

## Testing the Waters: Applying Marketing Channels Research in Chinese Elevator Industry

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### Abstract

This paper sets off on the intersection of two fronts. First, there is a long-established literature on marketing channels literature. Second, the Chinese elevator industry has been booming in light of China's rapid developments in the past three decades. Yet, rarely has there been discussion regarding how marketing channels literature can be applied to the elevator industry especially in the Chinese context. We argue that elevator industry in China has remained very conventional in terms of marketing efforts which may impose significant barriers to its further expansion, and accordingly tests the waters by trying to apply marketing channels research in Chinese elevator industry. We provide overviews of the Chinese elevator industry and the literature development of marketing channels in both Western and Chinese contexts, finishing with a preliminary discussion of how the literature could apply in the context of the elevator industry in China.

### Keywords

Elevator industry, China, Marketing channels, Overview

### Introduction

The concept of a marketing channel, the organizations comprising it, and the functions performed by marketing intermediaries were the subject of intellectual interest well prior to the beginning of the present century.

Dixon (1982, p. 146)

Despite the long history of marketing channels literature, it has rarely been applied to the elevator industry especially in the Chinese context. This is curious since the elevator industry in China has been a booming sector, the growth rate of which is expected to maintain at about 10% from 2019 to 2023, while the number of elevators in China will exceed 10 million in 2023 (Prospective Industry Economist, 2019). Generally speaking, increasing demands of elevators in China comes from three aspects. There are the renewal and transformation of old elevators, the installation of elevators in older buildings which were not originally equipped with elevators, and the increasing number of high-rise buildings in China. With rising national standards for elevator



allocation of construction projects, accelerating urbanisation, and the aging population of China, China's elevator industry presents a promising market. However, it has been a long time that the elevator industry has remained conventional in marketing, with its the overall development of sales in the industry being greatly affected by the changes of policy and technology. With China's increasingly progressive globalisation, the Chinese elevator industry will experience both opportunities and threats, but the internal thrust for growth is still policy-driven with limited outward expansion awareness.

This paper contends that Chinese elevator industry has been very traditional in marketing, not seeking proactive change or transformation and lagging behind the progressive Chinese economic development. In particular, we suggest that the long-established literature on marketing channels may be helpful for the industry to expand, providing it with transformative space for further development. Marketing channels theory has been studied for nearly a century, during which period scholars have examined a wide range of issues in developing the literature. While marketing channels have also been studied by the Chinese scholars, there is little discussion on how the literature could be applied to the elevator industry in China or elsewhere. Accordingly, this paper hopes to inspire further discussion by providing brief overviews of Chinese elevator industry, development of the marketing channels literature, and the Chinese literature on marketing channels. Filling a gap in research exploring breakthroughs of marketing channels with regards to elevator industry in China and elsewhere, this paper concludes with a brief discussion of applying marketing channels literature in Chinese elevator industry.

### **China's Elevator Industry**

Since China has opened up its economy for neoliberal reform, the country has seen rapid domestic development. One significant aspect of the development is the rural urbanization process, which has been a powerful thrust to the booming of, in particular, China's infrastructure, construction and real estate industries. In turn, these booming industries give rise to Chinese elevator industry which has entered a period of rapid development.

In a broad sense, elevators belong to transportation albeit they are usually perceived as a fixed lifting equipment that has become an indispensable convenience in Chinese urban high-rise residential buildings, shopping malls and other public places, resulting in increasing domestic demands. According to the recent analysis report on the development status and market development prospect of China's elevator industry by the China Industry Research Institute (2019)<sup>1</sup>, China's elevator industry has achieved rapid development in the past decade both in terms of production and consumption. For example, 70% of global elevators were made in China, while 60% - 65% of sales of elevator were for the Chinese market. Between 2010 and 2018, China's elevator output has increased from 365,000 to 850,000, with an average annual compound growth rate (CGR) of 11.15%. With the government's increasing spending on Chinese people's livelihood and living quality expecting new launches of medical, cultural, sports, health, and other projects

<sup>1</sup> Please note the references which are in Chinese in the original sources are not included in the reference list but are available from the corresponding author.

will also be launched, it is likely that the domestic market for elevators that are indispensable as part of the supporting facility will further grow (Prospective Industry Economist, 2019).

In recent years, China has promulgated a series of policies to promote the development of elevator industry, which supports the domestic growth of the elevator market and are consonant with Chinese leaders' vision for the country's foreseeable future developmental directions. At a policy level, the discourse is that we should support the installation of elevators in newly established urban communities and vigorously transform the older ones. In particular, there have been noticeable changes in tone with regard to elevators in recent government reports. For example, the Government Work Report (2018) clearly instructs for the „orderly promoting the transformation of “villages-in-the-city” and old residential areas, improving the supporting facilities, and encouraging the installation of elevators if conditions permit“. More recently and for the first time, the latest Government Work Report (2019), with regard to the promotion of installing elevators in older buildings, has a clear change of wording from „encouraging“ to „supporting“ the installation of elevators. Overall, the continuing growth of the elevator market and industry is expected, prominently featured at policy levels which are particularly directional in the unique Chinese context whereby the government has more predominating powers over both the direction and rate of domestic market growth and industry development.

### **Theories and Literature Development of Marketing Channels**

Marketing channels „represent the transfer of ownership and information between a creator and its customers“, consisting in the more mainstream literature of supply chain and supply chain management (Tamilia et al., 2019: 331). In turn, supply chain management (SCM) literature refers to managing the network of actors consisting a „chain“ of supply in order to deliver goods and services through both upstream and downstream partners, whereby the former are in charge of supplying raw materials and components for the production while the later engages in the distribution and delivery of goods and services (Kozlenkova et al., 2015).

The conception of a rudimentary marketing channel, or supply chain, can be dated back to as early as the 1850s, when for example the Singer Company in the US partnered with independent sales agents who were granted the right to sell their branded products in branch stores forming an initial kind of franchised organisation of sales channels (Tamilia et al., 2019). The early development of a large supply chain was land-based with 31,000 miles of railway track which made the distribution and delivery of goods more efficient (Richey, 2001). During this early stage, salespeople were the main contributors of marketing channels' creation and maintenance, while Montgomery Ward and Sears made more progress by using train stations for efficient deliveries (Boorstin, 1973). As transportation systems were advancing since the early 1900s, the delivery systems became faster with more choices of vehicles, while since the late part of the 1900s supply chains have been developing to incorporate information technology, integration of management decisions, and innovative transportation systems, requiring more proactive responses to conceptualised market conditions (Dubey, 2017).

In catching up with the development of marketing channels as part of supply chain management in practice, theories have also been developed. The significance of marketing channels was made more visible by the theory of economic utility developed in the late 1900s, which goes beyond the product itself for explanations of customer value residing in time, space, and ownership whereby channel members would be reexamined under (new) a value-adding light (Tamilia et al., 2019). The earlier theories of marketing channels focused on structural governance and development. For example, Weld (1916) provides a comprehensive account of the marketing of farm products emphasising specification which was argued to increase efficiency, while Alderson (1954) studied the factors governing market channels and their development. The later theoretical developments turned toward a more micro/behavioural level of analysis such as that of power, conflict, and cooperation between channel members. For example, Stern and Reve (1980) have analysed the networking relationships between channel members as a political system whereby they could develop a framework for comparative analyses. Alexander and Berg (1965) have developed a channel selection theory covering three aspects: channel member selection, factors influencing the channel function and positioning, and the width of the channel coverage.

Since the last few decades, marketing channels have been theorised within a wider scope. For instance, Mohr and Nevin (1990) have proposed a theoretical perspective to communication strategies in marketing channels, Wilkinson (1990) provides a theoretical account of structural evolution in marketing channels, while Grewal and Dharwadkar (2002) analyse marketing channels from the view of the role of institutional environment. The most recent decade has seen a turn to the emerging focus on a management view, studying how the market leader should be able to provide a managerial framework to marketing channels (Rosenbloom, 2012) including agent productivity in the channels (Tang 2019).

### **Indigenous Views on Marketing Channels in the Chinese Context**

Unsurprisingly, the indigenous research on marketing channels and related theories began after China's economic reform. The Chinese research mainly involves marketing channel design, channel management, and performance evaluation. Among these, marketing channel management seems to be the indigenous research focus, covering a wide scope.

Regarding channel design, Li and Huang (2008) find that an important link in the overall marketing strategy is marketing channel design, the structure of which features the length and width of channels, direct channels, indirect channels, and multi channels. Wu (2016) states that companies should design marketing channels based on the analysis of existing market targets, competitors, and cost structures. Wang (2019) suggests that the design of marketing channels is restricted by many factors. For example, in designing marketing channels, companies should emphasise channel design which should be designed soundly in order to achieve continuous and sustainable development. Zhao and Chen (2003) believe that companies should follow the principles of suitability, controllability, economic and developmental considerations when selecting channel members, and who should be selected according to the standards of strength, management, and reputation.

In the field of channel management research, Li (2015) argues that reasonable and scientific marketing channel management is an important means for companies to create

competitive advantages. Based on empirical research, Zhuang and colleagues (2000) find that the use of coercive power will lead to higher conflicts among channel members, while the use of non-coercive power has no significant impact on the conflict among channel members. In addition, they also find that channel conflicts have a negative impact on channel cooperation. Zhu (2002), based on game theory, studies channel conflict and cooperation, proposing that the root cause of conflict is the inconsistency of individual behaviour, rationality, interest, and goal. Wang (2005) systematically analyses the dynamic process of channel conflict, suggesting a dynamic coordination model of a three components commitment relationship. Gao et al. (2006) believe that the direct cause of channel conflict is opportunism, which must be managed through the whole process of managing channel conflict. Gong (2011) argues that shorter and wider channel structures with only one or no layer of middlepersons are better, since the shorter the channels, the closer companies are to their consumers which in turn would allow companies to better understand the market, especially in terms of competitive product prices and timely services, with a long-term development focus.

Finally, Zhang (2010) states that marketing channel performance evaluation refers to the objective assessment and evaluation of the efficiency of marketing channels by manufacturers using systematic means. Zhao (2018) suggests that in evaluating the performance of a company's marketing channel, it is necessary to build a scientific evaluation model, building which would require companies to comprehensively consider internal and external factors in order to select reasonable evaluation indicators.

### **Discussion and Conclusion**

China is believed to continue being the market with the largest demand and the strongest productivity for elevator equipment and related services in the world in the foreseeable future, against growing urbanisation, continuous upgrading of manufacturing industries, constant enhancement of independent innovations, and breakthrough of technical bottlenecks (Huang and Huang, 2018). This prediction is consistent with the common belief among Chinese scholars that the development prospect of China's elevator market is promising. For example, Pan (2016) suggests that the growth in demand for office buildings and commercial buildings in China has driven the development of the elevator industry, along with the installation of elevators in older buildings and elevator after-sales maintenance. Against this background, in applying marketing channels research in the Chinese elevator industry, in particular considering the main research focuses in the indigenous literature, a few future directions can be fruitful.

To begin with, in light of the lack of established marketing channels for elevators in China, various methods can be used to recruit channel members. For example, channel members could be recruited through existing relationship networks of on-site sales personnel and internal human resources, while elevator companies can also select appropriate channel members by references, media advertising, exhibitions or holding conferences (Mai, 2011). Such developments are particularly important for a Chinese elevator industry that is still very traditional, using only conventional marketing strategies, since against increasing globalisation companies must adapt to new situations for development and change, improving and innovating marketing channels for sustained profit (Zhou, 2012). Nonetheless, companies in the elevator industry in China must engage in developing marketing channels, bearing in mind that the functionality of the marketing

channel is directly affected by the demand trend of end customers (Liao, 2019). One of the more effective marketing channel strategies in China might be what Lv (2019) proposes to be a „network office model“ which has become an important part of the operation and development process of today's companies, which can increase competitiveness by building networked marketing channels and multi- channel marketing methods aside traditional marketing channels. Last but not least, players in the Chinese elevator industry are reminded of the belief that channel stability plays an intermediary role in the influence of social network on marketing channel performance, and social trust plays a positive regulatory role in marketing channel performance (Li et al., 2019), factors which should be paid close attention to in maintaining marketing channels in China.

Finally, some of the literature developed in the West might also be pertinent in aiding Chinese elevator companies to conduct successful marketing channel strategies. For example, an early study suggests that the criteria for selecting channel members mainly include financial ability, market coverage, scope of operation, and competition (Sims et al., 1977), which may still be relevant to the elevator industry in China which has remained traditional in terms of marketing strategies. From a management viewpoint, Chinese companies in the elevator industry should also pay attention to the frameworks they will use to manage internal and external players who may affect their marketing channels (Rosenbloom, 2012), whose point has been insufficiently discussed by indigenous scholars.

In conclusion, compared with many industries which have achieved the qualitative transformation of marketing with the development of industry 4.0, the elevator industry in China has been unable to break through the industry sales/marketing barriers, especially in terms of marketing channels. Based on literature and industry analyses, this paper paves the way for Chinese elevator industry to change and transform, calling for future discussion in this light.

### **Acknowledgements**

This paper is funded Project No.: ACKYC19040 and Project No.: 2019LCX025.

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