

**CHANNEL CONFLICT, COOPERATION, AND CONTROL:  
AN EXPERIENTIAL LEARNING EXERCISE**

Dale M. Lewison  
University of South Carolina

**INTRODUCTION**

Vertical interactions between members of a marketing channel of distribution are natural settings for experiential learning exercises. The channel interactions of conflict, cooperation and control are common daily occurrences within the marketing! distribution field; as such, marketing students not only should have general exposure but also some practical experiences with these occurrences. While the diversity of channel conflict issues, cooperative efforts, and control strategies offer the potential for a large number of learning experiences, the rather formal structure of the marketing channels itself is conducive to the development of meaningful participating exercises.

The Channel Conflict, Cooperation and Control Exercise is a special purpose, functional area exercise. The exercise is not intended as a “major business game;” thus it does not include all of the major business activities. Rather, the exercise focuses on those issues and activities which relate directly to the functional problems of conflict, cooperation and controls within the marketing channel. As a special purpose, functional exercise, its use is intended as a supplement to regular classroom procedures and not as the major mode of teaching. The context of the exercise makes it more appropriate to courses in channels and distribution, retail management and merchandising, and marketing management. As a multi-meeting exercise, it does require a significant amount of time on the part of the student and instructor; it is comparable to a term project.

**OBJECTIVES OF THE EXERCISE**

The Channel Conflict, Cooperation and Control Exercise is designed to give students an opportunity to make channel decisions, initiate channel actions, and plan and analyze channel strategies in a realistic and dynamic situation. The decisions, actions, and strategies deal with a proposed merchandising program offer by a major clothing manufacturer to a major retailer. Students are assigned management positions with appropriate roles which allow each participant to experience not only conflict between members of the channel but also conflict between their respective roles and the stated goals of the firm. Under these conflict situations, each student is required to participate in making decisions, carrying out actions, and planning strategies in an attempt to resolve the conflict issues created by the proposed merchandising program.

Skill and content objectives both are inherent in the Channel Conflict, Cooperation and Control Exercise. Skill objectives include the development and improvement of the students’

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capabilities in: (1) the making of decisions, (2) the analyzing of information, (3) the planning of strategies, (4) resolving of conflicts, and (5) the bargaining of negotiations. Content objectives of the exercise seek to acquaint the student with: (1) the causes and consequences of channel conflict, (2) the needs and strategies for channel cooperation and control, (3) the potential channel impact from different goals and policies of various channel members, and (4) some of the basic strategies of merchandising.

### **IMPLEMENTATION OF THE EXERCISE**

The Implementation of the Channel Conflict, Cooperation and Control Exercise involves: (1) three participating groups, (2) sources of channel conflict, (3) needs for channel cooperation and control, and (4) interactions of seven stages. The three participating groups and their respective memberships are:

- (1) Sales Planning Committee (SPC): Great Western Clothing Company
  - (a) Vice President of Marketing-Committee Chairman
  - (b) Assistant Marketing Vice President, Men's Leisure Suit Division
  - (c) Regional Sales Manager, Region 4
  - (d) District Sales Manager, Region 4, District 1
  - (e) Sales Representative
- (2) Central Buying Committee (CBC): Jackson's Department Stores, Inc.
  - (a) General Merchandise Manager-Committee Chairman
  - (b) Assistant Merchandise Manager
  - (c) Department Manager, Men's Wear, Southland Mall
  - (d) Department Manager, Men's Wear, Parkside Mall
  - (e) Department Manager, Men's Wear, Great Plains Mall
- (3) Arbitrator Committee
  - (a) Chief Arbitrator (Instructor or Student)
  - (b) Arbitration Advisory Board (size can vary)

While each committee has a vote on each issue taken under consideration, their respective titles (positions) should influence to a certain extent their decisions, actions and activities.

A potential conflict situation occurs when the Great Western Clothing Company proposes certain changes in its 1977 merchandising program for its nationally known line of men's leisure suits--THE NATURALS (see Appendix 1). Great Western feels that the proposed changes in its 1977 merchandising program are necessary for increased sales of THE NATURALS and for regaining lost market share.

An important factor in gaining acceptance of THE NATURALS merchandising program by retailers in the southwest market region is the acceptance of the program by Jackson's Department Stores, Inc. of Great Plains. In the southwest region, Jackson's is the leader in merchandising innovation and in the development of retailer/vendor relationships. However, while innovativeness in merchandising is a hallmark, one cardinal principle of merchandising that Jackson's has maintained through its 50 years of retailing leadership is "gross margin maintenance." Jackson's

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Department Stores operate on an average gross margin of 40 percent, with varying gross margin requirements for various departments. The 50-percent average gross margin required by Jackson's for men's wearing apparel can be obtained only in Great Western's proposed merchandising program for the 1977 THE NATURALS in a limited number of circumstances (see Appendix 1)-- hence, the potential conflict between Great Western's sales and market share goals and Jackson's gross margin maintenance goal.

The need for channel cooperation and control is impressed upon the student by the various decisions, actions, and activities associated with each stage in the exercise. For example, when the alternative decisions are narrowed down to a choice of either cooperating with the other channel member in finding a solution to the conflict issues or terminating business relationships and preparing an impact report on what that termination entails, then the realization of the need for cooperation is well illustrated to the student. Likewise, the need for channel control is well illustrated when a channel member refuses to cooperate.

The exercise is conducted as a series of meetings in seven stages. They are:

- (1) Stage 1: Committee Meeting--Sales Planning Committee, Great Western Clothing Company
- (2) Stage 2: Committee Meeting--Central Buying Committee, Jackson's Department Stores, Inc.
- (3) Stage 3: Committee Meeting--Sales Planning Committee, Great Western Clothing Company
- (4) Stage 4: Committee Meeting--Central Buying Committee, Jackson's Department Stores, Inc.
- (5) Stage 5: Negotiation Meeting--Sales Planning Committee and Central Buying Committee
- (6) Stage 6: Arbitration Meeting--Arbitrator(s), Sales Planning Committee, and Central Buying Committee
- (7) Stage 7: Class Meeting--Decision, Action, and Activities; Review and Analysis

In each stage, the appropriate committee(s) are required to accomplish the three tasks of (1) selecting from a set of alternative decisions, (2) initiating appropriate actions, and (3) performing prescribed activities (see Appendix 2). There are several possible stage sequences that can develop depending on the decision alternatives selected by the participants. Appendix 2 enumerates these sequences.

The exercise begins with Stage 1 and continues until both committees reach Stage 7. To commence play, the facilitator distributes to all groups Appendices 1, 2 and 3. The information in these appendices constitute the universe of knowledge common to all groups. Appendix 1 provides the basic information for determining the changes associated with 1977 merchandising program. Appendix 2 allows the student to gain an overview of the exercise and the alternative decisions, actions, and activities associated with each of the 7 stages. In addition, Appendix 2 allows each group to develop long-range strategies. Appendix 3 profiles each firm in terms of goals and policies. Each group is informed that the evaluation of their performance

will be made relative to how well they obtain their respective goals and objectives within the context of a reasonable channel cooperative effort.

The final stage in the exercise is the discussion and review of the exercise by all participants and observers. This can be the most important stage, for it is at this point where a determination of whether the objectives of the exercise have been accomplished is made. With an informative review, participants can experience significant learning even if the exercise experience was not fully realized.

# APPENDIX 1 THE NATURALS MERCHANDISING PROGRAM

## 1976 Program

Product Description	The summer NATURALS are two piece leisure suits available in four solid colors - Blue, Green, Brown, and Red. THE NATURALS are cut in the contemporary fashion and are available in standard suit sizes of 30 to 50.	
List Price:	\$75	
Discount Structure		
Trade (Chain):	30%, 15%,	10%
Quantity:	Cumulative	
	0% per unit - 0 - 6 dozen	
	1% per unit - 7 - 12 dozen	
	4% per unit - 13 - 24 dozen	
	7% per unit - 25 dozen or more	
Cash:	E.O.M. 2/10, n30	
Promotional Allowance:	.5% per unit	
Shipping Terms:	F.O.B. Destination Freight Prepaid	
Re-order Time:	1-2 weeks	
Re-order Quantity:	1 dozen	
Return Privilege:	5% of ordered stock	

## 1977 Program

Product Description	The summer NATURALS are mix and match leisure suits available as separate pieces and can be sold in any coat/slack combination (Mix and Match). Solid and checked colors are available in standard sizes 30 to 50 and long sizes 40 to 50. Slacks are available in standard waist sizes. A standard length allows the slack to be altered to the customer's dimensions.	
List Price:	Coat: \$60; Slack: \$20	
Discount Structure		
Trade (Chain):	Coat: 30%, 15%, 10%; slack 25%, 10%, 5%	

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Quantity:	Coat: 0%	per unit - 0	- 6 dozen
	1%	per unit - 7	- 12 dozen
	4%	per unit - 13	- 24 dozen
	8%	per unit - 25	dozen or
	more		
	Slack: 0%	per unit - 0	- 12 dozen
	1%	per unit - 13	- 24 dozen
	4%	per unit - 25	dozen or
	more		
Promotional Allowance:	Coat: 0% per unit	- 0	- 12 dozen
	.5% per unit	- 13	- 24 dozen
	1.5% per unit	- 25	dozen or
	more		
	Slack: 0% per unit	- -	- 24 dozen
	1% per unit	- 25	- dozen or
	more		
Shipping Terms:	F.O.B. Origin, Freight	Prepaid	
Re-order Time:	2-3 Weeks		
Re-order Quantity	1 dozen		
Return Privilege	None		

### APPENDIX 2 STUDENT INSTRUCTIONS TO DECISIONS, ACTIONS, AND ACTIVITIES FOR STAGES 1-7

Stage 1: Meeting - Great Western's Sales Planning Committee Decision Alternatives  
(1) None

#### Actions

- (1a) Present GW's 1977 THE NATURALS merchandising program to JDS.
- (1b) Go to Stage 3 or Stage 7.

#### Activities

- (1a) Prepare an introductory letter to JDS to accompany 1977 THE NATURALS merchandising program.
- (1b) Prepare a 1976-1977 comparative analysis report on THE NATURALS merchandising program.

Stage 2: Meeting - Jackson's Central Buying Committee Decision Alternatives

- (1) Accept GW's 1977 THE NATURALS merchandising program.
- (2) Reject GW's 1977 THE NATURALS merchandising program. Actions
- (1) Go to Stage 7

- (2a) Offer JDS's modified THE NATURALS Merchandising program.
- (2b) Go to Stage 4 or Stage 7.

#### Activities

- (1a) Prepare a letter of acceptance to GW of 1977 THE NATURALS merchandising program.
- (1b) Prepare a 1976-77 comparative analysis report on THE NATURALS merchandising program.
- (1c) Prepare an impact report of 1977 THE NATURALS merchandising program.

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- (2a) Prepare a letter of rejection to GW of 1977 THE NATURALS merchandising program.
- (2b) Prepare a statement of conflicting issues and suggested modifications (to accompany letter).

Stage 3: Meeting - Great Western's Sales Planning Committee Decision Alternatives

- (1) Accept JDS's 1977 THE NATURALS merchandising program.
- (2) Reject JDS's 1977 THE NATURALS merchandising program.
- (3) Reject JDS's 1977 THE NATURALS. Actions
  - (1) Go to Stage 7
  - (2a) Offer Ultimatum--either accept GW's 1977 THE NATURALS merchandising program or expect the termination of business relationships.
  - (2b) Go to Stage 7.
  - (3a) Offer to negotiate the terms of 1977 THE NATURALS merchandising program
  - (3b) Go to Stage 5 or 7.

### **Activities**

- (1a) Prepare a letter of acceptance to JDS of the Modified 1977 merchandising program.
- (1b) Prepare a 1976-77 comparative analysis report on THE NATURALS merchandising program.
- (1c) Prepare an impact report of 1977 modified THE NATURALS merchandising program.
- (2a) Prepare a letter stating ultimatum.
- (2b) Prepare an impact report on the loss of JDS as a channel member and develop strategies for adding new members.
- (3a) Prepare a letter offering to negotiate 1977 THE NATURALS merchandising program.
- (3b) Prepare a written negotiation strategy to be used in the event that the offer is accepted.

Stage 4: Meeting - Jackson's Central Buying Committee Decision Alternatives

- (1) Accept GW's ultimatum.
- (2) Reject GW's ultimatum.
- (3) Accept GW's offer to negotiate the terms of 1977 THE NATURALS merchandising program.

### **Actions**

- (1) Go to Stage 7.
- (2) Go to Stage 7.
- (3a) Set up negotiation meeting.
- (3b) Go to Stage 5. Activities
  - (1a) Prepare a letter accepting GW's 1977 THE NATURALS merchandising program.
  - (1b) Prepare an impact report of the 1977 THE NATURALS merchandising program.
  - (2a) Prepare a letter terminating business relationships with GW.
  - (2b) Prepare an impact report on the loss of GW as a vendor and develop strategies for obtaining new vendors.

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- (3a) Prepare a letter accepting GW's offer to negotiate the terms of 1977 THE NATURALS merchandising program.
- (3b) Prepare a written negotiation strategy to be used in the meeting.
- Stage 5: Negotiation Meeting - Great Westerns Sales Planning Committee and Jackson's Central Buying Committee
  - Decision Alternatives
    - (1) Accept negotiated terms.
    - (2) Reject negotiated terms.
    - (3) Reject negotiated terms. Actions
      - (1) Go to Stage 7.
      - (2) Go to Stage 7.
      - (3) Agree to binding arbitration. Activities
  - (1a) Prepare a letter of agreement stating terms (each committee).
  - (1b) Prepare a final impact report on the negotiated 1977 THE NATURALS merchandising program (each committee).
  - (2a) Prepare a letter terminating business relationships (each committee).
  - (2b) Prepare a final impact report on termination of business relationships and develop a strategy for establishing new relationships (each committee).
  - (3a) Prepare a letter agreeing to binding arbitration (each committee).
  - (3b) Prepare a written case to be orally presented to the arbitrator (each committee).
- Stage 6: Arbitration Meeting - Great Western's Sales Planning Committee and Jackson's Central Buying Committee
  - Decision Alternatives
    - (1) Accept arbitrated terms. Actions
    - (1) Go to Stage 7. Activities
    - (1a) Prepare a letter accepting terms of the arbitrated 1977 THE NATURALS merchandising program.
    - (1b) Prepare a final impact report on the arbitrated 1977 THE NATURALS merchandising program.
- Stage 7: Class Meeting - Decisions, Actions, and Activities -Review and Analysis

### **APPENDIX 3 COMPANY PROFILES**

#### **Great Western Clothing Company**

The Great Western Clothing Company was founded in 1859 by T.W. Lewis. Working as a tailor in a small frontier town, Lewis saw the need for a line of clothing that would meet the requirements of frontier life. As an astute entrepreneur, Lewis began manufacturing a limited line of durable work clothing that soon became known as Lewis' "blue jeans." As time passed, the name Lewis became synonymous with the "blue jeans" product line.

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Today, the diversified line of “Lewis Blue Jeans” still remains the principle product line of the Great Western Clothing Company. Accounting for 43 per cent of Great Western’s sales, Lewis Blue Jeans enjoys a 37 per cent market share nationally. Without question, Great Western’s success in the clothing industry has been predicated on the market demand for Lewis Blue Jeans and the willingness of retailers to carry additional Great Western lines of apparel in order to obtain the firm’s lines of blue jeans.

In 1976, Great Western’s product mix consisted of 7 product lines. The products and their respective national market shares are: (1) men’s blue jeans--37 per cent, (2) women’s blue jeans--46 per cent, (3) men’s blue jeans coordinates--36 per cent, (4) blue jeans coordinates--43 per cent, (5) men’s shirts--8 per cent, (6) women’s blouses--3 per cent, and (7) men’s leisure suits--21 per cent. From 1950 to 1976, Great Western has shown an average 7 per cent increase in total gross sales. This increase has resulted both from the strengthening of existing lines and the addition of new lines. In the 1976 annual meeting of the executive board, the firm’s management expressed clearly its intentions of maintaining its sales growth performance and expressed its goal of increasing market shares for all product lines.

### **Jackson’s Department Stores, Inc.**

Jackson’s Emporium was established in 1907 by W. W. Jackson, a Scottish emigrant whose recognition of the upper class market during the southwest oil boom provided the foundation for Jackson’s present-day image as one of the nation’s leading retail merchandisers. As old “WW” used to say, “Give the customer what he wants; then charge the hell out of him.” This “guiding principle” has always served as Jackson’s basic merchandising policy and has resulted in Jackson’s reputation as a unique merchandiser of a wide variety of unique and everyday products.

Jackson’s success, not only as a unique merchandiser of products but as a profitable one as well, is predicated on the policy of “gross margin maintenance.” It is and always has been Jackson’s operational policy to obtain a 40 per cent realized gross margin for each of its stores. This overall 40 per cent gross margin is obtained by demanding appropriate realized gross margins for each of the various operating departments. Generally speaking, the expected realized gross margin breakdown is: (1) 50 per cent for wearing apparel, (2) 60 per cent for wearing accessories, (3) 30 per cent for household goods, (4) 40 per cent for furniture and appliances and (5) 40 per cent for recreational and sporting goods.

The three currently-operating stores (Great Plains Mall, Parkside Mall, and Southland Mall) soon will be joined by one additional store in Great Plains (Dixieland Mall) and four additional stores throughout the southwest. As is the case with the three current stores, the additions will be full-service department store operations which appeal to the middle and upper class consumer.