs, improves quality and creates new goods / services.

This results in increasing demand. Alternatively, demand increases corresponding to distribution cost flexibility in accordance with the needs of more specialized goods and services. Summarizing, the increasing division of labor with technological innovation brought about by the development of open has resulted in a reciprocal structure that creates demand. The company-to-nonprofit organization channel relationship will grow at an increasing rate. These company-to-nonprofit organization channel relation hold considerable potential for enhancing company and nonprofit organization performance and for generating social value. This has tapped the world of practice to glean insights that will deepen our understanding of the partnering process and its many challenges.

If the new division of labor or new channel partner can be shown to statistically alter commercial activity, it can be said that international electronic commerce related business has succeeded. Sufficiently flexible distribution cost and distribution facilities will be conditions required to form this reciprocal structure. At a minimum, activities in open develop new frontiers between companies and nonprofit organizations, create new linkages, and realize low costs corresponding to a diversity of consumers needs. This results in a highly flexible structure generating various products and values. It is a mechanism that generates complementary increases in supply and demand. As a result, it can be said that the trend of increasing returns from producing the same product in entire distribution industry is reinforced. The view of marketing channel point, we will concentrate on strategic management between company and nonprofit organization.

7. Strategic Management between Company and Nonprofit Organization

7.1 Company-to-Nonprofit Organization Channel Relationship

Before analyzing the company-to-nonprofit organization channel relationship, it would be helpful to analyze many types of “interactive marketing” on the Internet. The concept of interactive marketing has been discussed by many people including Berry (1982), Levitt (1983), and Ryan (2002).

Especially, Ryan (2002) gave the practical guidance to capitalize on all of the potential and avoid all of the problems of marketing with new interactive technologies. Ryan (2002) gave an insider's advice and insights into the kinds of tactics that will help to sell more products and services right now—today and tomorrow—as well as help to develop the strategic vision needed to build the lasting customer relationships that will keep to successful long after your competitors have faded from the scene.

The business press of recent years has been filled with dramatic portrayals of interactive marketing success. But the landscape behind those exciting pictures is filled with the wreckage of the failures—those who couldn't handle the problems and challenges of this fast-paced, ever-changing world. Ryan (2002) gives to all the strategic and tactical tools.

The insistence is not sufficient for companies to produce low price products in affluent societies. Companies must listen to and incorporate consumer wants to their products and product distribution systems interactively. The emphasis in management on relationships reflects such a view (Ryan, 2002).

Much of the discussion environment interactive marketing, however, centers on the interactive marketing between manufacture and distributor.

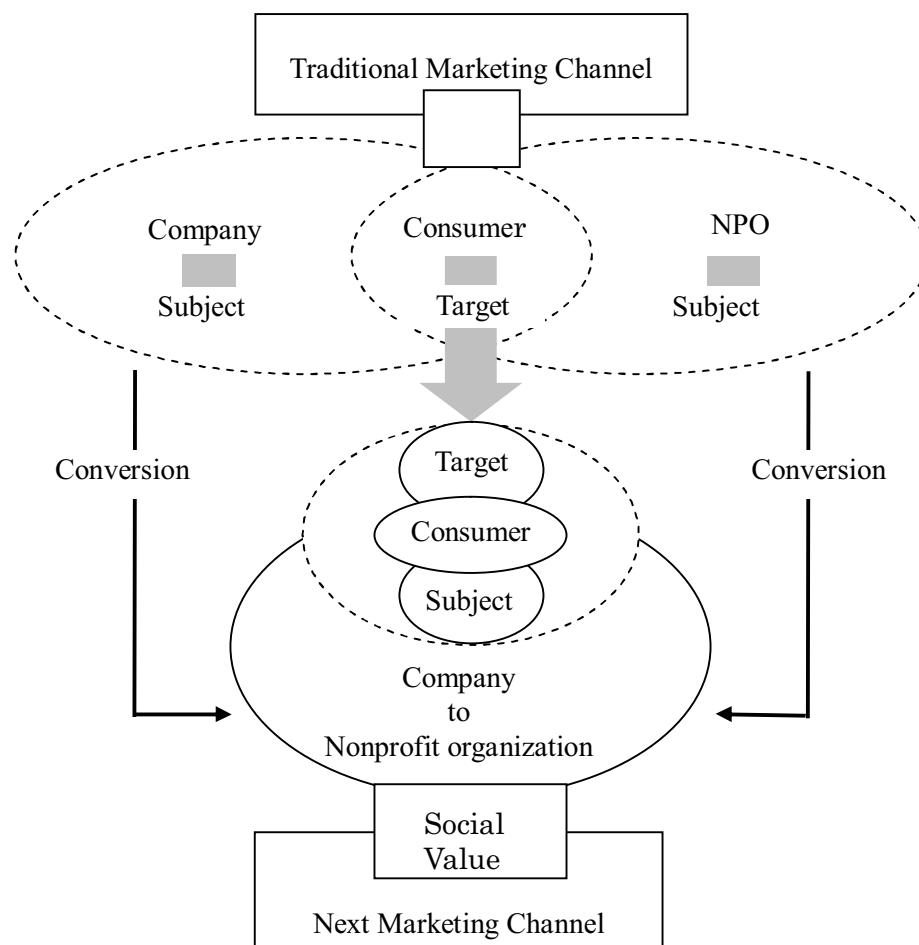
While admitting the significance of manufacture and distributor channel relationship, the primary message of this study is that the company to nonprofit organization channel relationship, which we call business strategic alliance between company and nonprofit organization, is becoming even more significance.

The penetration of more “open” computer linkages is the context in which company-to-nonprofit organization channel relationship is flourishing. Today's computer linkages, in contrast with the traditional “closed” system, allow tens of millions of computers all over the world to

communicate freely at low cost. This surrounding allows nonprofit organizations — who were previously secluded from each other — to exchange large quantities of information. They share information, feed it back to the producer, and even participate in productive activities.

While it is easy to predict that company-to-nonprofit organization channel relationship will grow and that it will have an important influence on the operations of companies, it is not easy to predict how company-to-nonprofit organization channel relationship will actually influence corporate operations. This study, which will be presented later, indicates that the attempt of company to manipulate company-to-nonprofit organization channel relationship process can actually suppress it (See Figure 3-4).

Figure 3-4 Company to Nonprofit Organization Relationship



Surely, company-to-nonprofit organization channel relationship is increasing and becoming more strategically important. For example, Wikipedia, WikiTruth, CDDDB (Gracenote), Musicbrainz, YouTube, vSocial, Ohmynews, and Flickr are connecting business. It is “social network”, too. More and more often these channel relationships are established for a long-term period, aiming to provide benefits and social value that a partner could not achieve alone. The lack of mutual interests and objectives prevents the full achievement of the potential of the inter-organizational channel relationship. Both the lack of trust and the lack of mutuality have negative effects on channel relationships. For managerial implications, this study encourages to emphasize social issues in channel relationship formation.

7.2 Various Types of Channel Relationship between Company and Nonprofit Organization

Company and nonprofit organization are embracing channel relationship for mutual benefits, when no organization can succeed on its own. Companies are discovering that channel relationships with nonprofit organization generate important rewards: increasing customer preference, improving employee recruitment and morale, promoting brand identity, strengthening organization culture, building good will, and testing innovations. Nonprofit organization is partnering with company to further their missions, develop resources, strengthen programs, and thrive in today’s competitive world.

Let us take an illustration concretely. For instance, the Chess is a traditional European game. There is a Chess server on computer linkages that offers playing place. Relatively speaking, the Chess has easy structure with two peoples or sometimes two couples carrying out an attack on a Chess board. There are professional Chess worshipers in the world. The Chess game can be very deep and many prized competitions, while the rules are very simple.

By Chess worshipers in the United States, the server was originally developed. Both the client software and the server software were developed by voluntary bases. Interface to the server is opened to which user developed client software.

It became increasingly trouble to sustain the server on a voluntary basis, as the number of clients increased. So, the rights to the server were sold to a commercial Internet service provider. A company in Japan that

has an alliance with this company is trying to offer the service on a commercial basis. However, it is struggling to win user acceptance for the commercial offering of a once volunteer-based free service. This is seen in Linux OS or Gnutella (software), too.

Especially, Linux is an operation system (OS) software for computers that was offered for free on the Internet (Lawrence, 2001). At the time of its launch, the performance excelled some of commercial software packages that were sold for millions of dollars. This gave the software industry quite a shock.

According to Raymond (1999), a marked peculiarities of freeware such as Linux OS, is the existence of robust user support among themselves on computer linkages. Instead of commercial software packages, to which consumers expect full support from the vendors, users of freeware often consider the product their own and are willing to help other users and the developers of the product.

It is a lot concern to watch carefully that similar effect arise for some shareware, which is copy-free software for which the developer tolls a small fee. The mentioned before, this implies that they are willing to help the commercial manufacture, when consumers of a product sympathize with a product. It is clear that it is the sufficient supporters that are allowing UNIX to sustain a sufficient level of market share in Japan regardless their difficulties.

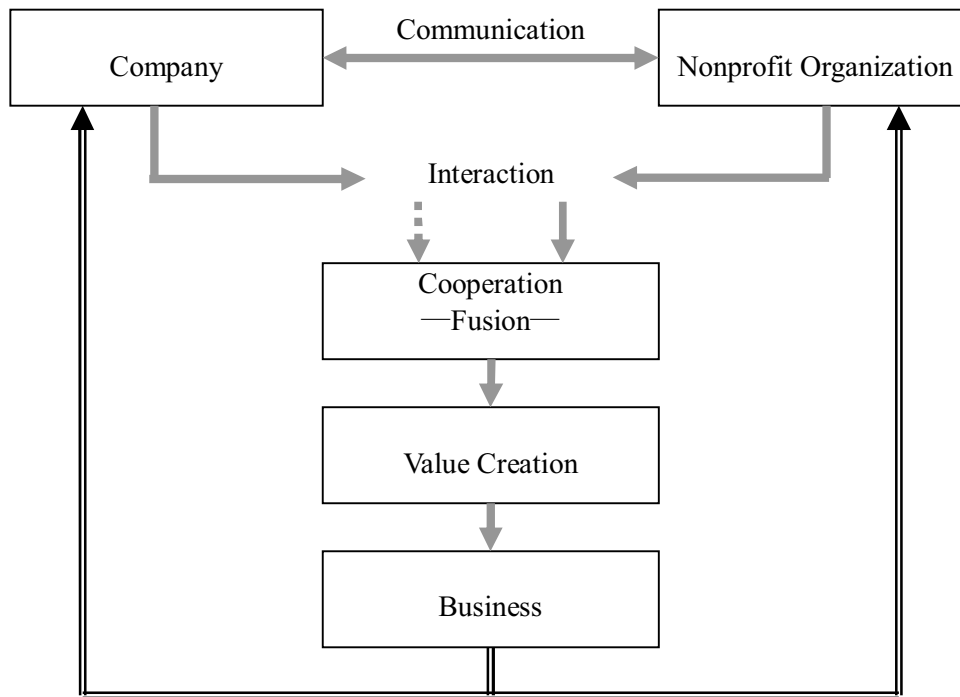
In the example of Linux, when it was attacked by commercial software developers, who claimed that Linux had questionable reliability and a lack of formal product support, grumble in the form of e-mails was raised by the consumer in support of the freeware and shareware. The hostile actions by commercial developers subsequently subsided.

This study, combine these and call them the “formation of marketing channel.”

Strategic management between company and nonprofit organization concept are not new ones, they have been in existence ever since traditional business. The Internet give a whole new meaning to this very old practice by enlarging the geographic coverage and the scope of activities to a global level (See Figure 3-5).

On the Internet, a species of nonprofit organization lives that loves to test products as soon as they are launched and break news of what is good and bad about them. In many cases they have charismatic influence and affect the sales of the product.

Figure 3-5 Strategic Management between Company and Nonprofit Organization



This section revealed two ways in which “company and nonprofit organization channel relationship” affects the performance of companies as follows: the support of a consumer for a product gives invisible asset to the company in the form of product credibility, brand recognition and word-of-mouth advertising channels, the external network, in which a crowded sushi-bar attracts even more consumers.

The penetration of more “open” linkages is the context in which Consumer to Consumer is flourishing. Today’s computer linkages, in contrast with the traditional “closed” system, allow tens of millions of computers all over the world to communicate freely at low cost. This environment allows consumers —who were previously secluded from each other- to exchange large quantities of information. They share information, feed it back to the producer, and even participate in productive activities.

Consumer to consumer linkage is probably already a daily practice for those readers that participate in forums on the Internet.

8. Summary

Manifested as an accelerating flow of people, goods, money, and information across national borders, international electronic commerce progress is dramatically changing the marketing channel. With the international division of labor becoming increasingly distinct, new-marketing channels have attracted attention as new production channel and social values and as marketing strategy as well. In order to win information and the global competition, it is necessary to conform to a variety of global standards. A company with a product that becomes the de facto standard for a state-of-the-art technology can, in effect, monopolize the world market.

The mentioned before, De facto standards are very different from the de jure standards officially defined by standard-setting bodies such as the International Standards Organization (ISO). De facto Standards are freely decided by industry and the marketplace. In fields, such as computers and telecommunications, in which data is exchanged, the more users a particular standard has the more convenient it becomes, and the more convenient it becomes the more users it attracts. A classic example of this is the way the VHS format beat out the Betamax format to become the standard for video tapes. Another good example is the recent growth in Windows' share in the personal computer market. If the standard of a given company is adopted as the de facto standard, that company can make tremendous profits. So, as a rule, companies will compete fiercely to become the de facto standard.

The big question is, of course, how is the marketing channel going to change in the future? As informatization proceeds, strong pressure to change is being exerted on time-honored marketing channels. The United States will most likely utilize the structure of its new marketing channel as a weapon in its effort to remain world leader. In pursuit of efficiencies, Europe began its experiment with a unified currency. Although there will certainly be differences in degree, emerging markets in Asia, Central and South America, and Eastern Europe are likely to continue their efforts to implement market principles and improve economically so they can enter the ranks of developed nations. Then there is Japan and its unprecedented economic downturn.

Chapter 3 revealed the international electronic commerce led by the informatization, the success factors. The objective is to comprehensively understand when informatization rapidly became widespread.

The international electronic commerce has drawn a lot of attention since the latter of 1990's in Japan. Chapter 4 will be to recognize the innovation issue in the development of the marketing channel. So, next Chapter 4, business strategic alliance cases in the pioneering company in the field of business strategic alliance will be introduced to explain how and why the business strategic alliance reached success in the rapid growth.

Chapter 4

Developing of Business Strategic Alliance

1. Introduction
2. Developing of Marketing Channel
3. Horizon Type Business Strategic Alliance and Vertical Integration Type Business Strategic Alliance
4. Vertical Integration Strategy and Business Strategic Alliance
5. Historical Role of Information Technology
6. Present Problem of Japanese Marketing Channel

1. Introduction

The marketing channel theory in the 1970's had taken a concern on the distribution management resources inside companies and most efforts were focused in the same manner as well. In the 1980's, companies also included the lack of management resource for their companies by executing the merges and acquisitions to use the external resources for their expansions. In the 1990's, as could be seen in the popularity of Internet, computer linkages are developing rapidly. Along with this trend, complex and varied relationships were formed on a global scale.

At the present 2000's, the relationship between the companies called "business strategic alliance" with their marketing channel competition appeared as a new company activity. By this business strategic alliance, the companies had changed their traditional marketing channel strategies rapidly. The companies had the intention to convert their marketing channel strategies to cooperate from being their marketing channel competitions by forming an organization different from itself.

As the development of their marketing channel theories, Chapter 4 takes consideration on the business strategic alliance. In addition, this Chapter 4 indicates clarifying the global strategy role of the distributor and having the executed business strategic alliance.

2. Developing of Marketing Channel

2.1 Historical Significance of Technology

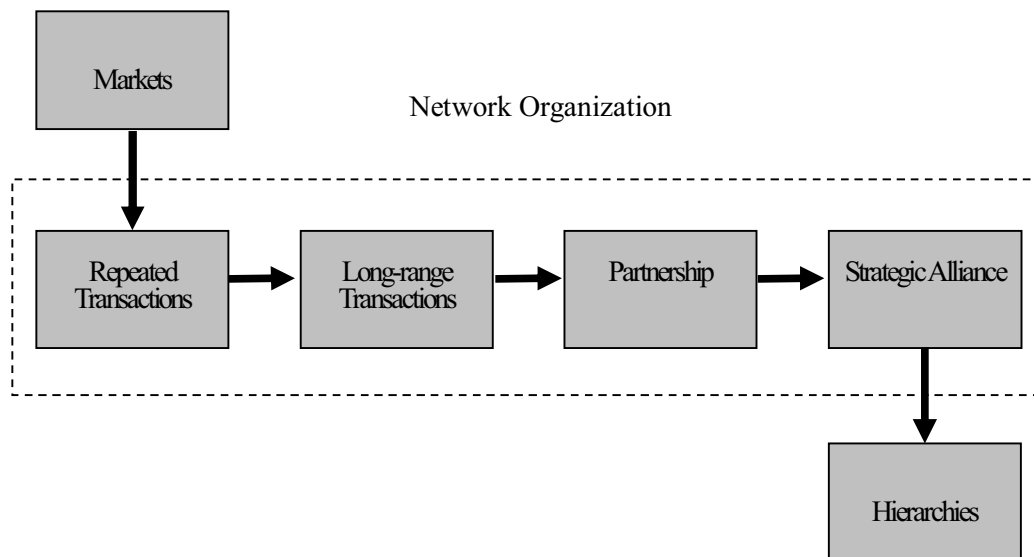
According to Kotler (2002), in technical development there are periods when techniques become diversified, and there are periods when techniques become standardized. The period when techniques diversify is a junction in technical development, when new techniques are developed from the collected body of technical knowledge that different from existing, predominant techniques. The course of technical development differs

depending on the uniqueness of each area's economy or each country's economy. In this process, certain technologies become markedly developed while others are excluded or altered: In short, technical uniformity gradually grows. The effects of this technical development are not limited an individual, but impacts all aspects of marketing channel.

However based on changes in the market structure, technical innovations, the marketing environment, and distribution policy, the development cost of substitute techniques eventually becomes disregarded, and the possibility of once again developing techniques becomes actuated. (Kotler 2002)

The mass production and mass sale company paradigm of advanced countries in post war began to break down in the seventies, and a new paradigm is being searched for. The important fields for company development from now on are fields that use advanced technology: microelectronics, information telecommunication, computer and software, biotechnology, and new materials. How they conduct business strategic alliance in these areas becomes particularly vital (Webster, 1992) (See Figure 4-1).

Figure 4-1 Webster's Transaction Map



Source: Modified Version of Webster (1992) The Changing Role of Marketing in the Corporation, *Journal of Marketing*, Vol.10, No.2.

Looking at the organization of inter-company relationship up to now, it is said that most American manufactures excel in product innovations, putting effort into technical development, especially inventions. Technical development that stresses invention promotes a linear channel, with basic study on one side, and product development and processing on the other. Compared to the American manufacture's stress on development, we can say that Japanese manufactures are excellent in process innovation and quickly follow behind. This means that they put more importance in marketing channel study development that makes improvements rather than inventions.

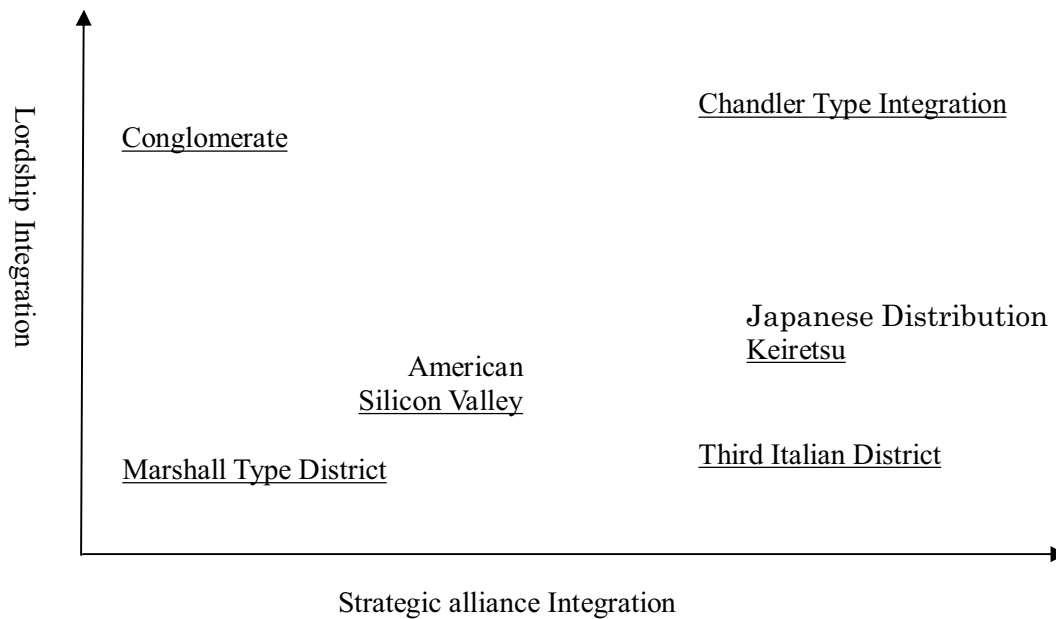
In recent years reverse engineering has developed extraordinarily, as most Japanese manufacture's would rather choose marketing channel that stresses process innovation, where they improve a product and its distribution process to circulate a lower cost, higher quality product instead of new product invention and its market development which would include high risks and costs. That fact is one of the primary factors why Japan has been able to secure its international competitiveness (Tamura 1989). By way of parenthesis, the marketing channel that stresses process innovation by Japanese manufactures presupposes the uniform development of a specific technique developed under American manufacture's initiative, a technical choice of fine-tuning.

2.2 Vertical Integration

The typical case of this marketing channel is Japanese distribution keiretsu in the manufacturing industry (See Figure 4-2). However, the meaning of the marketing channel mentioned here does not always indicate the internalizing of all functions inside their own company.

This marketing channel is indicating channel taking the strategy integrated for an entire company and pursuing the competing products with others and the economical efficiency in scale. The typical areas are the aircraft, aircraft engine, defense, space, semiconductor, computer software, heavy electronic machinery, chemistry, medicine, etc. and there are some industries that the global oligopoly proceeding.

Figure 4-2 Distribution Keiretsu and Silicon Valley



Source: Langlois and Robertson (1995) “*Firms Markets and Economic Change*”, Routledge, p.12.

In addition, this type of marketing channel is indicating channel with the market needs and demanded specification differ by the country and region in some degree including the communication system, specific kinds of home appliances, automobile, etc, too. The economic efficiency in range with the technology and management knowledge commonly used for the entire company generates superiority including the basic technology, design technology, manufacturing technology and the marketing techniques.

It is difficult to separate those two types clearly, however these channel are using the strategy of following two kinds.

The first marketing channel strategies is the strategy used in aircraft, defense, and space industry and creates a competing product in the concentrating of Research and Development, designing and production bases in a specific country and to export to the global market. For that reason, the marketing channel of perpendicular integration is structured through the association in variety between the foreign companies.

The second marketing channel strategy is used by a large majority of manufacturing industries in mass production and mass sale positioning the function of Research and Development, designing, production, sales and services in the global market appropriately to form the marketing channel. For both marketing channel strategies, not only the internalization of the marketing channel inside the company but also structuring the unified marketing channel of association in various types is necessary. Mergers and acquisitions are also important as the strategic means.

One of the marketing channel belong to vertical integration is material industry having almost the same demand for the products in the global market but having little benefit for the global local placement point of view. The global local placement at the exporting market and the alliance formation with foreign companies would be also increased in such industries from this point forward.

Add to this, vertical integration is indicating that the marketing channel respond respectively since the market demands differ according to the historical and social circumstances and culture in that country and region. Since the marketing channel competition in each country and region is performed separately with the competition in another country and region, there are companies staying only in the domestic market but on the other hand, there are companies entering overseas' markets. The typical cases are seen in businesses including food and toiletry.

With such businesses, the importance of marketing channel strategy is increasing. Moreover strengthening the domestic business by forming an alliance with foreign companies and advancing to overseas is greatly significant.

Even the market and the marketing competition have informatization and globalization, the strategy in the companies should not be taken lightly. The strategy can be decided according to many elements including characteristics of each industry and their consumers, the number and scale of competing companies, the oligopolistic degree, the sources generating the marketing channel competition superiority, and the positioning of a value chain differs by each company and its adjustment marketing channel strategy.

3. Horizon Type Business Strategic Alliance and Vertical Integration Type Business Strategic Alliance

3.1 Concept of Business Strategic Alliance

As explained in the preceding chapter, recent science techniques, as seen in fields like biotechnology, new materials, and telecommunications, are characterized as having an increase in technical development diversity, caused by the compounding and merging of fields and research spheres. To deal with this situation change, companies are stressing manufacture-distributor marketing relationship organized by “business strategic alliance.”

Therefore, activity locations should be placed appropriately in the world's major cities including domestic. In addition, by business strategic alliance, the knowledge from people in and the management resources in many countries of the world should be unified from the global point of view.

According to Lorange, Roos, and Bronn (1992), “business strategic alliance” is a long-term strategic partnership between the company with a certain power on the market, and it often involved that they share the capital or some kind of management resources (See Figure 4-3).

On the other hand, a simple cross license can not to be called business strategic alliance. These are simply shopping of the function or skill, and they do not intend to form a business in strategic alliance. Relief amalgamations and outsourcing contract are not included in the business strategic alliance as well. It is because they do not have a certain power on the market or sharing nothing.

The reason for forming the strategic alliance between the companies with power is to earn the new level of competition strength which they can not be achieved by themselves. Therefore, the business strategic alliance is effective when it would take enormous of time and efforts to earn the skill for the company to enter the new paradigm or when the resources are not enough to compete in the global management.

Therefore, the results of business strategic alliance must generate the multiple effects like $1 + 1 > 2$. It has to be something that it can completely change the consumer's activities and change the industrial rule and infrastructure by providing the new value for companies.

Figure 4-3 Successful Strategic Alliances

		Market Position	
		Leader	Follower
Strategic Significance	Core	Defense Type Alliance	Catch Up Type Alliance
	Periphery	Residue Type Alliance	Restructure Type Alliance

Source: Lorange and Bronn (1992) *Building Successful Strategic Alliances*, Long Range Planning, Vol.25, No.6, p.10.

3.2 Horizon Type Business Strategic Alliance

As explained before, in various fields, many companies have been organizing joint development projects and technical cooperation on a global scale (horizon type business strategic alliance), in recent years.

There are three types of global horizon type business strategic alliance increasing its effectiveness today. The first horizon type business strategic alliance can be seen in the manufacturing and software industries and it is the strategy to take the initiative in the de facto standard with strong competition ability specializing in specific components, products, and services for securing a high share in the global market. Intel's MPU, Microsoft's Windows software, etc are the typical products. Such industry can be called as the horizontal industry and the characteristics of business, enterprise, and environment can be listed as the elements deciding an

industry to become either the perpendicular integration industry, another words the vertical industry, or horizontal industry. On the business side, the cases with a high standard level in components, a high visibility from the outside in business structure, a range of business activities covered globally from the companies characteristic point of view, and high pressure for the cost reduction for the environment characteristics are included in the horizon type industry structure.

The second field where the horizon type business strategic alliance containing its effectiveness is the industry generating the network externality by interlocking of services covering the global market such as communication and air transportation. It is difficult to proceed with this strategy in a single company and the market covering degree by the international business strategic alliance structuring the marketing channel is affective in the advantages and disadvantages of the marketing channel.

The third business strategic alliance can solve the problems regardless of size and scale by the thorough decentralization of authority, although the horizontal integrated strategy is applied in general business. It is a little different than two above business strategic alliance but this can be called in as the third horizontal business strategy. Asea-Brown-Boveri (ABB) is a typical case having this type of horizontal linkage structure but not following the original horizontal integrated strategy. Asea-Brown-Boveri is the largest heavy electronics manufacturer in Europe established by the boarder-crossing merge of Asea-Brown-Boveri in 1987. The company is known for its strong competing forces and established approximately 1,300 operating companies worldwide.

As it is mentioned in the above, the business strategic alliance concerning the de facto standard has the following features.

First, there are the small numbers of core companies and large numbers of certain company groups following the core companies, and the former pulls together the BSA relationship.

Secondly, each company divides their roles. The core companies handle the technology development and the following companies handle the production and sales of the components and products by using technology offered by the core companies.

Thirdly, participated companies are not always fixed and they withdraw their participation according to each strategy. Because the alliance relationship is partial, there are a few fatal community ways of thinking that it is rare to have a capital relationship.

Fourthly, therefore, it is easy for an alliance relationship to become unstable and it sometimes breaks up and splits.

Fifthly, there are cases in which the cooperation and the competition of

the business strategic alliance's characteristic can be seen clearly in the mix of the competition for the de facto standard (between the alliance marketing channel) and between companies among a marketing channel.

Many companies with their own products and services construct the alliance-web in the business strategic alliance concerning the knowledge-intensive market. These business strategic alliance relationships also seem unclear, open and informal in its characteristics like the business strategic alliance concerning the de facto standard. There are cases that company form the business strategic alliance with the plural company in competition relationship with each other and the reason for tie-up made by each company is limited to their common interests. As to develop a platform with contents, while constructing the international alliance by this business strategic alliance, the business strategic alliance by each country and region need to be constructed in order for the services to be provided on the market. The business strategic alliance of today led by the U.S. companies will broaden the ring o the world scale. There is the alliance-web, on the other hand, the enterprise aiming the perpendicular integration by mergers and acquisitions also appeared, and the importance of the strategy will be increased by integrating the inside strategy, business strategic alliance, and the mergers and acquisitions.

4. Vertical Integration Type Business Strategic Alliance

4.1 Strategy of Oligopolistic Company

In the industry representing aircraft, defense, and space industries, the merges between the giant companies has proceeded in the last several years with the market share concentrated to the oligopolistic companies. The business strategic alliance linkage has been set up mainly by the oligopolistic companies. In these industries, the cost reduction and use of civilian technology are demanded with pressure by facing the demand decrease after the cold war. Under the severe competition for the survival among the United States and European companies, the large industrial reorganization with the continuous merjerand acquisitions ended in August

of 1997 by settling into three intensive companies such as Boeing, Lockheed-Martin, and Raytheon. At the present, the global reorganization is proceeding mainly by these three companies involving Japanese and European companies.

In the past, Hymer and Kindleberger (1999) captured the direct investment made to overseas by companies from the oligopoly-oriented point of view. Knickerbocker (1999) analyzed the globalization for the United States major companies in the 1960's by indicating the strategy used each other for the oligopoly to advance in the overseas by the merges and acquisitions and alliance in opposition of the competing companies. It is foreboded that a similar strategy would be created after 30 years or more.

European companies are in opposition of a movement towards the oligopoly by the United States companies. The airbus industry structured by English, Germany, and Spain companies are pressured for its strength, however there are many assignments listed since the differences in national interests of each country. The European committee of the European Union (EU) acting against the merge of Mac Donald-Douglas by Boeing with the reason of as it would be impeded for the competition in Europe. It indicates that the difference in basic philosophy and operating plan to the monopoly prohibition policies of each country affects the future global and information strategy.

In addition, this section shows the strategy of best global and local placement.

The strategy of best global and local placement is the most common strategy in the manufacturing industry. The business strategic alliance was included into the entire company's strategy or into the business strategy due to its characteristics and there are alliances with the purpose of creating a new business, withdrawing from the present business, creating the synergy, and advancing to overseas, another words globalization. The alliance at the business strategic level is due to the fusion and development of technology, the sharing and reduction of manufacturing resources, the independent business complement, the cooperation and connection for the core business. The purpose of the alliance changes according with the time stage in establishing, introducing, growing, maturing, and declining. Especially, the core business and cooperative interlocking alliance structure at the maturing and declining stage of the business indicated that they would be proceeded to the planned withdrawal from business or to the industrial reorganization by the merges and acquisitions. Above mentioned aircraft, defense and space industries fit to this case.

4.2 Rise of Global Marketing and Management

Marketing activities are that of which they exceed a frame of traditional international management which responds with the foreign market. Ansoff (1965) took up the business and the area as the corporate growth portfolios and said, “Internationalization and domestic diversification are the means to extend the corporate portfolios as substitution. However since the internationalization is much more risky than the diversification, the diversification should have the priority excluding a case that corporate purpose can not be reached by the diversification (See Figure 4-4)”. However this product-market strategy is not appropriate in every case. Today's marketing management and competition are practiced differently from the international marketing age since the market, business activities, and competing fields have globalization.

Figure 4-4 Product Market Strategy

<div> <div>Product</div> <div>Market</div> </div>		Present	New			
			1	2	3	4
Present		Market Penetration	Product Development			
New	<div>1</div> <div>2</div> <div>3</div> <div>4</div>	Market development	Diversification			

Source: Ansoff [1965] *Corporate Strategy*, McGraw-Hill, p.109.

However, there is no clear definition for the concept of globalization. The words of “global” and “globalization” are used too many times and it is pointed out that the world scale strategy and global strategy are often misunderstood. A global marketing is one with the vision of exceeding a specific country. However, it does not mean the strategy standardized is in a world scale form. The characteristics of their marketing channel are different with the industry. It is general to decide each marketing channel strategy accordingly with the industry of global and multi-domestic fields. The former industry generates a marketing channel competition priority by adjusting and integrating which takes in a global scale in some forms. In which case is called “multi-local” for the latter.

The marketing channel competition between the plural foreign companies taking such global marketing channel strategies in the global market is the global competition. The reasons for this marketing channel competition in general are the followings.

First, the barrier diminished in trading and direct investment. Secondly, easing of the knowledge transferred to outside countries pull the development of international economy. Thirdly, the global business strategic alliance and the merges and acquisitions became active and the strategy of combined fleets is necessary for the priority in global competition. Fourthly, the cost and risk in research and development increased and the strategy in volume production and volume sales by specifying the product type which are performed worldwide. Therefore, it became easier to be a possession of the captainship in the de facto standard, and the oligopoly in the global market has proceeded for a part of industry.

On the other hand, the mass-customization became possible by the development in designing and production technology with the market segmentation strategy responding to each country's market demands in detail, it became possible. However, the global market does not represent only the market with the common demands in global issues. It is the market providing products and services according with the best match of the domestic production, import, and local production for many countries' companies in global marketing competition. The domestic market as well.

5. Historical Role of Information Technology

5.1 Business Strategic Alliance and Information Technology

There is development in information technology at the base of development projects and technical cooperation on a global scale by companies' business strategic alliance. Information technology development enables one to control many different elements at the same time, and to also look at their relationships in many different ways. These days there are many companies that have high level business strategic alliance strengths in different fields, but with the information linkage, each company can connect beyond their old industrial field. On one side, they can dissolve risk and set fixed capital, mutually relying on other companies' marketing channel strength, but also they can adjust their activities for just in time operations. These business strategic alliances on a global scale are supported by this type of information technology. Needless to say, the breadth of technical development due to information technology is increasing.

5.2 Individual Business Strategic Alliance: Historical Perspective

Provided that inter-linkage between companies will be network by "business strategic alliance" in the future, an effect on marketing channel will also result. Cooper and Gardner (1993) have taken up this movement, and he is re-researching business assets. According to Cooper and Gardner (1993), in an environment where the relationships between company networking is expanded, company assets should be divided into (See Figure 4-5): core assets [III], joint ownership assets [II], and combined assets [IV]. Core assets [III] are assets that a company can control at both the strategic planning and organizational levels. They are assets that are personally owned by a specific company. Next are joint ownership assets [II], which are outside the bounds of the company structure, but can be controlled up to certain point. Combined assets [IV] lie under company structural control, but can also be put under strategic control of other forces.

Figure 4-5 Transformation of Company Assets

		Strategic Control	
		Impossibility	Possibility
Systematic Control	Impossibility	Market [I]	Joint Ownership Assets [II]
	Possibility	Combined Assets [IV]	Core Assets [III]

Source: Modified Version of Cooper and Gardner (1993) “Building Good Business Relationships: More than Just Partnering or Strategic Alliances”, *International Journal of Physical Distribution and Logistics Management*, Vol.23, No.6.

These days, the developing of business strategic alliance is forming complex marketing channel connections globally, in different forms such as consolidated companies, technical cooperation, OEM, and collaborative study and development. To use Cooper and Gardner’s definition of company assets, companies are able to deal flexibly with the many locally individual market environments and the diversity of technical development by organizing in an advantageous form that utilizes the relationships between company sphere of combined assets [IV] and joint ownership assets [II]. While diffusing cost and risk by combining the advantages of mutual companies, it becomes possible to organize an innovation marketing channel. After all, as the relationships between company linkage complexity advances, the competitive strength of companies will come to depend heavily on being able to utilize the gray zone of combined assets [IV] and joint ownership assets [II] themselves as opposed to market

competition that is a precondition to a market environment.

Let us take an example concretely.

It was business strategic alliance between companies concerning media. If a large scale information infrastructure is developed, the spread of media will not be limited to the information industry, but will also have a big effect on other areas such as publishing, mass media, and home electronics. It has the potential to change the form of the industry itself.

In the past, various international cooperative ventures were being realized, connected to the development of media devices. The most important one was the founding of Kaleida. Kaleida had been created from joint capital by IBM and Apple Computer. Kaleida would certainly develop media data processing techniques, but it was also working to construct a business consortium in Japan, Europe and the United States with Kaleida at its core.

In February 1993, six companies: Apple Computer, AT & T, Motorola, Matsushita Electric, Sony and Phillips all invested capital in the United States companies General Magic, and they also adopted system software developed by this company as a business standard. The seven company consortium would cooperate on basic specifications and communication standards, but would develop the products separately. After NTT, NEC, Fujitsu, Toshiba, and France Telecom invested in General Magic in 1994, the chances of this company's communications software becoming the de facto standard had increased. The movements of making a consortium based on Kaleida, as well as the international cooperation based on General Magic, were both typical examples of organizing the relationships between company sphere that was based on technical standardization and compatibility.

Next, we will mention Computer Hardware and R&D on semiconductor technology examples.

In Micro Processing Unit research and development, IBM, Apple Computer, and Motorola were cooperating to develop a new Micro Processing Unit (Power PC) to compete with Intel, whose Micro Processing Unit dominates the market.

In the past, they were on the path towards switching from large scale integrate to ultra large scale integrate, and also developed DRAM to 64 mega byte and 256 mega byte in study development on semiconductor technology accumulation. In the future, they would have to bring study and development to the gigabit level. One of the biggest problems raised was that as memory allotment increases, so must the investment in equipment. Considering the necessary equipment investment for 3,000,000 units for one production month: at 1 mega byte about 50 billion , at 4 mega

byte it doubles, quadruples at 16 mega byte, and was eleven times that at 64 mega byte. Due to this, joint development projects were started to deal with ballooning costs and risks. One example was the 256 dynamic random access memory joint development project by Siemens, IBM, and Toshiba.

Besides this, there was a rapid of company linkages and business strategic alliance competition concerning compatibility and standardization of interface devices, computer languages, application software, and HD television.

5.3 Airline Industry and Communication Industry

In example of business strategic alliance, this section explains two industries. One is Airline Industry. The other is Communication Industry. With the regulation relaxation of the United States in the 1980's, the multinational business strategic alliance has constructed and the competition between the alliance and the cooperation and competition among the alliance have been continuing. The business strategic alliance objects are widely covered from purchasing of the materials, the maintenance of the aircraft, and the sales of tickets to sharing the flight code, the mileage services called Frequent Flyer Program (FFP), and the cooperative navigation. There are four business strategic alliances formed in global scale at present.

- (1) American Airlines, Canada Airlines International, Japan Airlines, Air France and British Airways.
- (2) Delta Air Lines, the United States Air, All Nippon Airways, Swissair, Air Australia, Singapore Airlines, Malaysia Airlines and Cathay Pacific Airways.
- (3) United Airlines, Air Canada, Lufthansa, Scandinavian Airlines and Varig Brasil.
- (4) Northwest Airlines and KLM-Royal Dutch Airlines.

Even in this industry, the decision to meet and separate is made fast when the business strategic alliance does not bring the profit by leaving the business strategic alliance to rejoin another business strategic alliance. The mergers and acquisitions strategies are adopted often.

The swelling of the global industrial reorganization will be increased like the communication industry by the involvement in the progress of Open Sky Policy and the national interests of each country. The various

business strategic alliances and the global mergers and acquisitions will be mixed from now on.

The next service interlocking alliance is communication industry. The global scaled teamwork is progressing with the motivation driven by the antagonism and cooperation between the United States and European companies. The regulation relaxation became the trigger starting from the United States and spread to Japan and Asia. The global scaled business strategic alliance is about completed in this circumstance.

The telecom companies in the United States and Europe formed three business strategic alliances and struggling to earn the hegemony of market. The three business strategic alliances are World Partners of the new generation business strategic alliance structured by the United States AT and T as the core position, Global One of the joint venture company structured by Germany Telecom, French Telecom with the United States Sprint, and Concert of British Telecom with the United States MCI joint venture. NTT constructed of the business strategic alliance in Asia as the fourth power to oppose the United States and European forces. The aim of such business strategic alliance is the one stop shopping of the boarder-less communication services. The United States telecom companies concentrated their strategies to aim the fusion of communications and media industries by formed the various business coordination with production companies in television network, cable television, movie and amusement industries.

Only in the mobile telecommunication field like the cellular-phone industry, there were over ten plans in the global business strategic alliance projects including the business limiting its service area. The Iridium in the earth around satellite business were in the process of performing the launches of sixty-six satellites into six orbits, the launches of ten satellites into two orbits by ICO of the international maritime satellite organization, Globalstar with forty-eight satellites, and Odyssey with twelve satellites.

Asia Pacific Mobile Telephony Satellite Project (APMT) was trying to cover the Asian area by the stationary satellites. Three powers of the companies in the United States and Europe including Teledesic, Celestri, and Skybridge-CyberStar proceeded in the new business in the high speed data transmission services using the communication satellites.

This shows just how crucial the gray zone structure is to companies. What we have to carefully consider here is that starting with information techniques, technology in new science developed by America companies have become the de facto standards. Currently, the competition surrounding the organization of the marketing channel on a global scale, which revolves around the developments and intellectual rights of the United States

businesses, has intensified. The competition became fierce starting in the 2000's.

Along with that, the marketing channel strategy of Japanese companies (who increased their competitive strength by choosing marketing channel that stresses process innovation instead of invention, where they improve a product and its distribution process for produce a lower cost, higher quality product) gained the global spotlight in the eighties, but this spotlight has shifted as the economic ratio shifted from energy and natural resource heavy industry to brain heavy industry.

6. Present Problem of Japanese Marketing Channel

There are two characteristics in the marketing channel for today's Japanese companies as follows:

- (1) All industries are proceeding in the business strategic alliance and the mergers and acquisitions. On the other hand, they are behind the United States and Europe, especially behind the United States companies. Many of the companies are not only behind but also has not ground design.
- (2) The industries mainly taking the horizontal type strategy including non-manufacturing industry, such as services and software and media industries are poor in taking the initiative in global competition.

6.1 Two Innovations

This section of the following discusses the business strategic alliance direction that it should be taken after analyzing the present situation from the points of views in the above listed (1) to (2).

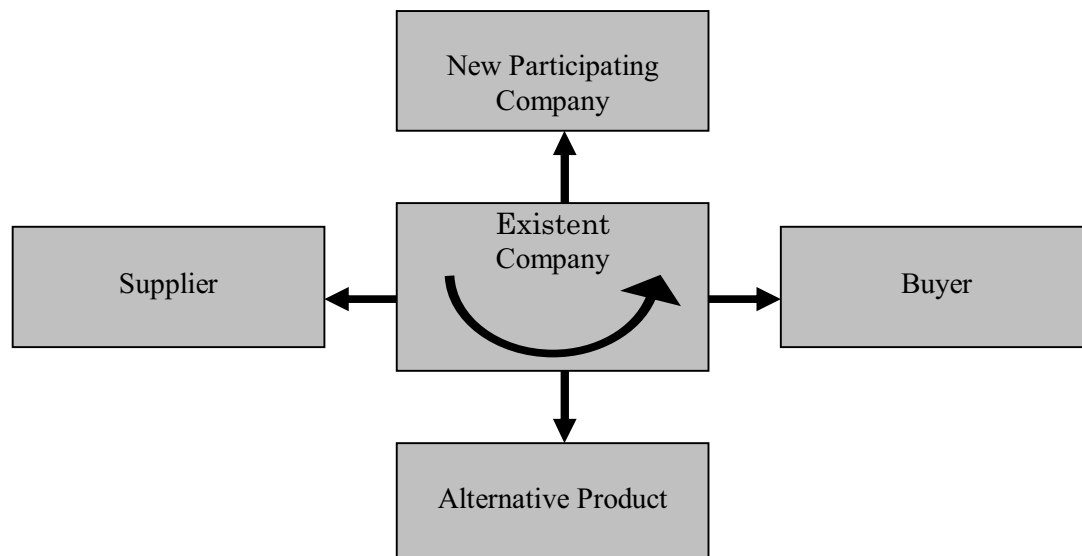
The manufacturing industry maintained the predominance by combining the global appropriate placement and various alliances based on the perpendicular integration including the distribution keiretsu. The typical

industries are the automobile, home appliances, medicine, and machinery.

In these industries, the two knowledge creating activities promoting the manufacture as the core aspect for reforming the distribution processes in addition to the reform of products are making the innovation in succession.

Whereas, with an inter-company point of view, Porter (1980) evaluated the manufacturing process reformation of Japanese companies once (See Figure 4-6). Porter (1980) briefly emphasizes as follows at the present. “At the time when the rivals were far behind working from the frontier of productivity in 1980, they could keep their victory by improving total quality management and the continuous improvement in business efficiency. However, the clear strategic position is necessary at the present since the difference of the business efficiency between the foreign companies has shrunk. However, the problem is that Japanese companies have hardly any strategy.” The basis of his words is the vision of that although the companies aim for the improvement in business efficiency by total quality management, bench marking, time-based competition, partner formation, outsourcing, reengineering, they are only for the marketing tools and not marketing strategy.

Figure 4-6 Competitive Strategy



Source: Porter (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, The Free Press, p4.

The marketing strategy is to create the differences in succession from the other companies by performing different activities from the rivals or by using different methods resulting in the same activities (Porter, 1980). Therefore, the companies must have a clear trade off in the original competing position and strategy (Porter, 1980).

There are still two suggestions for the future of Japanese marketing channels. First, the traditional knowledge creation which Japanese companies are good at should be kept proceeding by distributor as the core aspect. Secondly, the rules of the game should be changed since the time already entered the severe information competition age and the top management should directly construct a clear vision and strategy making the difference clear to others. However, both suggestions are only focusing on part of the manufacturing industries. Therefore, by focusing on part of the industry, there are the proper fields for each suggestion.

6.2 Knowledge Dynamic Linkage by Business Strategic Alliance

There are two points that differ on the future Information competition from the traditional stage. The first point is that the marketing is becoming more globalized and the second point is that the clear strategy position is necessary. Both points hit the weak point of Japanese marketing channel and they are not prepared.

The First discusses one point of view. Japanese cooperative work with swelling of the distribution keiretsu company channel located in domestic generated the traditional products of Japanese manufacturing industries and the innovation of the distribution processes. It has been already pointed out that the non-hierarchic knowledge coordination of such knowledge dynamic interaction kept function in the industry. (Aoki, 2001)

The idea of the relationship between the manufacturing development ability and the organization ability in the manufacturing industry, the knowledge generated by the knowledge dynamic linkage of individuals is the core ability in manufacturing development. This is the strong point in the innovation of Japanese manufacturing industries like automobile and electronic products. The process ability generated by such knowledge is deeply touched to the organization and it is difficult to transfer between the organizations. On the other hand, the strong points of Japanese companies are difficult to generate since the competition forces are based on the knowledge of individuals in the material process industry such as medicine.

Japanese companies until today have been creating knowledge without

discussing to each other within the company (Nonaka and Takeuchi, 1995). However, the interaction of knowledge has progressed everywhere in the world by cooperation of people with different ideas. Japanese companies have no choice to enter such flow in otherwise they will be left behind. What is necessary here is the consciousness and efforts to systematize and specify the knowledge of ourselves so that even a foreigner can understand. Japanese companies take a negative attitude towards the manual however it is only a partial side. The most basic matter is to summarize the knowledge of each individual logically and to give effort for communicating with foreigners. The conversion and the structure of consciousness in creating such knowledge at the distributor are also important.

The United States and European companies are creating new knowledge in variety worldwide by developing the global scaled alliance and mergers and acquisitions. It would be difficult to oppose the United States and European companies with only knowledge created by people of Japan. The channel ability as the core indicates greatly depends on the interaction of knowledge generated and it is difficult to make the radical product innovation with this only.

6.3 The Clear Strategy Position

The second problem that manufacturing industry taken the perpendicular distribution keiretsu with the improvement styled knowledge creation has to face is how it should be responded in the situation that the strategy concentrated in a specific field has become effective. The maturity of product technology, the standardization of interface, and the diffusion of de facto standard exist in its background. The complexity of the product system decrease to increase the disintegrating possibility will result losing the priority of the Japanese manufacturing industry depending on the distribution keiretsu ability. The typical fields are the personal computer and media industries.

The electronics industry intends to be the synthetic electronic company and maintain the resources inside in order for the production and sales of hardware, and have been aiming for the economical efficiency in scale and range. However, it can be uneconomic by the case of having resources in a distribution keiretsu today. Knowledge and ability become important resources, and especially knowledge can be over spilled at the transfer between the companies. The business strategic alliance obtaining the knowledge in global scale has increased and all kinds of infrastructures

have been prepared. It is likely to reverse the strong point given the support to Japanese manufacturing industry to the weak point.

What mostly needed now is to construct the basic strategic position and the system to make the strategy. The innovation of the product and the distribution keiretsu which Japanese manufacturing industries kept as their strong points should be included here. The following elements are necessary for the strategic position. First, business creation especially the withdrawal of direction based on the business mix. Secondly, business with originality and its mixed structure are based on the future vision.

This strategic position needs the following points of view different from the traditional.

According to the role and ability of headquarters in Japan and the affiliate companies, the knowledge should be created in all parts of the world and a transferring system should be constructed. All resources are not necessary to be kept in their own group. The system and ability should be constructed to use all kinds of alliances and coordinate them. The next page at New Challenge for Japanese Companies discusses this matter in detail.

When the good products, services, and strategies earn the market share and accumulative effect, it will generate a further accumulative effect in today's market and informatization and globalization competition. The numbers of industries that earn the accumulative effect are increasing. The decrease in cost is one of the fields affected by the economical efficiency with traditional scale. However, such industries have different characteristics.

As explained in the preceding, the first field is the de facto standard. There is no clear definition to this standard, but this study defines it as "The standard that actually came to pass as a result of market competition occupying in large numbers in this market despite of their presence and approval on the standardization organization." The de jure standard was mainly occupied before, but it is hard to make a distinction at the present since both standards are similar. With a marketing channel strategy point of view, the traditional marketing channel strategy would not always be accepted due to the increase of importance in the standard. The significance of the de facto standard is especially high for the global merchandise demanded commonly in the world. However, there are more cases that it is impossible for a single company to take the initiative. Depending on the alliance through its own core-competence open to the public and provided, it is necessary to structure a partner or a group with partners who can be on the same negotiation table and suppress the major markets of Japan, the United States and Europe.

The second field generating the accumulative effect is the network externality. The model cases can be seen in transportation and distribution industries including the communication, media, and airlines. The results of strategy that interlocks and covers the global market in communications, the media, and the air transportation industry which control the prosperity and decline of a company. The hardware and software industry in addition to “the international electronic commerce” and “the electronic money” industry structuring the platform of communications, the broadcasting, and the archive industry involved with information affect the multiplication accumulation effect by the accumulation of many elements. Moreover, many of the de facto standards intervene and the network externality functions by the competition between these standards. Therefore, it is difficult for the standard at an inferior position to turn the table to the standard at superior position.

The third field generated by the accumulative effect is a field for which the mechanism of the gradual increasing gain works, according to Arthur. It can be seen often in the knowledge-leading high-tech industry including the computer hardware and operating systems, aircraft, missile, communication, etc and it is beyond the de facto standard. According to Arthur, this mechanism is seen in the knowledge-intensive industry and it is difficult for the other companies to follow this company, which can shoulder the enormous research and development costs. And, once the user starts using a product, it is not easy to link up with the user's linkage and replace the product with another company's product since using the high-tech product requires a certain mastering procedure.

For such industries, the knowledge-leading economy using a smaller amount of material resources to produce a product by repositioning the knowledge and operated with the mechanism of a gradual increasing gain are necessary. The service industry based on software, another words the information industry, is also shifting in the world of gradual increasing gain. The financial institution, the air transportation, and the retail shop franchising are the typical types. In the field of the knowledge-intensive industry, the de facto standard, the network externality, and the mechanism of increasing return gain exist in complexity.

Dividing clearly between the businesses needs to be formed on a large scale and integrated perpendicularly and the business having the horizontal strategy specialized in a specific field based upon the economical efficiency in scale and the concentrated economical efficiency, and constructing the business strategy according to their characteristics. This strategy and its marketing channel differ by the business characteristic.

Chapter 5

Linkage of Relationship between Companies: Marketing and Management

1. Introduction
2. Developing of Company Linkage
3. Complex and Varied Relationships
4. Next Step for Japanese Companies
5. Ground Design of Business Strategic Alliance
6. Summary

1. Introduction

The particularity of marketing channel competition changed starting in recent years, as explained in the preceding chapter. Inter-linkage competition and the organizing of business linkages on a global scale based on American style de facto standardization became increasingly fierce. Organizing marketing channel and business strategic alliance to one's utmost advantage has become more and more vital.

In this way, we would like to look at the relations between companies networking, as well as the merging of linkages, and to also think about what type of activities businesses are pressured into because of these factors. Next section will review the company linkage.

2. Developing of Company Linkage

2.1 Intra-company Linkage

With end-users in the company having common use of information processing activity, the object of intra-company linkages is to coordinate everyday affairs better. With e-mail, information about consumers can be transmitted and processed in real-time. In addition, by mutual two-way communication between factories, it can control as a production device that unites multiple factories. Over all business competitiveness has come to rely on intra-company linkage development. Exclusive linkages designed for special needs in many companies, such as stock control and production, are becoming compatible, make a unified company linkage.

The majority of companies are coming closer to consumers in the character of business relations, while trying to reduce the causes of uncertainty as much as possible, the companies that are expanding globally are strengthening their flexibility towards market changes, auto industry is called lean production system. This has gained attention from not just the

United States and Europe, but from countries all over the world. The lean production system is well known as a production system that utilizes information communication systems in multi-type production, while at the same time achieving advances in labor productivity and quality, and also increasing international competitiveness.

One of the particularities in lean production system is computer-integrated manufacturing. The computer-integrated manufacturing is a system that, by using information techniques, quickly brings the flow of technical info and control info flow with material and parts flow into the same time interval. It also integrates activities including product development, parts supply, production process, and sales. Even if there is a change in the external atmosphere, therefore, they can deal flexibly with the situation, as well as bringing the nature of business connections closer.

2.2 Trans-linkage

The second type of linkage electronically connects business and parts suppliers, consumers and related businesses. It becomes possible to coordinate between the supplier and the consumer, based on a highly detailed data flow. The main is to improve the flexibility in handling demand changes, quality improvement, and the decrease of stock and delay. The household goods maker, Kao, has invested tremendous capital in its computer network since the sixties, and has completed an information network connecting factories, study facilities, sales companies, goods-flow origin points, salesmen, and retail stores. This has made it possible to deliver the products within twenty four hours from the order. The topic in the future is: how to make possible the construction of linkage where autonomous, dispersed processing becomes possible due to downsizing.

The direct merit of internet electronic data interchange is cost reduction and an increase in business speed, but the long term effect will bring about a qualitative change in the relationship between supplier, producer, and consumer. The marketing channel linkage is continuously deepening the mutual relationship between supply and demand. As a result, companies will be able to acquire the following effects. The first is Understand their needs. The second is Fine tuning of consumers needs and producer's ability. The third is Discovery of new market opportunities for sales and product development.

Moreover, when economic functions and market openings are added, and the marketing channel linkage becomes able to handle transactions, it

will become a highly practical market. In this case, standardization of the net becomes important. It is necessary to clearly establish a reliable, practical standard. This type of net alone will attract many users.

2.3 Inter-linkage between Companies

The third type, the business inter-linkage, is the traditional form of cooperative and joint ventures. One of the reasons the inter-linkage quickly developed was because of the need for strategic monitoring.

It is possible to be able to deal quickly with any changes that may occur, by monitoring the business environment, domestic and foreign. Businesses can monitor market trends without any large investment, by participating in capitals of various related industry types. If an important trend develops, and the effect starts to become apparent, then they can increase the degree of capital assets that they had used for monitoring to change from a “weakly connected union” to a “strongly connected union” by forming a consolidated company.

It has become difficult to survive the competition using the closed industry structure which has been the company concept up to now.

2.4 Meta-linkage

The fourth type objects to influence the external environments surrounding company activities of which lobbyist groups have been traditionally a part of. The development of internet shows that meta-linkages play an important role for the development and spread of technical standards and theories.

The above mentioned four linkage types all have different origins and purposes. The first two are centered on data control, while the last two are centered on strategic information and non-data forms.

Firstly, intra linkage and trans-linkages’ main object is to efficiently control the data flow. When intra linkages and trans-linkages are connected, a synergy of two types of linkages can be seen, and the line between external and internal company structure becomes blurred and a close relationship develops between the internal organization and the suppliers or consumers. Inter-linkages and meta-linkages are formed not for the aim of data flow, but for intelligence and strategic decisions. These two types

appear to be on a uniting trend. Internets and meta-linkages play the role of affecting the norm of game as well as the rules.

A mutual utilization is born between the combination of intra linkages and trans-linkages and the combination of inter-linkages and meta-linkages. The strategically combined inter-linkages and meta-linkages control the information flow which raises the level of dependence on intra linkages and trans-linkages for the purpose of standardization. By this process, the intra linkages and trans-linkages, whose main aim, in the beginning was data processing, becomes a foundation for the aim of business strategic alliance.

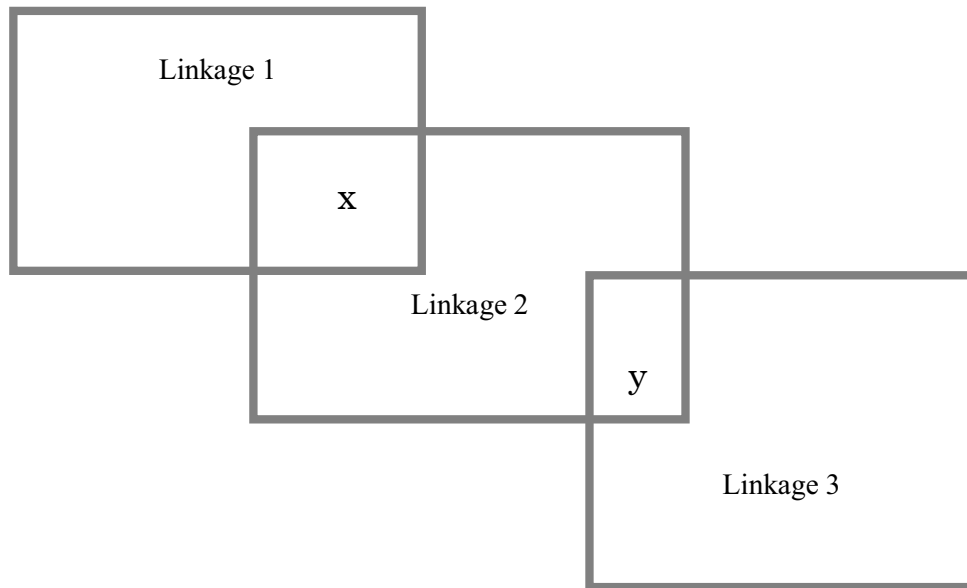
The result of matter, the development of not only the manufacture-to-distributor channel relationship but also as the networking of the market merges and develop, the character of the relationship becomes a vital factor for marketing activities. In conclusion, considering all of the dimensions related to supply and demand, businesses try to attain the strategic channel for organizing in such a way as to utilize that type of relationship for themselves. A love all the entire circulation system and marketing channel linkage becomes a strategic tool for increasing productivity.

Networking of business connections will increase, as the information network develops on a global scale, and marketing channel competition will become even more competitive. To deal with this, companies must actively participate in business strategic alliance in a strategic manner, actively participating in the advance of business strategic alliance on a global scale. , As mentioned before, what we have to pay attention to then is that there are many cases where information technology developed by the United States companies has become the de facto standard, and that the competition surrounding the organization of border area on a global scale, which revolves around the developments and intellectual rights of the United States businesses, has become fierce.

We can probably declare that the dominance of the United States companies will most likely increase, since they have the de facto standard, and because they also propel the organization of the linkages, in future marketing channel competition.

It is also thought that the complexity of linkages will increase in the future, however, and by overlapping participation in that kind of complex business strategic alliance, one can think of this as opening to many other possibilities. By overlapping participation in many business strategic alliances, businesses can strongly increase their own creativeness by organizing in such a way as to utilize imaginative space through changes in technical development and inter-linkage competition.

Figure 5-1 Linkage of Relationship between Organizations



Please refer to Figure 5-1. Company X and Company Y are both active in Linkage 2 (ex.: defined as a strategic venture related to software system). But at the same time, they are participating in Linkage 3 (ex.: defined as a strategic venture related to micro processing unit development) and Linkage 1 (ex.: defined as a strategic venture related to operation system). By participating in many linkages, these companies can exchange different elements (information). By accumulating this element (information) and merging and editing it, they are able to obtain more originality and creativeness. At the same time, by bringing information from other linkages into Linkage 2, X and Y exchange different information, and Linkage 2 then changes towards a new structure. The same phenomenon appears in other linkages.

This type of creativity can relate many unrelated things. It is also a special quality of that changes the style of relating itself. Any the relationship between companies can take different spheres and combine them into a whole in their own unique way. And individuality based on the style of relating various information attained from multiple spheres is revealed. If the information techniques are used efficiently and by changing

the style of relating, while relating assorted information, we can expand the relationship between companies creativity. It is this the relationship between company creativity that makes possible the display of high level judgment and communication ability, and this concept is also thought to be apply to companies as well.

Businesses will be able to structure in such a form as to take advantage of marketing channel competition as well as new forms of technical development, if these types of things become possible,.

3. Complex and Varied Channel Relationships

3.1 New Knowledge-Creation Channel

Japanese companies have been progressed with the distribution keiretsu until today. Such marketing channel generates the distributor without enough responsibility and authority, the wholesale distributor that can not be independent under strong control by manufactures, and the retail distributor of the manufacture business department. In order to request the high productivity for the goods in mass production and sale, this marketing channel was effective. By the point of view in distribution cost, the higher productivity and the cost reduction were achieved by keeping the resources inside the company under to adjust.

However, even basing on distribution keiretsu, the giant marketing channel does not always generate the higher competitive superiority.

For example, ICI divided the business into two companies with the new ICI handling the traditional bulk chemistry products and Zeneca specializing in the high valued medicine and life science chemistry products. Since the characteristics of both businesses are different in market and technology, it is difficult to manage both portfolios in a single company. Monsanto divided the company by the bulk chemistry product business and life science chemistry business as well.

In 3M, two different cultural labor methods coexist in the company. The engaging of employees in present owning product in normal business activities are permitted to use 15% of their business hours to their idea and

project. It is possible to challenge the new business development by having distribution of the resources based on their results although the risk is high. As for the entire company, many small-scaled business units are being structured and being in active and the company supports both sides of the present owning business and the entrepreneur activities. In an age that the knowledge pulls an innovation and the new knowledge-creation connects to the reformation, the distribution keiretsu does not always generate the superiority.

When the knowledge is connected to other knowledge, the multiple effects are displayed. Therefore, the knowledge begins the multiplication when it is open to the public. The interfaces of each other's products open to the public and combining each product idea to create an advanced system. While finding benefits in another company's product, the other company puts the benefit on one's company system. Each companies acting the role of a part in the value adding chain reaction resulting in the marketing channel value being formed.

It is well known that such a linkage is the active power of Silicon Valley. "All elements having part in the linkage including the employee, the contract employee, nonprofit organization and the company are independent and they are functioning and making their own decisions under each responsibility voluntarily to the end without being under compulsion in work".

The requirements in this environment are technical specialized knowledge, capital power, will, the directing sense in business, and mission oriented flat organization. Especially, on the point of marketing channel view, this Silicon Valley linkage is very important.

3.2 Silicon Valley: Company-to-Nonprofit Organization Relation

Professor W. F. Miller of Stanford University was also vice chairman of the Smart Valley, Inc., which was the core of Silicon Valley. At the same time, he was a director for the Silicon Valley Network and Commerce Net. He argues that the core of the information is the transition from one-way to interaction or from broadcasting to dialogue.

He says that the key to the future is various forms of partnership between multiple entities. Computer linkages make it possible to envision a future with diverse and individualized communications supported by such modes of communications, if we consider how to use open computer linkage.

Let me just briefly describe the Smart Valley at which Professor Miller was vice chairman. There was much economic activity going on in the Silicon Valley area with Stanford University at the geographical center at the beginning of the 1980's. However, economic vitality dwindled as time passed, and there emerged a sense of crisis that power would continue to dwindle as the practice of the area dropped because of growing competition from corporations overseas and other regions.

In 1992, then, the Joint Venture Silicon Valley was made start among the political, government, and private sectors. In 1993, an area activation plan was established which was called the “Blue Print for the 21st Century”. In this project, more than a thousand people voluntarily participated in 17 task forces, and 44 concepts were proposed. There were 13 ongoing projects on education, the environment, and so on.

One of the projects is the “Smart Valley Plan,” which was promoted by the Smart Valley Committee. Manned by personnel from the local government, universities, major local corporations, and the local community, Smart Valley Inc., the nonprofit organization operated from donations.

Although nonprofit organization does not have established definition, its most extended meaning is “a private organization that is systematically prohibited from distributing any profit outside the organization”. Nonprofit organization functions like corporations and its objective is not to make a profit but to pass it along to the society. It means the organization of social participation that started from the grass-roots activity. On the other hand, Non government organization is distinguished from government activities and refers to an activity organization of private and civil groups. The term “NGO” was originally designated in the Charter of the United Nations and was initially used in the field of the international cooperation. However, it is now not only used for the international activity groups but also for any organizations that aim to protect the global profit and common profit for all humanity in each region that go beyond the concepts of the “nation” or national profit”. The differences of them are: Nonprofit organization emphasizes on “nonprofit” and Non government organization, “nongovernmental”. The objects of the Smart Valley Plan were the following:

- (1) Bring local people together.
- (2) Promote business activities.
- (3) Enlarge employment.
- (4) Activate education.
- (5) Improve the cost and quality of medical care.

- (6) Improve resident services provided by local municipal and local government.

Major emphases had been fulfilled study and experiments on home medical care, remote education, and telecommuting (working at home.)

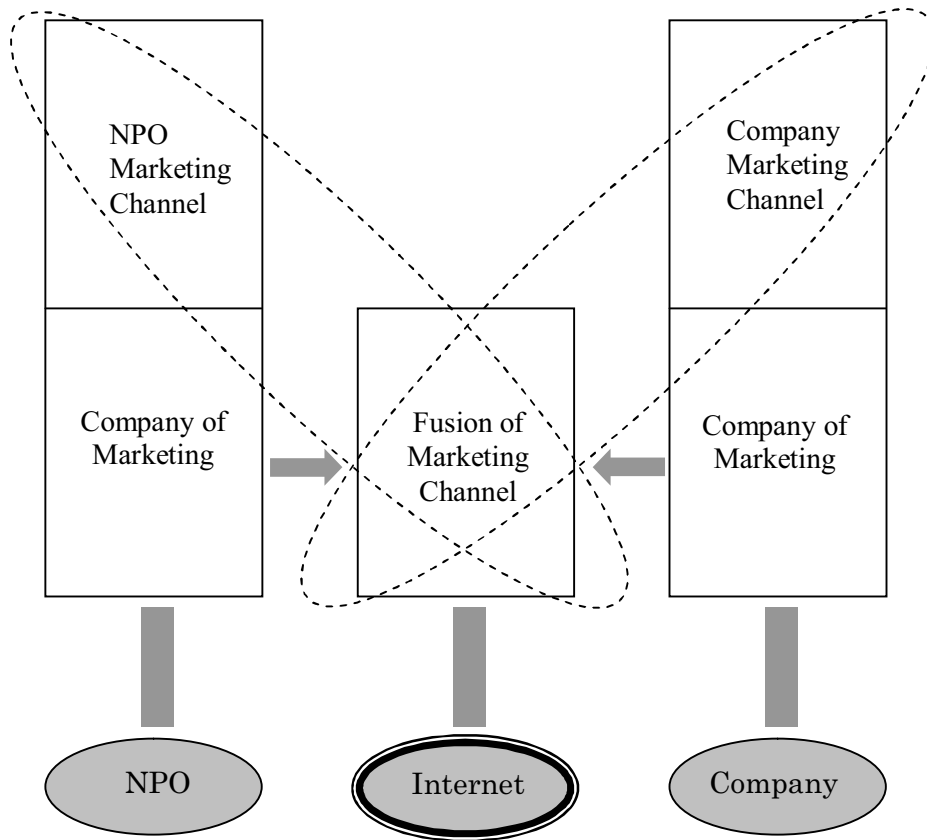
The principle of the plan was that “anybody can participate with a free spirit.” Anybody who pays \$25 can participate, and small-scale non-profit organizations participate free of charge. Also, under Item 3 of Part C of Article 501 of the Internal Revenue Act, this project receives favorable tax treatment, and it was supported by measures such as the tax-free practice of contributions and discounts on postal fees because of its non-profit practice.

The reason why the Smart Valley Plan was noteworthy was that it was a grass-roots local area activation theory in an advanced area with a concentration of advanced corporations. In addition, the spirit of social participation was high, and this was made possible by solidarity among a broad range of people from local governments, corporations, and universities. The plan supports a complex linkage which was very true to its meaning. Stanford University and the University of California at Berkeley form the nucleus for promoting the plan, and they play the role of promoting support for the plan among participating corporations, local governments, and communities. In concrete terms, Stanford University was, on the one hand, actively engaged in the component development of computers, and, on the other hand, Stanford is active in developing applications to relate computer science with management, economics, sociology, art, and the like. In other words, the characteristics of the university are such that it studies computer science, and, at the same time, scholars at the university think about welfare, the arts, and education along with local governments and communities, in the manner of an open university (Nonprofit organization).

We can see the dynamic nature of American society in the Silicon Valley. The Silicon Valley, the engine of the global, information revolution, is being reactivated by nonprofit organization. The efforts of the Smart Valley Inc. serve to form a collaborative relationship among local community, government, corporate, and academic resources. Under these efforts, nonprofit organization's act, and plans are advanced for an interactive and dialog type of relationship between organizations which was based on linkages (See Figure 5-2).

Three underlying contexts lay behind the background of restructuring nonprofit organization that has emerged.

Figure 5-2 Company and Nonprofit Organization



First of all, it is the development of the information technologies and its widespread use for the social and distribution purposes. It affects the changes and re-creations of the new “marketing channel.”

Particularly after 1993, the rapid spread of the Internet for the commercial use shook the traditional system over “marketing channel” and brought a new phase. It created new circumstances where the traditional framework is unable to accommodate issues. Under the circumstances, it is inevitable to study the business strategic alliance that requires basic discussion in order to consider a course of new marketing channel.

The second context is the social/commercial aspect recognized in the modern daily life, which is intertwining with the above background. The aspect has changes and re-creations of the system at various levels, which

are emerging as “marketing channel” issues. It is also creating circumstances with plans of the proposition to question whether a system can be established as well as the formulation of new “marketing channel”.

When considering the commercial situation of Japan, there are difficult issues. We will analyze the functions and concepts of the nonprofit organization from the aspect of the commercial territory in light of the above circumstances.

One thing that became evident through the lost decade of 1990's was that the nonprofit organization gained power and the new relationship between organizations started to take solid form. From the viewpoint of overcoming the systematical rigidity, the activities of the nonprofit organizations are drawing attention from many directions (after the second half of the 1990's).

This new relationship between organizations development first brought changes in the commercial territory. Although it may bring the informational, global commercial structure, the type of the relationship between organizations that reflects the commercial structure still remains unknown. However, it is certain that our relationship between organizations is commonly established by the flow that is exchanged through the linkage of the system. The linkage is considered to give the following two influences in the commercial territory.

First of all, as a result of the electronic cooperation through the collaborative work on the linkage, tangible/intangible fruits are created. The transfer of contracts and values, and the accumulation of assets are then executed via electronic method. In order for each commercial entity to execute the new form of commercial activity securely, the security of the reliability becomes essential.

Secondly, in the commercial territory with the advanced linkage, the real, organic, high-density digital information exchanges become possible and, above all, the globalization of the commercial activities makes rapid progress. Readiness for the commercial globalization becomes more urgent.

The significant trend of the world commercial in the past several years is due to the fact that the commercial transactions are developing to the global scale. It is needless to say that although the trade and the international capital shifts existed previously on a considerable scale, the globalization progress of late years has been remarkable.

The factors that brought the globalization are the cross-border marketing channel activities as a promoting entity and the innovation of the information and communications technology as a technology element. In other words, the dramatic progress of the Internet, expansion of the free trade, streamlined transportation, and diffusion of deregulation in

developed countries all contributed in making today's world commerce and particularly the commercial transactions between developed countries significantly seamless.

The international integration of the financial/capital markets is particularly remarkable and the international finance capital now races around the globe instantaneously. The multi nationalization of corporations is also increasing more than ever before. We may as well say that the world is entering the full-scale global economy or the next phase of the information economy.

The "Mere shell of border" in the commercial activities is making various impacts on the world economy. The external imbalance of each country has expanded more than ever before and the sharp fluctuation in the exchange rate is giving serious influence on the economy of each country.

Once the financial/capital market was improved, the profit could be made in other ways other than selling products. Today's way to make profit is to issue securities and certificates and the fund procurement is becoming mere "money game". Companies themselves have become trading objects and the partition or merger as business units have already begun. With the acquisition called "mergers and acquisitions", the value of object economy is relatively depreciating in comparison with the money economy. Many countries are concerned about sanctions from the markets and avoid policies that investors disfavor. In order to promote the growth of domestic economy, employment generation and technology transfer, the nation become "Welcome State" to attract direct investments from overseas. They are also allowing the competition to reduce the economic standard in order to accommodate the requests from the companies. The free-trade zones that favor foreign companies are such examples. They give favorable treatment to foreign companies by not applying the existing regulations or taxation systems.

4. Next Step for Japanese Companies

4.1 Structure of Marketing Channel

If the rising commercial field has the same nature as stated above, it is necessary to consider various aspects of marketing channel and its structure.

Under these circumstances, the linkage structure makes the trading cost reduction possible and this structure can be the superior marketing channel structure.

In Japanese automobile industry, the manufactures and the distributor earning a high efficiency by each investing in a specific resource should be understood within this same explanation. This does not respond with the traditional trading cost theory that if one specifying in dealing with the intrinsic investment, the trade cost increases. The survey result comparing Toyota, Nissan, General Motor, Ford and Chrysler shows that the trading cost is lower in Japanese manufactures although the intrinsic investment is higher for the trade.

There are five possible reasons as follows. The repeated and continuous trade between a small number of distributors, the economical efficiency in scale and range function due to this situation, the long-term trade based on each other's mutual reliance but not based on the information sharing or the contract, and both manufactures and distributors are investing in a specific resource.

The business strategic alliance structure has a problem that it does not exist in the perpendicular integrated structure on the other hand. The typical problems are the next three items:

- (1) By transferring their own technology and knowledge to outside the company, the competition becomes strong.
- (2) Each main frame structuring the business strategic alliance an easily be unclear in the object and goal of the entire linkage since their own purposes and goals are taking priority.
- (3) According to the ability and role of the main frame, the information flow can be non-symmetry and the linkage becomes unstable.

As the networking of the company progresses and commercial activity is formed on the Internet, currently, people are envisioning knowledge-intensive industry like International electronic commerce all around the

globe.

In these circumstances, one of the strategic marketing goal at Japanese companies especially in the industry is to construct the marketing channel integrating inside and outside of one's companies in domestic and overseas, to create the knowledge by people in all parts of the world, and to build marketing generating new benefits by transferring this knowledge creation.

Therefore, it must have the ground design for the business strategic alliance and the merger and acquisitions and the executing ability. The products created on the new stage in the global market are not many in Japanese industry of today. There are more devices supported by the production technology and the modified products under the concept generated by the United States companies. It is making the United States companies stronger as the result. Take consideration of the next step for Japanese companies in the following sections.

4.2 Slough of Distribution Keiretsu

The marketing channel of Japanese companies is immature and it has been pointed out from before that there are many problems.

First, overseas' distributors are positioned as only the extension of the manufacture. Therefore, the new knowledge is developed at the manufacture and transferring to their distributors and there is a small amount of knowledge transferred between the distributors being active. A part of distributors are having the function of design modification and product development for the domestic market at the local but it is not reaching the level of dividing the role and function in the marketing channel strategy of the entire company.

Secondly, the company is performing a strong centralized power management with Japanese manufactures at the top. Since a large number of distributors are developed in a country for the developed countries in addition to positioning as the extension of a manufacture, the regional strategy integrating the distributors is weak. Therefore, there are many cases that the area generalization manufactures do not have the line function and this tendency can be seen frequently in the United States.

There are several reasons for the basis of such marketing channel in Japanese manufacturing industry. The first reason is that the marketing channel system which Japanese manufacturing industry is strong developed at the manufactures and it needs to be transferred and the efficiency of the entire company has been pursuing. The second reason is that as Uehara

(1997) has pointed out, the marketing system is not well functioned since the management is performed by focusing mainly on the coordination of the inside the organization. The third reason is that their distribution keiretsu principles are strong and it is integrated with the manufactures power orientation. According to the profile on global marketing presented by Heenan et al. (1979), there are many companies which standstill at domestic oriented step corresponding to the initial step.

Bartlett et al. (1989) categorized the traditional global marketing into three types of multinational, global and international. They have pointed out that Japanese companies are more likely to be categorized in the international companies controlling the subsidiaries to adopt the knowledge and ability of the manufactures by centralizing the decision-making authority of the strategy and management to its manufactures.

4.3 Change of Manufacture-to-Distributor Channel Relationship

The first thing to be required is the establishment of mind and system to make possible for the distributors to have the authority-decentralized management and then transfer the authority on the information loop (See Figure 5-3).

The marketing channel for that reason should be structured with the organization structure, the system for decision making and the executing and controlling, and the system of the man-power development, position and treatment for the employees. As the premise, thorough going the management philosophy to the employees in the distributors that make them jointly shared.

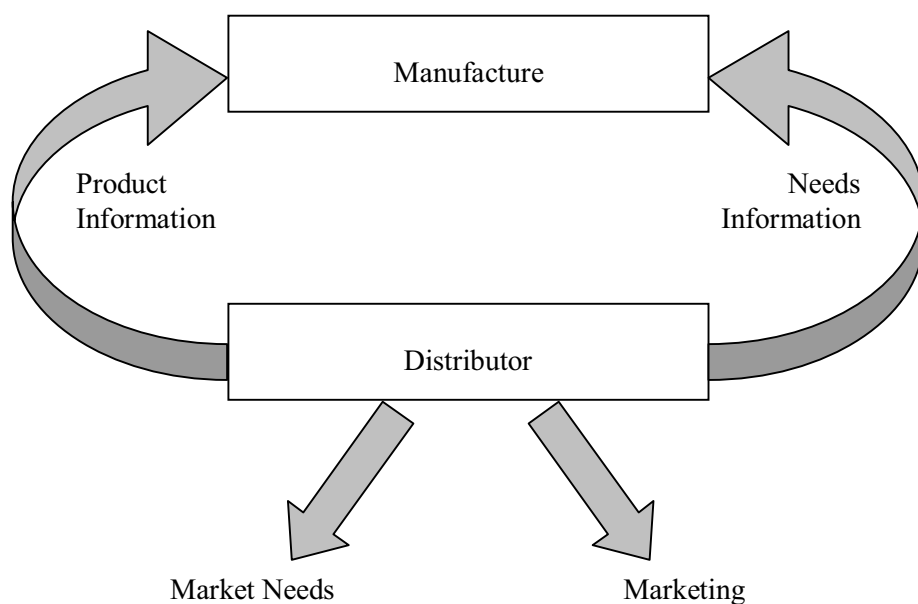
The basic of the marketing channel structure is the manufactures and distributors. The role of each distributor should be clarified and the responsibility and authority of each should be clarified under the authority decentralization. In order to integrate the manufactures and the distributors as the organic linkage structure, the basic marketing channel strategy of each with long-term vision must be established. This must be integrated over an entire marketing channel, the management plan for the adjustment must be drafted, and the execution and control system must be prepared.

Since the marketing channel structure is not the Silicon Valley style structure with free participation and leave, the integration system must be well functioned. The system concerning the people is not well prepared. The ground rules for the treatment of employees at the manufactures and distributors, which execute and control the daily decision-making, are

important. About the thinking of work force development and positioning, the ground rules standing point of view in global and informatization are necessary.

The degree of knowledge-creation ability at the distributors depends upon the strategic reforming power in the entire marketing channel. The Higher the distributors become in skill level, the more knowledge will be transferred between Japanese manufactures and distributors and between the distributors and each other. It will result in generating a high superiority in the marketing channel growth. Today's Japanese companies and distributors are not reaching this point. With the prediction of the future that the technology transfer from the manufactures would be progressed through the four steps, there is a survey made on the situation of Japanese automobile components distributors. The result shows that the first and the second step of initial stage are cleared. For the third step of the authority to improve the product and production facility by the distributor's employees based on the technology transfer from manufactures and part of the fourth step concerning the initiative by the distributor's employees are pointed out to be progressing clearly. However, it also pointed out that more time would be necessary for the third step reaching a high level.

Figure 5-3 Information Loop



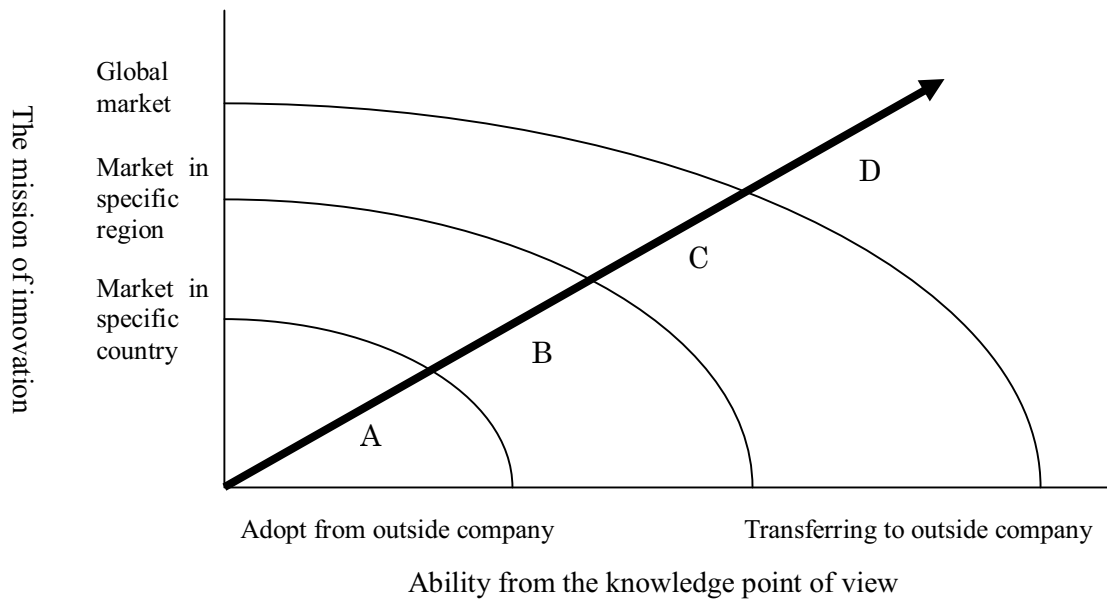
In order for the distributors creating the knowledge individually, the continuous technical transfer from the manufactures and the effort to establish company, human resources for the adoption and the work force development, and the authority decentralization to the distributor's and enough resources are necessary. The parent company must always continuously develop the advanced technology than the subsidiaries. Both parent company and subsidiaries are necessary to have the core ability according to each role. For the core ability, there are many discussions to be made but the common points are that it can not be traded easily on the market, it is hard to imitate, it has the specialized characteristics by the company, it is accumulated by long-term and continuous study, it is a path dependent, and it is the mass of stacked knowledge instead of the individual technology or skill. Regarding with the transfer of the core ability between the manufacture and distributors, the marketing channel has to be forwarded to the future study. However, the ability with a higher path dependency makes more creation and it has to be made by the manufactures and distributors respectively.

4.4 Role of Distributor

Each overseas distributor has to have the role according to its environment and accumulated knowledge and has to be positioned correctly. Figure 5-4 indicates one of these types. The vertical line indicates the point of view for which a specific market of a country or region including global, the United States, and Europe. The company should aim for the mission to develop new knowledge at the beginning of product development stage. Another word, the horizontal line indicates the degree of strategic independence necessary for the mission whether a subsidiary with enough necessary knowledge for the mission should transfer to the manufactures and other distributor should make the adoption for the knowledge from manufactures and/or the other distributor.

The More the distributor increase the ability of knowledge creation, there will be more mission from A for the local market to D with responsibility in global market via B and C.

Figure 5-4 Mission and Ability of Distributor



Source: Oheki (2000) "International Networking of Enterprises in the Information Economy: Next Step for Japanese Enterprise", *The Institute of Socio-Information and Communication Studies*, The University of Tokyo, Vol.5, p32.

However, the process does not progress in a short period and it should be considered as long-term. The process accumulating the ability of the innovation to the global market should be competed aggressively for the advancement of technology and cost between the manufactures and distributors among the marketing channel. The one overcoming this competition can make the mission for the global market. The defeated distributors in this competition have no choice but returning its practice only for the local market and reduce the resources as well. Such competition among the marketing channel will increase the technology and the cost competition power of the distributor and accomplish the superiority of the marketing channel.

Gupta et al. (1991) adapted knowledge and categorized the distributors into the next four categories from the provided point of view:

- Global innovators who can develop knowledge and strategy in one's company independence and execute them.

- Integrated players who can create knowledge and provide it to the other distributors while taking in knowledge from the manufactures and the other distributors.
- Implements who takes in knowledge from outside the company and executes the strategy. A majority of the distributors in Japanese companies fit in this category at present.
- Local innovators who create the knowledge within themselves and execute the strategy but it is difficult for the other companies to share the knowledge.

Partlet et al. categorized the overseas distributors into the following four marketing channel by its role.

- (1) The strategic captain at the market important for the strategy and becomes partner to the manufactures.
- (2) The contributing distributors without being important for the strategy at the local market but contribute its manufactures with its important facility and high knowledge.
- (3) The executor without being important for the strategy but has the role to maintain the business on the market.
- (4) The black hole without having any important ability for the strategy.

Birkinshaw (1997) said that if you look carefully to the innovation, the role and activity of the distributors is more complex and the vision for the distributor's role by Partlet et al. is insufficient. He showed the multinational company from the actual conditions in Canada of the United States companies that there are four initiatives for innovation to exist. Furthermore, he indicated that there are dynamic activities existing including the internal competition with the parent company and the other distributors and the initiative which the distributors takes the global strategy from the manufactures in advance in addition to the initiative for the local and global market. In order to do that, the distributors have to have the high level resources and it is very important for the distributors to earn the trust from the parent company. When Japanese manufactures and the distributors as one group use and interlock the knowledge in all parts of the world and think about the mission of Japanese companies to feedback the results to the global market, first, the company has to forget the consciousness of the domestic centralization and start from all the people involved in the company to have the consciousness of considering the local distributors as the base of knowledge creation.

5 Ground Design of Business Strategic Alliance

The global business strategic alliance and the mergers and acquisitions for Japanese companies does not look good in its expandability, the impact of the global competition, the object, the captainship comparing to the United States companies. It can be commonly said to many industries. Many problems exist including the management improving the efficiency, the insufficient strategy, and the national characters of domestic intention.

The first emergency requirement is to make the strategic position clear and to establish the basic strategies including the internal strategy, the business strategic alliance, and the business strategic alliance strategy. The basics are to throw away the traditional idea of positioning the alliance in which makes internalization of the necessary resources and modify, and to convert the consciousness to consider the importance in the role of the knowledge creation with “the business strategic alliance”.

The wave of the global business strategic alliance is not being seen frequently only in the airlines, the defense and the space industry. Even in the chemical and medicine industry, the oligopoly in the business restructure by the boarder less business strategic alliance is progressing. Japanese companies can not only sit and watch.

The second strategy is to incorporate the distributors to the linkage of business strategic alliance and unify the resources and knowledge creating power of inside and outside of the marketing channel structured by Japanese manufactures and distributors. As the vision of Partlet et al., today’s multinational companies is transferring itself to the marketing channel structure formed by the manufactures and distributors. The manufactures are the main frame of global business strategic alliance formed by the multinational companies of today. However, if an overseas distributor starts earning the full resources and high skill, the other distributors become the captains in the global business strategic alliance naturally.

6. Summary

The marketing channel of the developed countries is in the midst of extremely multifaceted, complex changes such as the rapid informatization, the globalization and the softening of the economy. As mutual recognition, we can understand that the structure of the business strategic alliance is changing in some form. At the same time, the viewpoint of positioning the “marketing channel” restructuring in the center of the changes becomes essential as we recognize the remarkable rise of the “business strategic alliance” since the second half of the 1990’s.

The business strategic alliance of the new marketing channel activity appeared in the end of the 1990’s. It is a complex alliance relationship, although it is a gentle relationship unlike the mergers and acquisitions overwhelmed in 1990’s. In 2000’s, according to the environment change including rapid progress in information technology innovation, time limitation for the new product development, and financial affairs limitation, the business strategic alliance will be signed more than ever before and they will be set up like lattice-like linkage. Because the business strategic alliance has a strong relationship with equality and independence in foundation, it includes instability. However, because the relationship is unstable in an alliance, the active action effect arises to make each other study and transfer their knowledge. The importance of the business strategic alliance is due to the amount of knowledge they can absorb.

When considering the future direction of Japanese companies in the marketing channel, the establishment and execution of the internal strategy unified by the manufactures and the distributors, the business strategic alliance, and the mergers and acquisitions strategy based on a clear strategic position are the most urgent requirements. With the business strategic alliance, companies are converting their activities from competition to cooperation and are sharing each other's resources to use sufficiently. Companies are structuring a global scale of competition and cooperation in multi-layered complexities and they will continuously grow while easing their boarder line.

Chapter 6

Theoretical Perspective to Business Strategic Management Analysis

1. Introduction
2. Discussions on Business Strategic Alliance in Japan
3. Discussions on Business Strategic Alliance in the U.S.
4. Analytic Perspectives of Business Strategic Alliance
5. Difficulty of Transition from Distribution Keiretsu to Business Strategic Alliance
6. Promotion of Innovation and Development of Strategic Management System
7. Strategic Management between Company and Nonprofit Organization: Management of Innovations
8. Establishment of Management to Control the Power Game
9. Instability of Business Strategic Alliance
10. Management of Business Strategic Alliance

1. Introduction

Over the last decade or so there have been dramatic changes in the technologies employed for the distribution of information. As mentioned before, Internets have been introduced in a wide range of situation, from factories to companies to homes.

The actual circumstance and change of the manufactures' marketing channel has been reviewed from Chapter 3 to Chapter 5. The major Japanese manufactures integrated marketing channels as they modified or, in some cases, improved their traditional marketing channel strategy. This is seen that their intention was to change the marketing channel strategy basically. Due to the underdeveloped environment conditions and rigidities within the companies, however, they could not change their marketing channel strategy or complete the change despite their effort. As they faced these challenges, they started to build a new manufacture-to-distributor channel relationship, which was business strategic alliance led.

The purpose of Part 6 will be the study on the business strategic alliance. Above all, theoretical framework to analyze the business strategic alliance will be proposed in Chapter 6.

To begin with, the concepts of business strategic alliance will be organized first. Next, the problems of business strategic alliance are presented as we look at late discussions on the business strategic alliance. Finally, then theoretical perspective to analyze the business strategic alliance will be addressed.

The fundamental approach to analyze the business strategic alliance will be clarified next through late discussions on the business marketing channel. In Japan, theoretical development will be examined first.

2. Discussions on Business Strategic Alliance in Japan

In Japan, discussions on the business strategic alliance are different from those of the United States because few of them are based on a specific theory and approach. Thus, supplementing one theory with another was not considered a normal perspective. Although this method does not offer a consistent system, it has an advantage of maintaining flexibility because it is free from restrictions of specific perspectives. Without regard for any approaches, the vector of discussions will be examined next.

2.1 Problem of Transition Difficulty

While some simply acknowledged the trend of transition from the market transaction or hostile relationship to the business strategic alliance, Takashima (1996) looked at a problem of transition difficulty. He regarded that the manufacture-retail distributor alliance was the combination of manufacture-retail distributor integration and business strategic alliance. Then he notice three obstacles that could be found during the transition from the manufacture-retail distributors integration to the manufacture-retail distributors alliance. He identified the obstacles as possible non-fulfillment of expected roles by other parties, obsession with the market transaction, and uncertain result from the transition. He represented that managerial ability to establish business strategic alliance was critical to overcome these obstacles.

Contrary to the past discussions on the business strategic alliance that emphasized the backgrounds of transition and profit as a promoting factor of the transition, he highlighted the obstacles to the transition and offered an important role to the manager's individual ability to get over the obstacles.

2.2 Theory and Practice

By analyzing business strategic alliance practice, there were several attempts to theorize the developing business strategic alliance. Watanabe

(1997) used examples of advanced business strategic alliance in the United States with special address Wal-Mart and P&G, and analyzed their problems. He raised the following issues from the analysis.

- Background of relationship change from conflict to collaboration.
- Development of power game.
- Shift from the first phase (joint establishment of efficient logistic system and review of trade practice) to the second phase. (collaborative marketing activity including product development)
- Conflict of versatility and individuality of the collaborative marketing activity caused by the shift.
- Profit source resulted from the alliance.

The features of his discussion were the emphasis on the instability of business strategic alliances and power game development while pursuing the latest business strategic alliance. Another characteristic was his attention to theory of commercial economy. More specifically, Watanabe raised an issue of changing social character of merchants who aspired for a specific relationship with a specific producer.

In Japan, Kawabe (2003) theorized the business strategic alliance by closely analyzing the examples of advanced business strategic alliances. He analyzed the development of business strategic alliance of convenience stores with a main concentrate on Seven-Eleven Japan. Kawabe stressed the following principal issues.

- Knowledge management.
- Definition of business strategic alliance that emphasized strategic management-building.
- Distinction between functional business strategic alliance and comprehensive business strategic alliance.
- Aspect of creativity (manufacture's limited but specialized information and retail distributor's insufficient but diverse information).
- Business strategic alliance as a plus-sum game.

He gets over the problems of traditional marketing channel theory that were pointed out in Chapter 2, but did not pay much attention to the connection with the traditional marketing channel theory.

2.3 Power Management Resource and Changing Marketing Channel

Tamura (1996), who considered that the second period of distribution restructuring was currently in progress, emphasized the effect of changing distribution channel on the power management resource. He claimed that a new theory framework would be necessary because the transaction cost theory or channel power theory could not perspective to the essence of manufacture-retail distributor alliance. The backgrounds that developed the manufacture-retail distributor alliance were the omission of intermediate stock and the functional integration of distribution and production as the distribution channel changed during the second period of distribution restructuring. The period started in the late 1980's when the sharing of chain function by the traditional wholesale distributors became impossible because of the generalization of multi-product retailing and the advancement of chain operations.

Tamura (1996) considered the manufacture-retail distributors alliance as supplement of unique information-processing ability of manufactures and distributors. Specifically, the information-processing of distributors, which consists of specialized purchasing knowledge and knowledge to select products, is empirical, practical, efficient, and short-term. On the other hand, the information-processing ability of manufactures, which consists of technical knowledge and specialized consuming knowledge on specific categories, is hypothetical, creative, effective and long-term. A synergistic effect is generated when these information-processing abilities supplement each other.

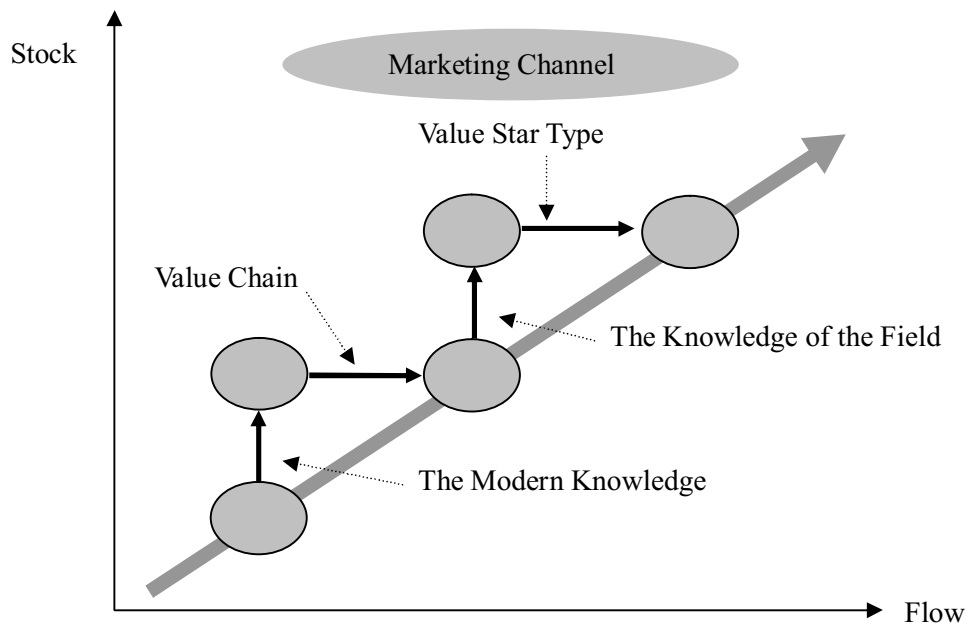
Based on these ideas, Tamura (1996) presented a theory of manufacture-to-distributor channel relationship which was established by allowing the distribution channel to impact the exercise of power management resource by the manufactures and distributors. The characteristics of his discussion were the clarification of connection with the existing theories, distinction of information-processing ability of the manufactures and distributors, and emphasis on the changing distribution channel as an effect factor. Tamura did not establish a new framework beyond the channel power theory; instead, the discussion resulted in reinforcing theory.

2.4 Collaboration Marketing

Theory of collaboration marketing does not limit the subject to the distribution business strategic alliance, but provides a clue to reveal its attributes. Oheki (2004) (2006) indicated that the marketing channel was changing from value chain to value star type as the “knowledge” was shifting from the modern knowledge to the knowledge of the field (See Figure 6-1). In the knowledge of the field, the real activities must be created through collaborations instead of hypothesizing concluded or given conditions.

Oheki (2004) (2006) insisted that unpredictability and creativity were the values of collaborations. The collaborative business system has become important because there is increased understanding that innovations bring profit source and the product concept has become the concentrate of competition. Oheki’s concept was unique because Oheki (2004) (2006) considered unilateral control to be uncreative and conceptualized interactions as the alternative concept.

Figure 6-1 Collaboration Marketing



Source: Modified Version of Oheki (2004), *Competition and Cooperation*, Gakubunsha, p.138.

Oheki (2004) (2006) confirmed that the background of collaboration marketing emergence was the collapse of manufactures' power marketing because homogeneous consumption life stage has been closed. Oheki (2004) (2006) added that the collaboration marketing became important as an alternative control mechanism. The characteristic of the collaboration marketing is its emphasis on the equality in communication between companies and consumers. This concept differs significantly from the conventional teleological perspective, which perceives companies as speakers and consumers as listeners.

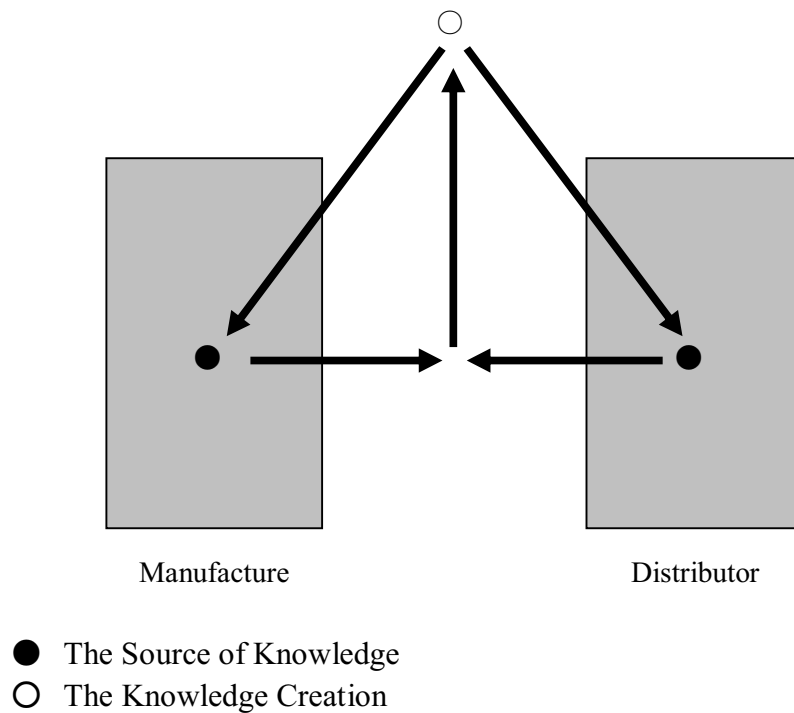
2.5 Knowledge Creation

Aoki (2001) proposed an idea of "accumulation of relational skill", which assessed the learning effect in the long-term corporate relationship. According to him, the relational skill has a multilayered structure with a surface layer where the skill is accumulated thorough "learning from practice" and a base layer where the skill is formed though the investment on the general technological skill in the transaction relationship with specific clients. The evolution of both layers is achieved in the long-term inter-business relationship to accumulate further skills. Aoki's concept did not limit to the manufacture-to-distributor channel relationship.

Nonaka and Takeuchi (1995), Nonaka (1991) conducted early study on business strategic alliance from the perspective of knowledge creation and applied it to the business strategic alliance (See Figure 6-2). His study target was not limited to the manufacture-to-distributor relationship. Nonaka and Takeuchi's concept did not limit to the manufacture-to-distributor relationship, either. For example, relation between company and nonprofit organization is the one of various relationships.

Kimu (1999) assumed business strategic alliance between manufactures and examined the incentive for business strategic alliance from the viewpoint of organizational learning based on the logic of evolution. With the emphasis on the innovative corporate activities, he stressed that the organizational learning from external source though business strategic alliance was necessary because the innovative activities were subject to the path dependency.

Figure 6-2 Knowledge Creation



Source: Modified Version of Nonaka (1991), "Strategic Alliance", Business Review, Vol.38, No.4, p.7.

2.6 Summary: Business Strategic Alliance in Japan

There are four important points found in the discussions on the distributive business strategic alliance in Japan.

- Uncertain stability and success after the establishment of business strategic alliance: It is necessary to find out the source of this instability.
- Takashima regarding the obstacles to the business strategic alliance development: The obstacles were due to the underdeveloped environmental conditions of the manufacture-distributor alliance and also a player's strategic decision making after the conditions have developed.

- Equality and interactivity in communication: As the concept of Oheki's collaboration marketing pointed out, interactivity and equality in communication as a method of knowledge/information acquisition and creation is essential.
- The concept to regard the business strategic alliance as a method of knowledge/information acquisition and creation to build innovations: Oheki (2004) (2006) and Tamura (1996), Watanabe (1997), particularly emphasized this concept.

3. Discussions on Business Strategic Alliance in the U.S.

For decades, business strategic alliances have been the subject of rich theoretical and empirical study by various disciplines in the United States. Especially, channel relationship has drawn a lot of academic interest since the 1990's in particular journal subjects such as the *Academy of Management Journal* (1997) or the *Journal of Applied Behavioral Science* (1991). The intellect (Osborn and Hagedoorn, 1997; Gray and Wood, 1991; Oliver, 1990; Galaskiewicz, 1985) who have, interestingly, provided remarkable papers in this area concur that none of the multiple, existing discipline-based theories properly elucidate how they develop and operate or why marketing channels arise, over the years.

The essential theories have tended to concentrate on explaining the motives for business strategic alliances and on their ongoing dynamics. As explained in preceding section, these theories include efficiency (Williamson, 1975, 1985). The other theories include management resource dependence (Pfeffer & Salancik, 1978), legitimization (Galaskiewicz), corporate social performance and strategic partnership (Burke, 1999; Gray & Wood, 1991; Kanter, 1994), and social exchange (Oliver).

To discussing marketing channel further, the business strategic alliance is interpreted from the standpoint of learning system perspective, transaction cost perspective, and strategic collaboration continuum perspective.

3.1 Learning System Perspective

To address the learning aspect is one perspective to the business strategic alliance (See Figure 6-3). This theory was often adapted for horizontal alliances or particularly international alliances between major manufactures; because these manufactures, who engage in fierce competition in the global market, are not usually dependent on each other like the manufacture-to-distributor channel relationship. Generally, they desire to establish business strategic alliance to learn technology know-how from other companies. In addition to the learning of technology know-how, understanding the overall business strategic alliance from the viewpoint of learning is beneficial and, moreover, it meets the current trend (See Figure 6-4).

Figure 6-3 Learning System

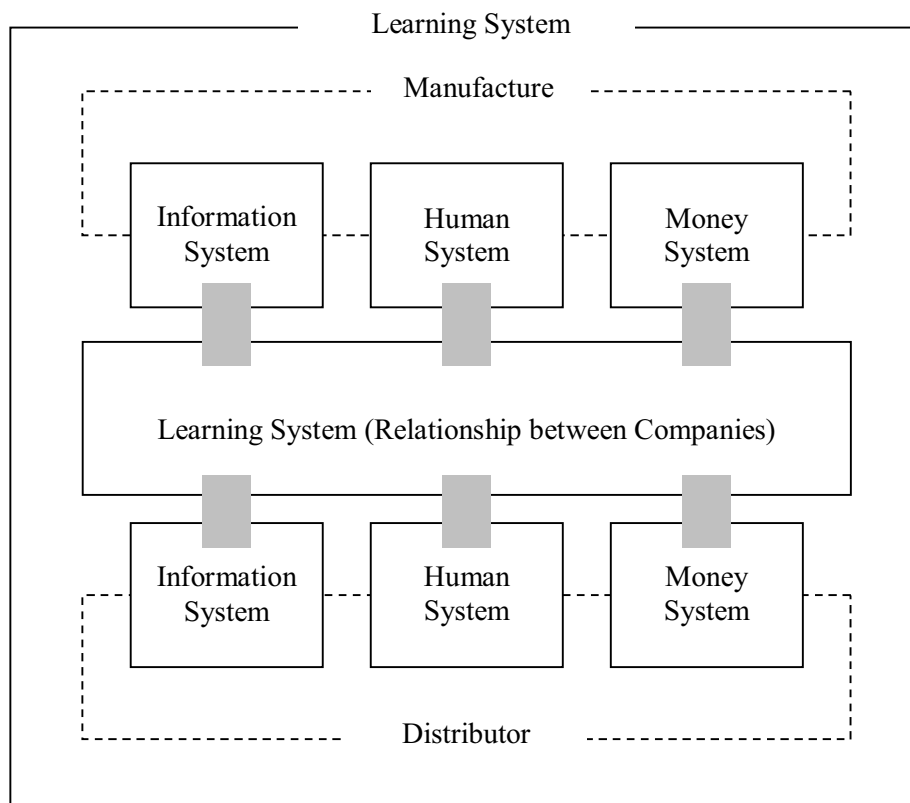
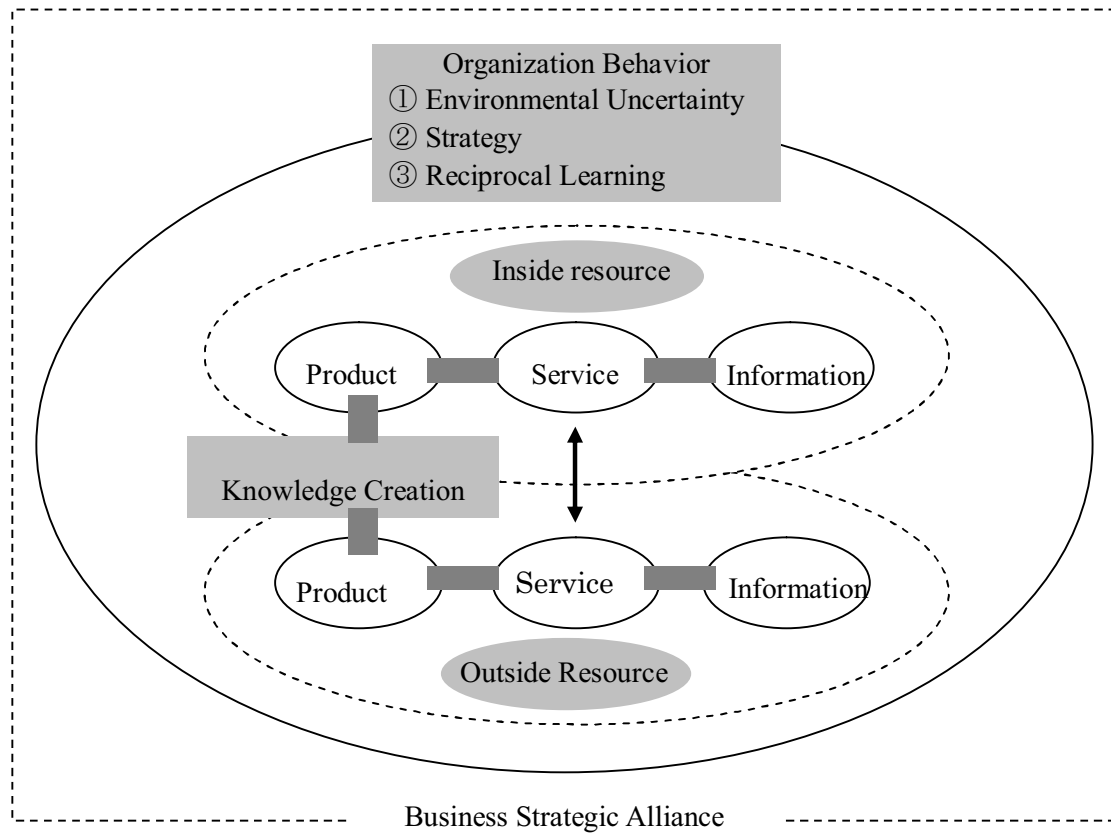


Figure 6-4 Learning and Knowledge

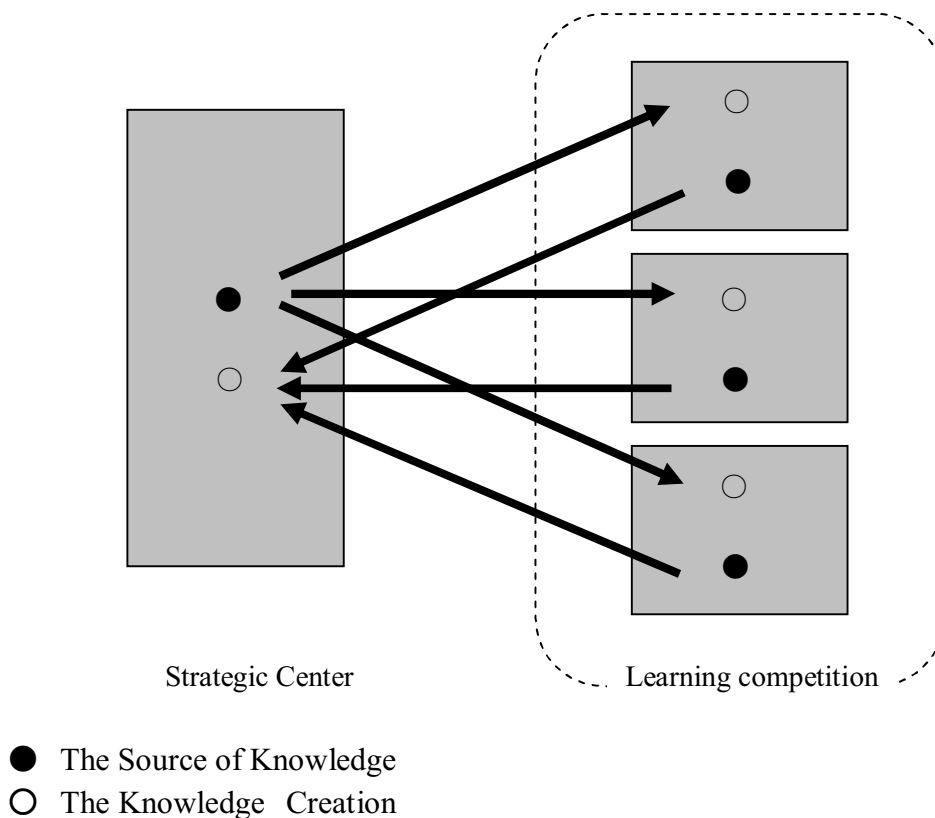


Hamel and Doz (1998) was an indicator of such study. The basic concept of Hamel and Doz (1998) is in the title and sub-title “Alliance Advantage: The Art of Creating Value through Partnering”. Throughout Hamel and Doz (1998), it is expounded upon, explained in vivid terms, with abundant examples and quotable catchphrases. Business strategic alliance is concerned with the question of how a company can gain advantage over its competitors.

He considered that each company developed and possessed its own core competence but asked other companies to provide other competence that would support it. He claimed the importance of “chain of knowledge” by the business strategic alliance, which offered three advantages of learning special competence from other companies, integration of each company’s special competence, and benefits from supporting other companies on building the competence.

Lorenzoni and Baden-fuller (1995) claimed that strategic center of linkage, or central companies positioned their partners as innovators and that they needed to establish a system to transfer their knowledge to their partners because their important role was to develop their competence. Although the identification of growth opportunity could be facilitated by sharing information between partners, it would be difficult to respond to every opportunity. Therefore, Lorenzoni and Baden-fuller recommended asking for help from partners instead of trying on your own. They added that since innovations were often necessary to respond to the growth opportunity, the central companies introduced “learning race” to their partners. They also pointed out that it was important for the central companies to support their partners with learning and allow “learning competition” between them for the innovative response to the growth opportunity (See Figure 6-5).

Figure 6-5 Concept of Learning Competition



Osland and Yaprak (1995) supported Webster's theory, where the role of marketing channel was considered to have developed enough to determine the time and method to establish business strategic alliance in order to improve competence. Then, as objectives of the business strategic alliance, he suggested learning in addition to efficiency improvement and acquisition of market power. Osland and Yaprak (1995) considered that inter partner learning aimed at improving competence that would help develop innovations on products, process, and marketing. They pointed out imitation, incorporation, and synergism as processes to improve competence. They also noted that organizational culture such as environmental uncertainty, strategy (as a prospector or analyzer), and learning behavior were factors that might accelerate such learning.

3.2 Transaction Cost Perspective

To address the transaction cost aspect is another perspective to the business strategic alliance. As earlier study, on discussing the business strategic alliance in the United States, the business strategic alliance is interpreted from the two standpoints. To address the transaction cost aspect is another perspective to the business strategic alliance. The transaction cost perspective was often combined with other approaches.

Specifically, relational contract theory advocated by Macneil (1978) was emphasized frequently. Since this theory has been incorporated in the transaction cost theory, it will be included in the transaction cost perspective.

Early in transaction cost study, Day and Klein (1987) address the relationship. They analyzed transaction cost on business strategic alliance actions and the influence of the competitive strategy in the vertical market. They claimed that companies take cooperative actions in the vertical relationship because they increased transaction cost due to market failure and they desired to gain a competitive advantage from the strategic perspective. These factors were considered to complement each other and deal with precondition of the business strategic alliance and incentives for it.

Dwyer, Schurr and Oh (1987) relied on the relational contract theory by Macneil. They advocated discrete exchange that was equivalent to the market transaction and relational exchange as the opposite concept. The relational exchange was interpreted in the light of past and future of the transactions. Future cooperation is supported by clear assumption, trust

and planning in the relational exchange. Dwyer, Schurr and Oh (1987) differentiated the discrete and relational exchanges using the following twelve criteria: time, number of participants, obligation, expectation for the relationship, personal relationship, collective responsibility for the contract, possibility of transfer, cooperativeness, planning, measurement and specification, power, and division of benefit and burden. The first four criteria were considered as practice and the rest were process of the exchange. Dwyer, Schurr and Oh estimated the benefit and cost of relational exchange was estimated and presented a five-level theory of relationship-building.

In answer to these discussions, Frazier, Spekman and O'Neil (1988) conceptualized "KANBAN" system as a new model of relational exchange. In KANBAN system, manufactures make and distribute necessary amount of necessary products when needed. As compared to the market transaction and relational exchange, Frazier, Spekman and O'Neil (1988) listed the following eleven criteria that characterized the KANBAN system: time period, exchange subject, number of inter-organizational linkages, frequency of communication, characteristics of exchanged information, frequency of distribution, number of suppliers, transaction cost, specific investment, functional interdependence, risk level, and willingness to solve problems between companies. These criteria were examined to extract the most appropriate condition as well as the most influential key factor for the KANBAN system. Frazier, Spekman and O'Neil (1988) considered that a relational exchange theory and the transaction cost perspective developed theoretical analysis framework. They both addressed the characteristics and the prerequisite of the business strategic alliance as well as the management method of business strategic alliance in an indirect manner.

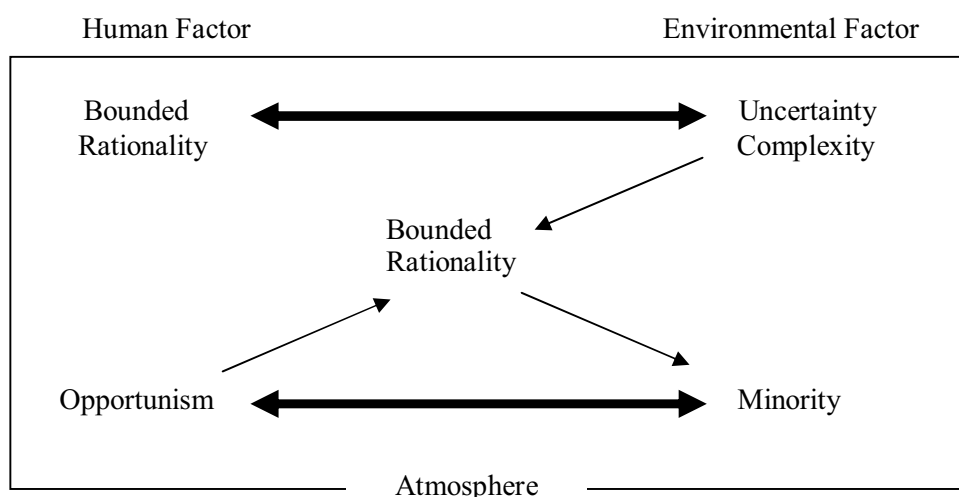
Based mainly on the transaction cost perspective, Heide and John (1990) also addressed these issues in the same manner. They supplemented it with organizational theory and examined alliances in industrial goods purchasing. They characterized purchase relationship using three criteria of concerted activity, consistency, and verification of supplier's capability. They named specific investment, environmental uncertainty, expectation to continue the relationship, and verification of supplier's capability, as determinants of the concerted activity.

Noodewiner, John, and Nevin (1990) and Buchanan (1992) studied the influence of relationship and dependence on the purchase outcome. They explained the influence of relationship as follows: If a buyer-supplier relationship on industrial goods purchasing is close under a high level of environmental uncertainty, the purchase outcome would improve; however, if the environmental uncertainty is low, the relationship would have no

impact on the outcome. Next, the influence of dependence was explained using an example of relationship between a purchase department of a department store and their clients. Under a high level of uncertainty, the purchase outcome will increase if the purchase department is highly dependent on their clients; to the contrary, the purchase outcome will decrease if the purchase department is less dependent on their clients. On the other hand, under a low level of uncertainty, the dependence between the department and clients would not influence the outcome. Noodewiner, John and Nevin and Buchanan addressed the influence of environmental uncertainty and business strategic alliance on the purchase outcome.

Anderson and Weitz (1992) stressed that it was effective to use collateral such as specific investment and contract terms to establish and maintain commitment in the distribution channel. Stump and Heide (1996) maintain that the selection of suppliers, incentive design and monitoring would control the suppliers' opportunism in industrial goods transactions. These two studies considered that higher commitment and controlled opportunism would shift the relationship to the business strategic alliance. The studies addressed the establishment and management of the business strategic alliance.

Figure 6-6 Framework of Organization Failure



Source: Williamson (1975) *Markets and Hierarchies*, The Free Press, p.40.

The review of these studies confirmed that the studies based on the transaction cost perspective did not deal directly with the management of business strategic alliance which was explained in the relational exchange (See Figure 6-6). This is particularly true with the beginning stage of the studies. This theory consisted of human factor and circumstance factor. This is because the transaction cost theory had not developed criteria that could be used for business strategic alliance, although studies on this subject are increasing gradually.

3.3 Strategic Collaboration Continuum Perspective

To discussing marketing channel further, it would be helpful to map cross-sector collaboration the marketing channel, according to Austin (2000a) (2000b). As explained previously, Austin's strategic collaboration continuum perspective consists of three stages.

Figure 6-7 is a simplified representation of the cross-sector collaboration between company and nonprofit organization. "Philanthropic Stage" between the company and the nonprofit organization shows the traditional situation in which the company provides the product feature and availability information to the nonprofit organizations with no feedback from them.

Figure 6-7 Philanthropic Stage

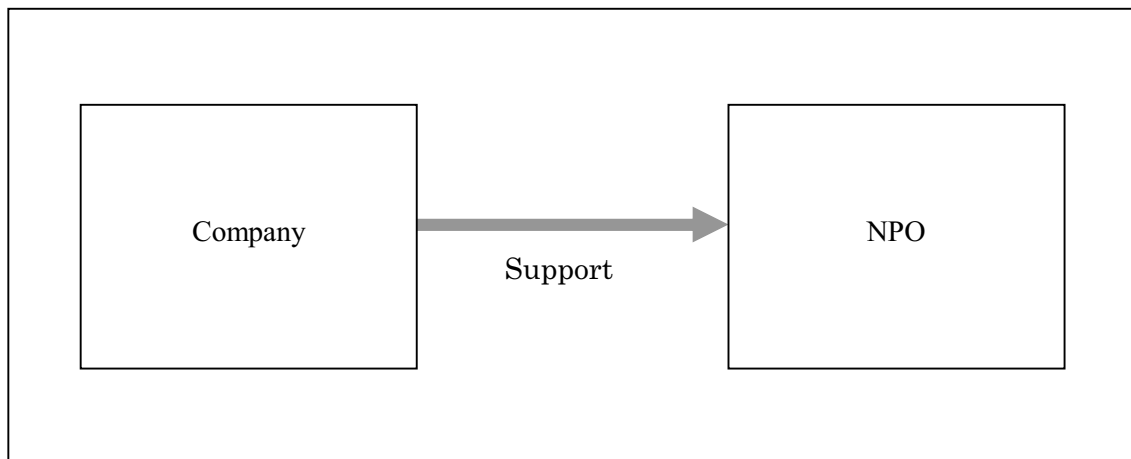
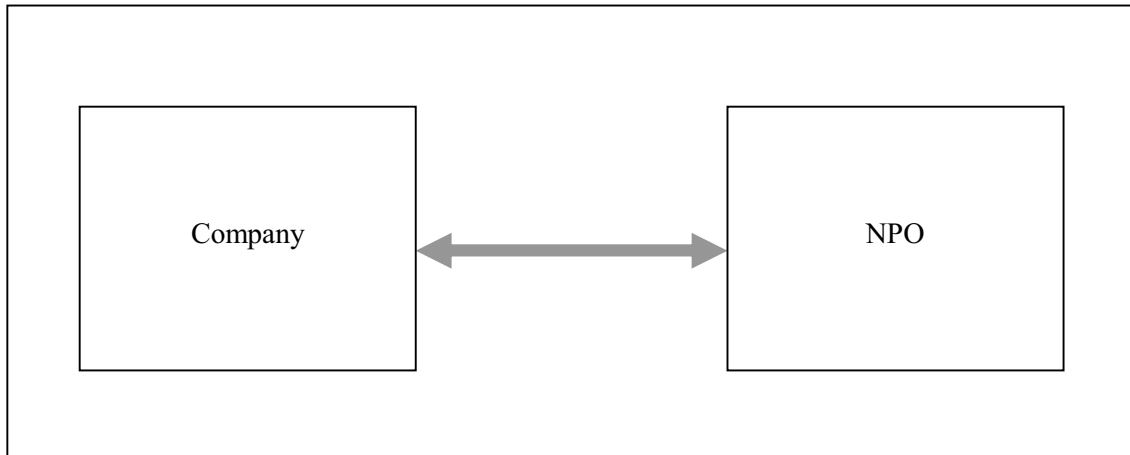


Figure 6-8 Transactional Stage

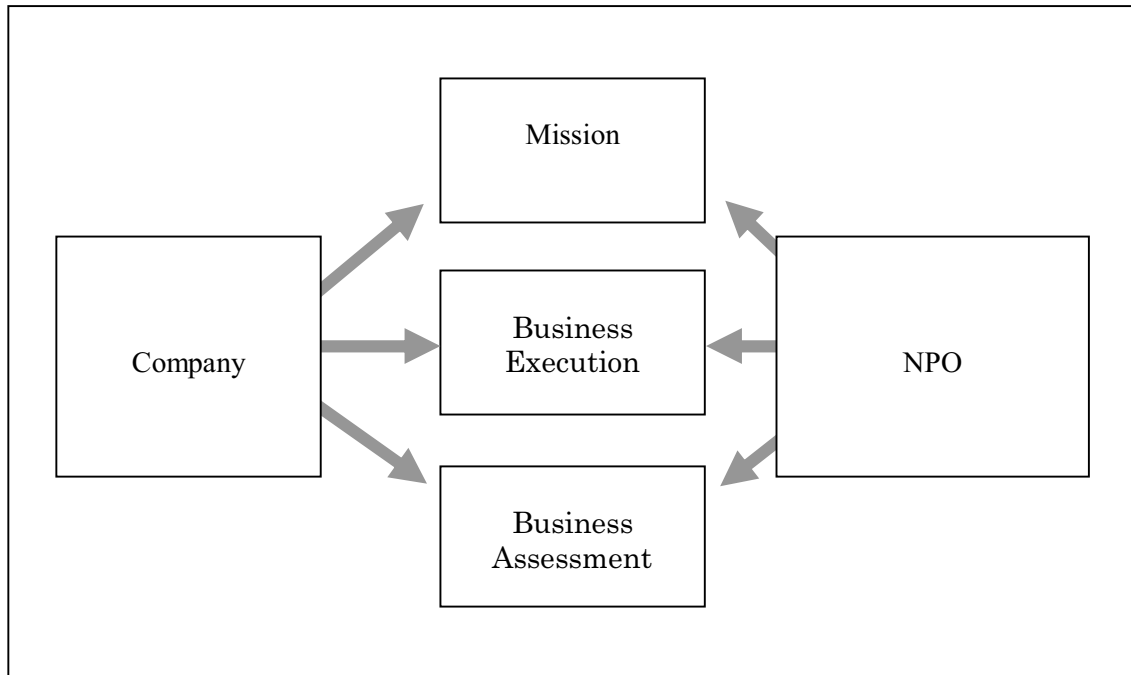


When the management environment becomes more challenging, companies need to establish “Transactional Stage” with the nonprofit organizations to reflect their views in the product/service development. Information technology offers powerful tools for companies that attempt to “cause related marketing” to consumer needs. At the core is the value in which knowledge of each nonprofit organization are accumulated (See Figure 6-8).

The third is “Integrative Stage”, which is the subject of this study. This integrative stage goes beyond the traditional philanthropic stage i.e., companies begin to communicate with nonprofit organizations. They exchange availability information, mission, and give advice to each other on the service and products (See Figure 6-9).

The City Year (nonprofit organization)-Timberland (company) relationship is an example (Austin 2000). Their relationship offer information on new services, offer help to consumers, and even develop tools for other users. Most often, they do so not only for profit incentives but also on a voluntary basis. Such voluntary information, because it is not offered with commercial incentives, is often more credible than the commercial information offered by the companies. Thus it is sometimes very influential in the sales of the products.

Figure 6-9 Integrative Stage



At the theoretical level, “integrative stage” implies an emphasis on “relationship management,” as advocated by Austin (2000a) (2000b). Such management style assumes the existence of multi party channels.

Figure 6-10 summarizes the collaborative relationship in each of the three stages: philanthropic stage, transactional stage, and integrative stage. The standard of engagement of the two partners moves from low to high, as the relationship moves from stage to stage. The consequence of the relationship to each collaborator’s mission shifts from peripheral to strategic. The nature and magnitude of the resources allocated to the relationship expand significantly. The playground of activities encompassed by the partnership broadens. The partners’ linkages intensify, and the managerial difficulty of the alliance increases. Finally, the strategic value of the collaboration enlarges from modest to major.

Figure 6-10 Collaboration Continuum

Relationship stage	One Philanthropic →	Two Transactional →	Three Integrative
Level of engagement	Low →→→→→→→→→→→→→→→→→→		High
Importance to mission	Peripheral →→→→→→→→→→→→→→→→→→		Strategic
Magnitude of resources	Small →→→→→→→→→→→→→→→→→→		Big
Scope pf activities	Narrow →→→→→→→→→→→→→→→→→→		Broad
Interaction level	Infrequent →→→→→→→→→→→→→→→→→→		Intensive
Managerial complexity	Simple →→→→→→→→→→→→→→→→→→		Complex
Strategic value	Modest →→→→→→→→→→→→→→→→→→		Major

Source: Austin (2000a) *“The Collaboration Change: How Nonprofit and Business succeed through Strategic Alliance”*, Jossey-Bass, p35.

Figure 6-10 and Figure 6-11 summarizes the peculiarities of collaborative relationship in each of the three stages in points of four key strategic dimensions. Each stage shows important differences in engagement level, managerial complexity, strategic value, resource deployment, interaction intensity, and mission importance. Each stage is also featured differently in points of the key strategic dimensions of collaboration mind-set, relationship management, collaboration value, and strategic alignment. Where an alliance falls on the strategic collaboration continuum is determined by the strategic choices and actions of its partners.

In the view of marketing theory, the strategic collaboration continuum perspective can help to categorize relationships and understand their defining characteristics as they evolve through three stages.

Figure 6-11 Collaboration Continuum: Partnership Characteristics

	Philanthropic	Transactional	Integrative
Collaboration mind-set	Gratefulness and charity syndromes Minimal collaboration in defining activities Separateness	Partnering mind-set Increased understanding and trust	We mentality in place us versus them
Strategic alignment	Minimal fit required beyond a shared interest in a particular issue area	Overlap in mission and values Shared visioning at top of organization	Broad scope of activities of strategic significance Relationship as strategic tool High mission mesh Shared values
Collaboration value	Generic resource transfer Unequal exchange of resources	Core competency exchange More equal exchange of resources Projects of limited scope and risk that demonstrate success	Projects identified and developed at all levels in the organization, with leadership support Joint benefit creation Need for value renewal Shared-equity investments for mutual “return”
Relationship management	Corporate contact person usually in community affairs or foundation; nonprofit contact person usually in development Corporate personnel have minimal personal connection to cause Project progress typically communicated via written status report Minimal performance expectations	Expanded personal relationships throughout the organizations Strong personal connection at leadership level Emerging infrastructure, including relationship managers and communication channels Explicit performance expectations Informal learning	Expanded opportunities for direct employee involvement in relationship Deep personal relationships across organizations Culture of each organization influenced by the other Partner relationship managers Organizational integration in execution, including shared resources Incentive systems to encourage partnerships Active learning process

Source: Austin (2000a) “*The Collaboration Change: How Nonprofit and Business succeed through Strategic Alliance*”, Jossey-Bass, pp.36-37.

3.4 Summary: Business Strategic Alliance in the U.S.

The discussions on the business strategic alliance in the United States have offered following issues that can be utilized:

- Development of competence through learning: The business strategic alliance should not be understood from the perspectives of efficiency-enhancing and sales increase. It is more significant to understand the business strategic alliance from the perspective of learning or knowledge acquisition and knowledge creation that support them indirectly.
- The transaction cost perspective brought the concept of investment effect on the transaction-specific asset, as community intellectual property. This concept can be utilized after distinguishing the specific asset as a prerequisite and a strategic investment to control the specific asset.
- Criteria that described the characteristics of manufacture-to-distributor channel relationship and company-nonprofit organization relationship: These were provided mainly by the relational exchange theory as well as the organizational theory. Especially, Austin's strategic collaboration continuum perspective is very important.

4. Analytic Perspectives of Business Strategic Alliance

Analytic perspectives of business strategic alliance including the issues of transition from distribution keiretsu to business strategic alliance will be explained next based on the discussions in the preceding section. To start with, the problems of traditional marketing channel theory as a guideline of future marketing channel study are:

- It is necessary to pay attention to a collaborative relationship while ensuring the equality and bilateralism instead of concentrate on the unilateral control by the power disparity.

- The business strategic alliance between major companies as well as the one between major companies and small-to-medium-sized companies should be targeted.
- The manufactures should not be specified as the only entity of channel control (the rise of strategic management between company and nonprofits organization).

The above respects have already been put into practice in the discussions on business strategic alliance, which were explained in the discussions on business strategic alliance in the United States and discussions on business strategic alliance in Japan of foregoing chapter. Therefore, the practices should be continued.

Next, issues that have been taken from the discussions will be examined. Four issues discussed in the summary of foregoing section “Discussions on business strategic alliance in Japan” were:

- (1) Business strategic alliance as a method of knowledge/information acquisition and creation to build innovations
- (2) Interactivity and equality in communication as a method of knowledge/information acquisition and creation
- (3) Difficulty of transition to business strategic alliance
- (4) Instability of business strategic alliance.

Next, three issues that were pointed out in the summary of proceeding section “Discussions on Distributive Business strategic alliance in the United States” were:

- (5) Consideration on the investment effect on the transaction-specific asset
- (6) Criteria that described the characteristics of manufacture-to-distributor channel relationship
- (7) Development of competence through learning.
- (8) Development of nonprofit organization.

After reviewing these eight issues, it is considered that the issue of difficulty of transition to business strategic alliance referred to the prerequisite of business strategic alliance. Since this issue point to a phase prior to the transition, it will be separated from the rest of seven issues. The three issues of development of competence and development nonprofit organization through learning and development nonprofit organization and business strategic alliance as a method of knowledge/information

acquisition and creation to build innovations are similar concepts, which indicate the significance and objectives of business strategic alliance.

On the other hand, the issues of consideration on the investment effect on the transaction-specific asset, criteria that described the characteristics of manufacture-to-distributor channel relationship, and interactivity and equality in communication as a method of knowledge/information acquisition and creation all presented necessary conditions to achieve the significance and objectives. They particularly suggested ideal theories of relationship company-to-company and company-to-nonprofit organization in a direct or indirect manner. The issue of instability presented a problem of collaborative relationship, which can be vulnerable even after it has met the objectives.

Two analytic perspectives based on these viewpoints are the difficulty of transition to business strategic alliance and significance, success factors, and instability of business strategic alliance. These perspectives will be analyzed next to find out their requirement to develop business strategic alliance.

5. Difficulty of Transition from Distribution Keiretsu to Business Strategic Alliance

They often find it difficult to make the transition from distribution keiretsu to business strategic alliance, even if a company discovers advantages in establishing a collaborative relationship with other organizations (nonprofit organization, etc.). This is due to the underdeveloped environmental conditions, which is the prerequisite of the transition. They cannot make the transition because of subjective factors, even if the conditions are met.

Information technology offers powerful tools for organizations that attempt to business strategic alliance. Without this technology, the information-sharing or the integration of distribution systems are impossible to achieve. Retail distributors can benefit from the use of information technology to improve their information-processing ability dramatically. This can make a major contribution to the establishment of

business strategic alliance because major manufactures, that once controlled their channel unilaterally, now have an option to consider and develop the business strategic alliance with the retail distributors. Shifting the power to the retail distributors or balancing the power with them would help realize the business strategic alliance. The improvement of information-processing ability of the retail distributors and power shifting are considered as the changing environmental conditions to the major manufactures, or in other words, maturation of environments for the business strategic alliance development.

One of the important prerequisite is the environmental uncertainty. Typical environmental phenomenon like diversified needs and shorter product life cycles are found regardless of any industries, while phenomena of deregulation can be found in each industry. The higher the environment uncertainty becomes, more likely companies try to collaborate each other.

Subjective factor that discourage companies to make the transition to business strategic alliance is prisoner's dilemma caused by insufficient information exchange and the gain for one-sided defection. They are unable to develop business strategic alliance because it is impossible to determine if their partner has intention of business strategic alliance or if they are collaborating.

The cancellation can become costly because companies often find it necessary to increase the investment on the specific asset, once the business strategic alliance is established. Thus, they hesitate to build business strategic alliance with others to avoid irreversibility.

What is more, the establishment of a business strategic alliance relationship involves certain risks. On the other hand, keeping the existing relationship would avoid new risks. The risk aversion and the law of inertia pose obstacles to develop business strategic alliance.

The amount of success between companies is another impediment to the collaborative relationship. It would impede their future business strategic alliance further if they achieved greater success in their transaction relationship,

6. Promotion of Innovation and Development of Strategic Management System

The enablers of business strategic alliance will be analyzed next. One of the enablers is to acquire/create knowledge and information through learning mutually in order to build innovations and develop competence as explained in Section 2 (“Discussions on business strategic alliance in Japan”). Since it is difficult to observe the competence development directly, the innovation-building will be the main subject of this section. The bilateralism and equality in communication to acquire and create knowledge and information is another success factor. This factor represents an ideal marketing channel relationship to build innovations. Considered as other enablers is the establishment of mechanism to change the traditional power relationship and control power game. For example, it is to organize relationship between company and nonprofit organization.

6.1 Concept of Marketing Channel Relationship and Shifting of Paradigm

To promote innovations and establish a system to manage the innovations is one of the enables of business strategic alliance. The concept of marketing channel relationship must be changed first in order to achieve this. The traditional concept of marketing channel relationship and the paradigm behind it will be revealed next.

In Japan, the concept of marketing channel relationship is typified by Furo’s theory of channel negotiation, in which oligopolistic manufactures shift sales risk to the distributors. The manufactures position the distributors as a buffer and try to avoid vertical integration. As a consequence, the marketing channel relationship becomes unstable and the oligopolistic manufactures need to provide advanced channel management. Theory of commercial economy was behind this concept.

Cho (2004) proposed his concept of marketing channel relationship, which was contrary to the above concept with a risk shifting system. Cho (2004) emphasized that the manufactures with advanced information-processing ability should deal with the uncertainty that their channel system is facing in order to acquire the power in the system. Cho (2004) regarded the marketing channel relationship as a system where the

manufactures absorb the sales risk. He applied the information-processing paradigm to the marketing channel theory.

The business strategic alliance brought joint risk absorption and active risk utilization between the manufactures and the distributors or companies and nonprofit organizations. The concept of marketing channel relationship as a system to promote and manage innovations was also developed. The distributors were regarded as innovators. More specifically, the traditional channel concept that regarded the channel members as control subject shifted to a new concept that regarded them as members of innovation team or collaborators in this concept. Behind this concept is the strategic collaboration continuum perspective by Austin (2000a) (2000b). The marketing channel relationship as a system of promoting and managing innovations in the stand point of strategic management will be examined next.

6.2 Innovations: Strategic Management

The term “innovation” includes in to supply new products and to introduce new supply methods. The new supply methods include new methods for production and distribution, which are necessary activities to supply products, as well as methods for information-processing to support the activities.

Ogawa (2000) indicate retail service, commodity supply, and organizational structure as three innovation factors of convenience store systems in Japan. He represented that innovation developed in the retail service would trigger successive innovations in both the commodity supply and organizational structure, resulting in the overall innovation in the entire system. Innovations in the commodity supply system will be targeted in this study. The commodity supply factor was selected because the retail service is not directly linked to the marketing channel relationship, which is the subject of this study. Moreover, the factor of organizational structure is not appropriate because the change in the organizational relationship is not considered as innovation considering the fact that the marketing channel relationship can develop both exclusiveness and cooperation.

The system to promote innovations will be analyzed next.

6.3 Partner Selection and Development of Fundamental Conditions

It is necessary to select transaction partners to collaborate with in order to start promoting innovations. For example, the one of transaction partners is nonprofit organization. It is ideal that the new partner's corporate philosophy should be identical and their opportunistic behaviors are easy to control, go without saying. However, it is not necessary to establish long-term business strategic alliance with any partners. Companies can choose the types of business strategic alliance, which can be short-term, medium-term, or long-term, according to the partner's behavioral features and corporate philosophy. By evaluating and selecting transaction partners from such viewpoint allows them to develop various business strategic alliances as necessary.

Although the behavioral characteristics and corporate philosophy is hard to manipulate, they can be changed during the course of joint activities based on the business strategic alliance. If a partner is strategically important, it is necessary to develop long-term business strategic alliance and perspective the partner even if the behavioral characteristics and corporate philosophy may be obstacles at the beginning.

In addition, it is imperative to develop basic conditions in order to operate the system of innovation promotion. In the first place, a support system for the partner needs to be established. It is important to determine the functional position of the partner first before establishing the system. The partner is expected to not only follow the rule but also become creative according to Lorenzoni and Baden-Fuller (1995). The partner is required to be more of an active partner than an affiliated store or factory that is to say. One of the partners is nonprofit organization. According to Austin (2000a) (2000b), it is particularly important to ensure the autonomy of the partner because it allows the partner to increase the chance to produce more innovations. The partner can also obtain a variety of information and utilize it more flexibly. The partner becomes more committed to the business strategic alliance. The support for the partner is to help the development of competence, which is very appealing and serves as a large incentive to the partner as a result. The competence development requires transfer of knowledge and skill to the partner and the establishment of an expert group to implement the job. Some insist that the competence development is risky because it may help the partner become very competitive.

To establish a communication system between the partners is another basic condition to operate the system. Intended to pass necessary

information for innovations to the necessary department when needed is the system. Information of each partner must be disclosed and shared in order to establish such system. Required to build a space for dialog and securing of information redundancy is a communication system to promote innovations.

A space for dialog reduces the risk of self-righteousness, which is typically seen in the knowledge creation by each partner. It also allows each partner to control the knowledge creation by discussing how to combine the information together. The securing of information redundancy allows each partner to go into other partner's territory and point out their problems. Any partner can perform a key role to discover other partner's problems to become a potential captain.

6.4 Promotion Process

The process to promote innovations can be divided into four phases of strategy/tactics planning, role-sharing, role performance, and result distribution. They will be examined in order as follows.

Companies try to plan strategy with their partners based on information sharing in the phase of strategy/tactics planning. A short-term goal or tactic is determined jointly if business strategic alliance cannot be established. Anything the case, an important issue is the degree of vision-sharing. Partners must share their vision to a considerable degree in order to agree with strategy. A central company that develops visions often plays a key role in the process. However, the partners just need to share the recognition on short-term situations and directionality in order to agree with tactic only.

It is desirable that each partner clarifies their area of expertise and concentrate on working with it in the phase of role-sharing. They will take charge of a core sector if a central company is present in this phase. They are encouraged to provide information to other partner's responsibility area or point out their problems as explained earlier about securing of information redundancy although the divisional relationship and responsibility sharing between the partners are further clarified. The combination of strict divisional relationship and mutual support relationship is the major characteristic of this phase.

The phase of role performance includes the actual promotion of innovations through mutual support with enhanced communication activities. Lorenzoni and Baden-Fuller (1995) proposed two new ideas of

“borrow-develop-lend principle” and “learning race” as theories of promoting innovations.

A central company purchases or receives licenses of ideas from the third party (“borrow”), adds value to the ideas (“develop”), and commercializes the value-added ideas and allows the partner to distribute them promptly (“lend”) in the borrow-develop-lend principle. The advantages of this principle for the central company are the reduction of development costs, accelerated processes, and initiation of projects outside their field. The advantages are prompt commercialization of inventions and risk reduction due to the fast recovery and rapid spread of information for the independent inventors (third parties).

The learning race promotes competition between partners within the limits of a shared goal to promote innovations. However, the competition is very likely to destroy the collaborative relationship if a partner does not have any necessary skills or resources. The central company needs to share the skills and resources beforehand in order to reduce the risk. The learning race can involve companies outside the channel system as well. Corporate internal organization, channel partners, and companies outside the channel system must be divided for effective use in such a race. This is an ingenious combination of internal strategy and external strategy.

The result must be distributed to each partner according to the contribution level in order to increase the incentive that entails innovations in the phase of result distribution. Required to play a fair role in this stage is a central company. So, fair role is very important. Nonprofit is signal for fair.

7. Strategic Management between Company and Nonprofit Organization: Management of Innovations

It is necessary to determine how each partner is allowed to use the new knowledge, which is the result of this innovation when the innovation is created through business strategic alliance. This is when a system to manage the innovation becomes necessary. The new knowledge with the most flexible usability can be used by related partners freely. On the other

hand, the new knowledge with the least flexible usability can only be used within the collaborative relationship. The degree of innovativeness and relative power strength of an innovation creator are the factors that affect the flexibility. The flexibility decreases if the degree of innovativeness is significant and the power of creator is relatively weak. On the contrary, the flexibility increases if the degree of innovativeness is low and the power of a creator is relatively strong. The management system must be established considering these factors.

Management issues to deal with new knowledge with very flexible usability will be examined next. The partners hardly need to take countermeasures if the innovativeness is extremely low. If the innovation level is high, they are likely to take countermeasures because free riders such as competitors could cause serious damage to their business. To constantly lead the innovations by taking advantage of time lag against followers is one of the countermeasures. This makes it possible to gain a substantial “creator’s profit” before competitors use the result of the innovations and enter into the competition. The creator can also obtain more differential advantages than the competitors by maintaining the image as an innovator. To obtain some form of fee for contributing to the innovations such as better transaction terms including higher margin rate and prioritized supply or purchase another countermeasure is another against.

8. Establishment of Management to Control Power Game

The change of marketing channel relationship using power is necessary to effectively promote and manage innovations in business strategic alliances as the changing concept of marketing channel relationship was explained in the previous section. It is considered as control of the power game or restrict of the power method, which is one of the success factors of business strategic alliance. This success factor will be examined from the perspective of theory of power and conflict, which is traditionally a dominant paradigm but has not been mentioned thoroughly.

8.1 Channel Power Management

If the relationship was established between major companies and small-to-medium-sized companies, the traditional marketing channel relationship often took the form of integration or subcontracting. The cooperative relationship and control by power were both incorporated in this form. The marketing channel relationship between major companies was often uncooperative or hostile. Thus, the vertical company was predominantly developed in the relationship between the major companies and small-to-medium-sized companies. This cooperative relationship became a main purpose of marketing channel theory as a transitional form of market and organization structure. The idea behind this marketing channel theory was control, which considered that the most effective method was to make other partner to comply with one's corporate policy.

This type of channel power relationship is changing. The relationship between major companies as sellers and small-to-medium-sized companies as purchasers became less important because their transaction rate had declined. The power control was either partially surrendered or neglected in the relationship as a result. On the other hand, the relationship between major companies or between major companies and medium-sized companies became more important. They placed more expectations on the establishment of cooperative relationship and started to make the transition to such relationship.

When the hostile relationship was making the transition to the collaborative one, predominant companies in the power relationship stood at a critical crossroads where they needed to decide if they would continue to control the others unilaterally without regard to their autonomy or the equality of both parties, or if they would control the desire to do so. They would aim for the moderate integration with the traditional method of using power if they choose the former. It is based on the concept of traditional channel integration although the relationship is not highly integrated because of the small power disparity. They would aim to support the partner's independent ability by restring the use of power if they choose the latter. This leads to the business strategic alliance that is based on the idea of respecting other partner's autonomy and deciding and implementing policy through bilateral communications. Since the concept of integration still remains, it is significance to assess each of business strategic alliance carefully because the concept still has a substantial impact on some business strategic alliances.

8.2 Changing Components of Power Management

The change of channel power relationship has been outlined. Next, the change will be examined from the perspective of theory of power and conflict.

The power method used in the relationship has changed. Before analyzing the change, components of power method will be organized first. According to Stern, El-Ansary and Brown (1989), the power method has six components of rewards, coercion, expertise, information, identification, and legitimacy. Since the identification is just the emotional representation of power base, it is not appropriate to be conceptualized as a component of power method although the emotion may be used as a power method. . If the same logic is applied, trust and favor will also be treated as power methods. The legitimacy includes legal legitimacy and social/cultural norms. Since the legal legitimacy is a form to represent the power itself, it is not a suitable power method. Therefore, components of power method should be rewards, coercion, expertise, information and social/cultural norms. The power method of information is based on the idea that logic of discussion is accepted by the other partner. Since the information can persuade the other, it is considered different from the expertise. These five components conform to three power methods proposed by Galbraith (1983), which were threat, compensation, and conditioning (education/persuasion and common sense/practice). The rewards and expertise correspond to the compensation, the coercion to the threat, and the information and social/cultural norms to the conditioning. According to Galbraith, the threat and the rewards are common components because a partner is aware of submissiveness to the other partner. On the other hand, the conditioning changes a partner's belief before executing the power; therefore, the partner does not realize the submissiveness to the other. Since Galbraith's method to classify the components is considered to be more appropriate to organize ideas, it will be used for further examination.

The power method of threat was controlled to the minimum. As for the rewards, major emphasis shifted from the rebate, which targeted only short-term control, to the guaranteed proper compensation for the result. The provision of expertise as non-monetary rewards also became more significance. The threat and rebate are mediation of power methods because they provide tangible incentives. On the contrary, the proper compensation for the result and the provision of the expertise are non-mediation of power methods because they do not provide tangible incentives. While the mediation of power method is effective in the short

term, the non-mediation of method is effective to establish a long-term relationship of trust. These changes in the threat and compensation methods signify that the emphasis has shifted from the mediation of power methods to the non-mediation of power methods.

The components of education and persuasion in the conditioning power method explain to a partner that certain policies have significance for the partner and the entire industry. It is often necessary to carry out something that goes against common sense used in the industry in order to promote innovations. The persuasion process normally takes a long time, but a cooperative relationship will advance further if the persuasion is successful. This is why the conditioning power method has become increasingly important. One necessary precondition for this method is to foresee the possibility of persuading a partner. The validity of policy and “ex-ante trust” for the partner are needed for the outlook.

The common sense and practice are other components of the conditioning power method. The common sense and practice used in the society and entire industry disturb the promotion of innovations. On the other hand, the channel culture developed by partners through innovative business strategic alliance will entail innovations. The development of common sense and practice, or in other words, channel culture that promotes innovations is becoming extremely important.

The conditioning power method is generally becoming more important. Since this is a non-mediation of method like the threat and compensation methods, it is considered another indicator that the emphasis has shifted to the non-mediation of method.

The managing decision variable has also changed. Several decision variables were once managed, without much interference from other partners, but they started to intervene into other partner’s effort process to achieve goals on each decision variable. In other words, they emphasized more on the process (“secondary standard”) rather than the results (“primary standard”). Nevertheless, the partners support and ensure the other partner’s effort by providing information and advice without giving specific instructions on their effort process. The securing of information redundancy described in the previous section is effectively used here.

These power methods will be analyzed from a viewpoint of channel conflict next. Mallen (1964), advocate of perspective of channel extension organization and argued that conflicts arise only when distributing profit but not when product selling because every channel member agrees with the mutual interest. In other words, conflicts arise at the time of result distribution, but a collaborative relationship still works effectively because partners collaborate to create larger result to develop joint profit.

Takashima (1994) responded to Mullen's theory and criticized that collaborating in one aspect and conflicting in the other did not make logical sense. He argued that conflict in the distribution process would lead to another conflict in the creation process and would consequently ruin all collaborative activities for the purpose of creating results.

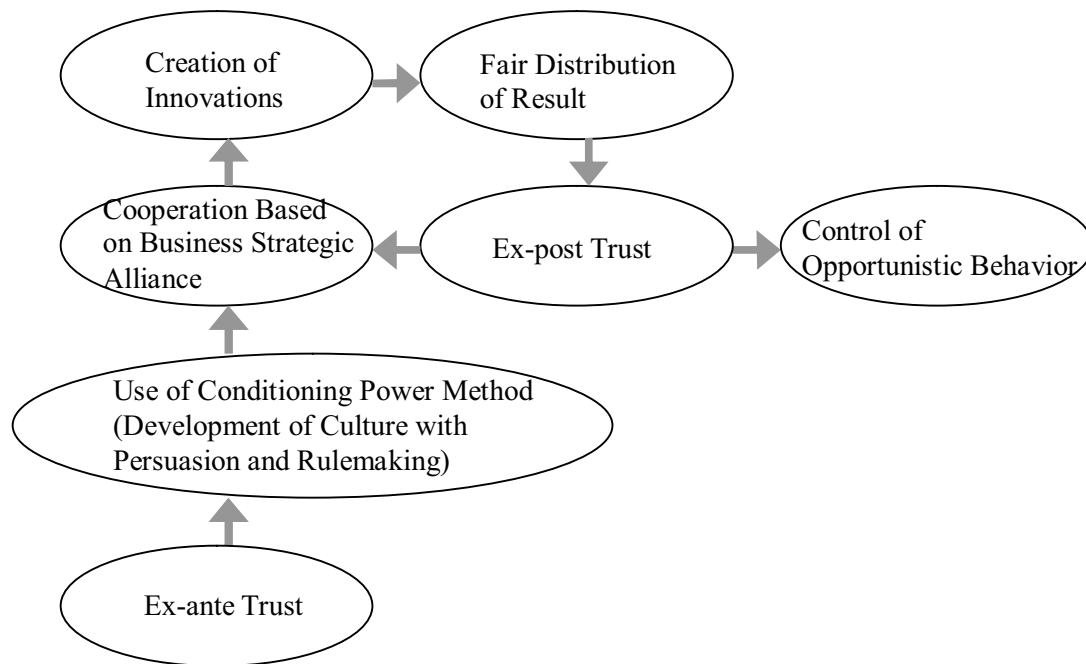
Can the same situation happen in the business strategic alliance? As Takashima (1994) pointed out, there is always a risk of conflict in both stages of creating and distributing results. Therefore, it is critical issue to avoid such conflicts. Compared to other marketing channel relationships, the disadvantage of business strategic alliance is less short-term result and profit because the mediation of power method, particularly the threat power method, is restrained in business strategic alliance. On the other hand, the advantage of business strategic alliance is the establishment of a long-term cooperative/trust relationship because the conditioning power method, especially the persuasion and the channel culture methods that promote innovations, works to encourage the partner's willingness to create results. The use of threat method realizes the short-term profit, but generates conflicts. If the threat is controlled, the long-term profit for both partners is likely to increase and moreover, conflicts are prevented from occurring to develop a relationship of trust. This phenomenon is prominent when the power disparity between partners is large.

8.3 Business Strategic Alliance Management: Trust and Opportunism

Next, the relationship between trust and opportunistic behavior will be analyzed.

The term "trust" means expectation of a partner that the other partner will bring advantages instead of disadvantages in developing their relationship. There are two types of trust: One is previously remarked "ex-ante trust", which is to unilaterally trust a new business partner when starting a new policy or business. Another trust is gradually developed between partners as they build their cooperative business relationship. This is a so-called "trust as asset" as defined by Arrow (1974) and will be called "ex-post trust" here. The ex-post trust has been regarded as trust in general in the past discussions, but the ex-ante trust must preexist to establish business strategic alliance. For that reason, the ex-ante trust that is differentiated from the ex-post trust is very important concept.

Figure 6-14 Relationship between Trust and Opportunistic Behavior



The relationship between these concepts of trust and the opportunistic behavior of transaction cost perspective is shown in the Figure 6-14. Both types of trust control the partner's opportunistic behaviors because the idea has no concept of trust. Specifically, the idea of opportunistic behavior is based on the recognition that the true nature of men and organization is to catch a partner off guard and outmaneuver the partner. The concept of trust denied the concept of opportunistic behavior as a result.

9. Instability of Business Strategic Alliance

The business strategic alliance will be successful if the two above-referenced factors are met, but the instability will always persist because the relationship is established between companies and the capital is not integrated. However, a certain level of instability is necessary to promote

innovations because partners would lose the desire to build innovations if the safety of business strategic alliance is completely stable. As the instability is acknowledged, it is crucial to find out how to utilize and manage the instability.

The instability in business strategic alliance is increased by several factors, one of which is pressure from competition over the ability to promote and manage innovations (important factor of power base). The competition is developed with other channel systems or particularly central companies. If a partner suffers from constant disadvantages in the competition, the business strategic alliance would be at risk of cancellation. A problem of business strategic alliance is that a dominant partner cannot achieve a shared goal without the help from the other partner. Even if a central company strengthens the power base (the ability to promote and manage innovations) during the business strategic alliance to gain advantage in the competition, they would still need to depend on the other partner. Since some management methods can prevent the promotion of innovations, the management ability is as important as the promotion ability in the competition.

The temptation to use the traditional mediation of power method, especially threats or rebates, which can take immediate effects are another factor that increases the instability. Although companies understand the importance of establishing a long-term collaborative relationship, their business structure once developed by the power game cannot be easily changed. In order to successfully use the non-mediation of method, or particularly persuasion method, instead of threat or rebate methods, they must have the superior power base; however, they do not necessarily have one. When the power disparity is large, they are more tempted to use the mediation of power methods because there is less chance of retaliation from the other partner and they can expect considerable effect immediately. Nonetheless, the use of threat method tends to accumulate dissatisfaction from the other partner and cause conflicts. The use of rebates tends to trigger high-pressure selling and the frequent use could generate conflicts.

To select competent corporate partners is the shortcut to improve the ability to build innovations in the channel system is. Since they are also appealing to other channel systems, they are relatively autonomous and it is difficult to maintain stable business strategic alliance with them. In this type of business strategic alliance, the power disparity is relatively small and the threat method is controlled; hence the factor to increase the instability is controlled as well. The small power disparity jeopardizes the stability of the business strategic alliance and increases the instability, at the same time.

Exclusiveness in certain cooperative areas can make business strategic alliances unstable. In highly infrastructure systems such as distribution and information systems, business strategic alliance can be established with any types of partners without major problems, but the joint development of specialty products is considerably exclusive and the manufactures hesitate to develop business strategic alliance. Contrary to their response, the retail distributors take this opportunity and request the development to the manufactures to gain differential advantage. Conflicts arise and the instability becomes evident, as a consequence.

10. Management of Business Strategic Alliance

Based on the discussions of business strategic alliance so far, the difference management between business strategic alliance and distribution keiretsu will be analyzed next. Both business strategic alliance and distribution keiretsu have common management of long-term continuous relationships. It is difficult to find their difference management, but they are different in several important aspects.

One difference is equality of parties involved. Go without saying, they can never become equal as long as the power disparity is present. Since roles of both partners are equally important, it depends on their perspective to respect others and regard them as equal partners. .

This management is directly connected to an issue of bilateralism. Only the distributor's obligation to the manufacture is emphasized under the unilateral control of the manufacture in the distribution keiretsu. Replaced by a bilateral relationship in business strategic alliance is such unilateral relationship. This bilateral relationship develops into a cooperative relationship that combines information-processing ability of the manufacture and distributor. Therefore, the relationship requires both partners to have autonomous information-processing ability. Unless they both have independent information networks and ability to process collected information, the bilateral relationship can not be maintained over the long term

The difference in equality and bilateralism is deeply connected to the

level of decision-making autonomy. Joint decision-making is implemented whenever necessary although decision-making autonomy of each partner is encouraged in between company and nonprofit organization. A certain degree of autonomy is allowed because they are encouraged to use their judgment based on their information-processing ability although the manufacture or the distributor cannot make decisions autonomously in the joint decision-making. Thus, it is not regarded as completely heteronomous. To the contrary, the distributors are heteronomous in the distribution keiretsu. Despite their high level of decision-making autonomy, they tend to follow directions of oligopolistic manufactures unilaterally. The autonomy of the manufactures and the distributors is higher in the business strategic alliance than the distribution keiretsu.

The development of innovation by combining (incorporating) the autonomous information-processing abilities of the manufactures and the distributors is not given much emphasis, but it is an important drive in the business strategic alliance in the distribution keiretsu. This is a significant difference between the distribution keiretsu and the business strategic alliance.

A case of international electronic commerce as an example of advanced business strategic alliance will be examined in Chapter 3. Chapter 4 and Chapter 5 covered analysis of business strategic alliance as well as examination of success factors. And in Chapter 6 based on the analytic framework so far, the instability of business strategic alliance will be analyzed to reveal its logic.

Chapter 7

Conclusion

1. Digest of this Study
2. Intent of this Book

1. Digest of this Study

In Chapter 1, we showed the logical pattern of this entire study, and gave an over view of marketing channel.

After Chapter 1, next Chapter 2, the history of the traditional condition marketing channel theory was reviewed to examine how the prerequisite has changed. The objective of Chapter 2 is to recognize the distribution keiretsu issue in the history of the marketing channel theory. The marketing channel theory is still in the transitional period before the subsequent marketing channel strategy was established.

Based on the analyzed framework of the marketing channel theory in Chapter 2, the response of manufactures when they faced the standstill of the channel strategy in the informatization age is examined throughout latter chapters. The response was to select partners, to intervene in their management, and to change the relationship with the distributors from the hostile to a cooperative one. This was the modification and conversion of the earlier marketing channel strategy. It is business strategic alliance.

In the situation, Chapter 3 revealed linkage of relationship between companies and relationship between company and nonprofit organization. Especially, the latter is very important in the information age.

And, Chapter 3 revealed the business strategic alliance led by international electronic commerce, the enablers, and managements. The goal is to comprehensively understand why the business strategic alliance rose while information technology rapidly became widespread.

The business strategic alliance continues to attract intense scholarly attention since the 1990's in the world. Chapter 4, 5 is to recognize the innovation and alliance issue in the development of the marketing channel. In these Chapters, the leading business of strategic alliance, are examined. The analysis relationship between company and nonprofit organization as well as the relationship between companies is reviewed in this Chapter.

In Chapter 6, more specific framework of analysis was presented after organizing the concept of business strategic alliance and studying the discussion on the business strategic alliance. More specifically, the difficulty in making the transition from distribution keiretsu to the business strategic alliance, the enablers such as the promotion of the innovation and the establishment of management system, the establishment of mechanism to control the management power game, and several factors of stability are pointed out in this chapter. Especially, strategic management between

company and nonprofit organization is very difficult.

In Chapter 7 offers a conclusion of this study as well as discussion of issues in the future marketing channel study.

Over the last decade or so there have been dramatic changes in the technologies employed for the production and distribution of information. Information linkages have been introduced in a wide range of situations, from factories to offices to home. New media such as cable television, home video, and satellite system, are in use in most of the United States and much of the rest of the world. Other developments, such as high-definition television (HD television), direct-broadcast satellite systems, fiber-optics systems (or “electronic superhighways”), etc., are promised in the near future.

The confluence of these technological developments—the number and variety of techno-logical devices and processes introduced or employed at one time—is perhaps unprecedented, and has prompted discussion and analysis of a new age: the information age.

The purpose of this study was to find out why and how the manufactures, who once controlled the distributors, attempt to change the marketing channel while the distributors took the distribution initiative and established the business strategic alliance at present. Another purpose was to interpret what implications this environment has brought to the marketing channel theory.

The conventional marketing channel theory was studied to present its precondition that powerful channel captains, or manufactures in many cases, have unilateral control over other channel members. When this precondition started to change in the information age, the manufactures’ marketing channel as well as the marketing channel theory underwent some changes. However, manufacture-to-distributor channel relationship and the company-nonprofit organizations relationship at this level were still autonomous and did not require other’s information-processing ability. Therefore, it was difficult to develop marketing channel for the object of establishing the collaboration.

This environment was especially observed in the auto industries which typically implemented the marketing channel integration distribution keiretsu in Japan. These industries, such as auto industry, reinforced the integration by sharing information with distributors and taking over their management function. They also established a cooperative with the distributors; however, these distribution keiretsu did not realize true business strategic alliance. Although the manufactures expected to develop a business strategic alliance with the distributors (mass wholesale distributors), they still controlled the distributors (wholesale distributors)

unilaterally because they could not eliminate the conventional concept of distribution keiretsu. The manufactures, especially the ones who took the initiative in promoting the distribution keiretsu, were making slow progress in establishing the business strategic alliance with the distributors (mass wholesale distributors) because they put emphasis on keeping the relationship with their affiliated stores.

Although these manufactures were behind in establishing business strategic alliance, the distributor quickly developed distribution-driven business strategic alliance and the nonprofit organization developed nonprofit organization-driven business strategic alliance. Especially, the latter relationship between company and nonprofit organization is said that this business strategic alliance is the key point in the information age. This development started in the United States and has become important in Japan and Europe in late years.

This analytical framework was used to discuss the business strategic alliance of marketing channel theory. The discussion on this business strategic alliance consisted of:

- Transition difficulty: The difficulty is due to the underdeveloped environmental conditions of industries or companies and the factors which the partner takes initiative or captainship between them.
- Enablers: The management of marketing channel relationship as a system to promote and manage innovations as well as the establishment of mechanism that controls the power game that once prevailed. One of the success factors is strategic management between company and nonprofit organization.
- Instability: The instability in the business strategic alliance between independent companies or company and nonprofit organization becomes more obvious or increases when there is one or more of factors: competition over the ability to promote and manage innovations, temptation to use mediation of power such as threat and rebates, autonomous activity of competent partners, or differential advantage of exclusive business strategic alliance such as co-development of exclusive products.

After the analysis on business strategic alliance of marketing theory, it was pointed out that each case of business strategic alliance was different in the relationship closeness between distributor and each manufacture, information-sharing between company and nonprofit organization, and the confidentiality of innovations. The following characteristics of distributor's business strategic alliance were also pointed out:

- Distributor incorporates cooperation between the companies. These enablers also entailed the issue of managing innovations and created instability in the business strategic alliance.
- Distributor emphasizes the importance of selecting appropriate manufactures when incorporating cooperation between the manufactures.
- The business strategic alliance becomes difficult to shift or develop when the major manufactures refuse to establish exclusive business strategic alliance with distributor.
- The short-term business strategic alliances with the national brand manufactures encompass both advantages and instabilities.

For example, the differences in the business strategic alliances set up instability factors, phase of business strategic alliance, and transition difficulty. Although the business strategic alliance in Japan created similar issues, the area of cooperation, background, and objectives are different.

Next, the connection later half of this study will be briefly explained. Chapter 3, 4 discussed the channel distribution keiretsu of the business strategic alliance, but concepts or analytical framework were not provided during the discussion unlike Chapter 5. This is because the conventional marketing channel theory had not established a concept to interpret the transition from the distribution keiretsu to the business strategic alliance. In order to distinguish between the distribution keiretsu and business strategic alliance, conditions other than long-term relationship needed to be incorporated in the concept.

After analyzing and categorizing the phenomena of the transition in chapter 3, 4, 5 in this study, it became evident that many had considerable difficulty in making transition to the business strategic alliance. Specifically, the manufactures, who led the distribution keiretsu, experienced much difficulty maintaining the lead in shifting to the business strategic alliance.

This transition to the business strategic alliance did not become one of the main trends of the manufacture-to-distributor channel relationship and the company and nonprofit organization because of the difficulty. Instead, the business strategic alliance led by the distributors attracted attention as a new type of manufacture-to-distributor channel relationship. Chapter 6 analyzed the relationship to understand the business strategic alliance theory. This analysis identified the characteristics of the business strategic alliance and revealed the factors of transition difficulty, which were left unexplained in chapter 3, 4, 5. Chapter 6 named factors of transition difficulty as environmental and subjective factors and this Chapter

discovered the differences between the business strategic alliance and the distribution keiretsu. Chapter 6 resolved issues that were unsolved in Chapter 3 and Chapter 4, 5.

2. Intent of this Book

This study has the following significance compared to the existing studies.

- (1) The business strategic alliance was analyzed using the traditional marketing channel theory:

This perspective also reexamined theory in terms of business strategic alliance. The new phenomena of the marketing channel may need new theories for the explanation, but considering that the new marketing channel relationship (i.e. relationship between company and nonprofit organization) did not disagree with the traditional marketing channel relationships, it is necessary to reassess the traditional marketing channel theory in order to determine which existing concepts are still effective to use and which new concepts to be added. The purpose of this perspective was to develop the concepts of marketing channel theory and understand the business strategic alliance (especially, partnership between company and nonprofit organization) mechanism that maintains the equality and bilateralism to produce innovations regardless of the existing power relationship. The functions of the mechanism consist of promotion and management of innovations, control of the power game, management of the relationship between partners, and establishment of the environmental conditions.

- (2) The marketing channel relationship was analyzed in terms of promotion and management of cooperation and innovations:

This study has concentrated on the innovations produced in the collaboration system and claimed that effective methods to promote and manage the innovations would greatly influence the marketing channel relationship. The relationship between company and nonprofit organization was particularly selected because the retail

service is not directly linked to the marketing channel relationship, which is the subject of this study. The factor of organizational structure is not appropriate either because the change (the rise of nonprofit organization) in the organizational relationship is not considered as innovation considering the fact that the marketing channel relationship can develop both exclusiveness and cooperation.

- (3) The distinctions in the distribution keiretsu and the business strategic alliance was clarified through the above two processes:

Although they are both long-term manufacture-to-distributor channel relationships based on the mutual trust, their major differences are equality, bilateralism, decision-making method (unilateral or bilateral), and perspective of creating innovations.

- (4) The change over from distribution keiretsu to business strategic alliance was discussed in a different perspective:

The business strategic alliance transitions from a state in which there is no business strategic alliance to the first step of business strategic alliance, which involves the evolution of distribution and information technology. It also transitions from the first step to the second step of exclusive business strategic alliance. The difficulty in the shift to the first step is underdeveloped prerequisite and subjective factors and was discussed. The difficulty in the transition to the second step is often caused by the manufactures that refuse to develop exclusive business strategic alliance that is accompanied by the differential advantage. Some cases of business strategic alliance such as the business strategic alliance of Japanese convenience store chains do not necessarily pass the first phase of business strategic alliance.

- (5) The end of business strategic alliance was presented:

Although the business strategic alliance is an advanced form of manufacture-to-distributor channel relationship than the distribution keiretsu in the above four respects, it can become instable in the competitive relationship where there is constant demand for differential advantage. This differential advantage makes the product development relationship between companies as well as the distribution and information relationship between companies and nonprofit organizations become exclusive.

- (6) Relationship between company and nonprofit organization is increasing and becoming more strategically important. In these complex times, when no organization can succeed alone, company and nonprofit organization are embracing collaboration for mutual benefits. Nonprofit organization are partnering with company to

further their missions, develop management resources, strengthen programs, and thrive in the competitive world. Companies are also discovering that alliances with nonprofit organization generate significant rewards: increased customer preference, improved employee morale, greater brand identity, stronger corporate culture, and higher innovation.

Professor of Harvard University Graduate School, Austin's "strategic collaboration continuum perspective" provides a practical framework for understanding how traditional marketing channels can be transformed into powerful strategic alliances.

In this study, I have looked at how company-to-company interaction on information linkages is becoming increasingly important and explores the dynamics involved. Additionally, this study has expanded our knowledge about cross-sector collaborations between company and nonprofits organization. It is hoped that the empirically grounded cross-sector business strategic alliance framework has advanced our conceptualization of such relationship. In the meaning, Inter-organizational relationships are an elementary part of current business. More often organizations establish long-term collaborative relationships, i.e. partnerships or business strategic alliances. Successful collaboration requires mutual commitment and trust between the partners as well as shared principles and objectives. Relationship building between organizations is a complex and dynamic process that requires mutual learning.

In this book, the message is quite simple. In the age of information, multiple organization channel relationships should be aware that inter-organizations communicate with each other much more extensively than before.

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