

Essays on the Manufacturer Encroachment Phenomenon

Karthikeyan Balakumar

Thesis Advisory Committee

Prof. Prafulla Agnihotri (Thesis advisor)

Prof. Ritu Mehta (Member)

Prof. Debabrata Ghosh (Member)

Abstract

Brands adding new retail channels to distribute their products is by no means a new phenomenon. Recent years have witnessed a surge in brands' use of brand owned channels in addition to their traditional retail partners. Despite the increasing prevalence of such 'manufacturer encroachment', the extant market scholarship provides little attention to this area of research. In this three-essay study, we focus on understanding the consequences of encroachment for various incumbent channels.

In the first essay, we comprehensively review the extant empirical literature on manufacturer encroachment. We argue that the scholars who have studied various added channel-incumbent channel configurations have done so primarily from a retailer's perspective, and not brands' perspective. Furthermore, we highlight several added channel-incumbent channel configurations that are commonplace but have received scant academic attention. We also discuss key variables that the extant scholarship has not explored sufficiently and charter a course of further research on the topic.

In the second essay, we use evidence from the staggered opening of experiential stores (physical manufacturer encroachment) by a single brand kitchen appliances

manufacturer to examine the impact of encroachment on other brick-and-mortar channels. Using a matched, multi-year, multi-location, channel level sales dataset and panel regression with two-way fixed effects, the study shows that the addition of experiential stores leads to a rise in the revenue of both the entrenched retail channel and the firm. The study furthers the extant understanding of revenue impacts by decomposing it into impact on assortment (measured in terms of the number of categories and number of SKUs retailed) and impact on sales (measured in terms of sales revenue and sales volume). Both variables were found to be impacted positively. Furthermore, we show that revenue earned from old and new products the firm sells are impacted differently. While the revenue earned from sales of old products remained unaltered after the introduction of experiential stores, it was observed that revenue from new products grew. Limitations of this work, its implications for manufacturers and third-party retailers, and future research directions are also discussed.

In the third essay, we study the introduction of an online channel (digital manufacturer encroachment) by a prominent kitchenware brand. Specifically, we study a setting in which an online direct channel is added to a market serviced by other online indirect channels. We study channel level sales and assortment metrics of online marketplaces using a Regression Discontinuity in Time (RDiT) for this purpose. Our findings suggest that encroachment through the introduction of a direct online channel positively impacts both the sales and assortment metrics of incumbent online channels. Furthermore, this positive impact is consistently felt across both types of online marketplaces – i.e., agencies and wholesalers. Limitations and future research directions are also discussed.