

Buying a Ton of Bricks Online: Opportunities and Challenges of Digitalizing Complex Marketing Channels

Anna Hepp

Technical University of Munich

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Abstract

Marketing scholars have been calling for more conceptualizing research to account for the complexity of today's marketing channels. Despite a wealth of research on digital marketing channels, gaps remain concerning the digitalization of complex marketing channels, involving business-to-business and business-to-consumer interactions. In this multiple-case study of six building material manufacturers, I induct a theoretical framework of three archetypes with different opportunities and challenges in their digitalization efforts. I integrate definitions from two fields of literature, marketing channel, and information systems research, and contribute to existing literature with a nuanced view of firms' considerations in fragmented and interdependent marketing channels.

Keywords: Marketing Channels, Digitalization, Case Research

1. Introduction

In February 2019, electric vehicle maker Tesla announced to close the vast majority of its stores and shift every purchase to their online shop. With this shift, Tesla disrupted the decade-old channel structure in the automotive industry, where car shoppers traditionally go to local car dealers for product information, test drives, and price negotiations. Tesla identified two opportunities streamlining its marketing channels: reducing costs and improving customer reach (Tesla, 2019). In general, researchers define marketing channels as systems of interdependent parties: manufacturers, intermediaries, and end-users (Palmatier, Stern, & El-Ansary, 2016). When firms plan to digitalize their marketing channels, i.e., leveraging digital technologies for specific processes or activities (Kannan & Li, 2017), they consider multiple opportunities and challenges. The example of Tesla illustrates three aspects: first, manufacturers expect numerous opportunities from digitalizing their marketing channels, e.g., saving costs and reaching new customers. Second, to digitalize a marketing channel, firms need to overcome considerable challenges, e.g., invoking a change in consumer behavior. Third, digitalizing marketing channels has immediate consequences for involved channel partners, e.g., closing down resellers.

Insightful research exists to explain the opportunities and challenges of digital marketing channels for manufacturers. Identified opportunities stem from lowering transaction costs, reaching new consumer segments, improving understanding of customer behavior, and offering a wider selection of products via digital channels (e.g., Brynjolfsson, Hu, & Smith, 2003; Chiang, Chhajed, & Hess, 2003; Gielens & Steenkamp, 2019). Challenges often relate to internal and external channel conflict, i.e., with downstream channel intermediaries (e.g., Tsay & Agrawal, 2010; Webb, 2002; Webb & Lambe, 2007). Research on digital marketing, however, is fragmented (Yadav & Pavlou, 2014). Therefore, it is difficult to find a comprehensive definition of digital marketing channels, encompassing all channel activities, for example, sales and advertising, transportation, and financing. Gaps also remain regarding firms' considerations when digitalizing marketing channels in today's complex and interdependent marketing channels (Krafft, Goetz, Mantrala, Sotgiu, & Tillmanns, 2015; Rosenbloom, 2007). Firms, which digitalize their marketing channels, have to consider their interdependent, downstream channel partners. To examine networks and conceptualize firms' considerations, marketing channel researchers encourage qualitative research (Krafft et al., 2015).

A common and recommended approach to conceptualize is theory building from cases (Eisenhardt & Graebner, 2007; Yin, 2014). Therefore, I conduct a theory-building, multiple case study following the "Eisenhardt method," comparing multiple cases and interview data from diverse informants (Langley & Abdallah, 2011). Focal firms in my study are manufacturers of building materials in Germany, producing material for construction and refurbishment, such as roofing tiles, wallboards, drywalls, isolation materials, bricks, scaffolding, and heating systems. Marketing channels for building materials in Germany are highly complex and lagging in digitalization. Leveraging field and archival data, I analyze a sample of six building manufacturers in this study. The data includes interviews with key decision-makers of focal firms, annual reports, and in-depth expert interviews.

Based on my analysis, I induct a framework of opportunities and challenges for firms when digitalizing marketing channels and cluster firms in three archetypes. The underlying logic utilizes the interaction framework proposed by Yadav & Pavlou (2014), which differentiates interaction by involved channel members, e. g. firm-firm or firm-consumer interactions. Common opportunities for all three archetypes first and foremost include saving costs through improved process efficiency between manufacturers and distributors, but also benefitting from standardization efforts by channel partners and providing information to existing customers. There are, however, firms that identify additional opportunities and subsequently have different intentions for the digitalization of their marketing channels. Some firms establish additional

digital touchpoints to diversify their marketing channel, while others disintermediate channel members to redefine the marketing channel. I deepen challenges identified by Neslin et al. (2006), which, in the context of this study, arise due to product and industry characteristics across all archetypes, with some firms finding ways to work around these challenges.

My research makes two contributions to existing research. First, I develop an interdisciplinary definition of digital marketing channels by incorporating concepts from information systems research and marketing channel research. Second, I apply this definition to provide an understanding of firms' considerations when digitalizing marketing channels in distinctly complex and interdependent channels. Thereby, I respond to marketing scholars calling for more qualitative, conceptualizing research to shed light on the complexity of many of today's marketing channels. In addition to these contributions, practitioners benefit from my insights, which can improve their understanding of different strategies and underlying intents in marketing channels increasingly disrupted by digital technologies.

2. Research Background

2.1. Interdisciplinary definition of digital marketing channels

According to marketing channel research, there are three main parties in a marketing channel: manufacturers of products and services, intermediaries, and end-users. Marketing channels are the pathway for products from production to consumption, and their objective, consequently, is to make a product or service available to an end-user (Palmatier et al., 2016). Scholars define a marketing channel as a system of interdependent parties involved in achieving this objective (Kozlenkova, Hult, Lund, Mena, & Kekec, 2015). Different marketing channel activities are necessary to achieve this objective. The underlying activities and processes are manifold, including logistics, such as transportation and storage; sales, advertising and information sharing with end-users; ordering and payment; financing, negotiation, and risk as well as relationship building (Krafft et al., 2015; Palmatier et al., 2016). As soon as digital technologies facilitate or enable activities and processes among and between members of a marketing channel, researchers refer to it as a digital marketing channel (Kannan & Li, 2017). Although research on digital marketing channels is abundant, their definition remains broad and vague, especially in complex business-to-business channels involving multiple stakeholders.

Information systems research, therefore, helps to inform the definition of digital marketing channels for the context of this study. Information systems research provides a clear definition for a subset of marketing channel activities, namely ordering, payment, and information sharing in a business-to-business environment. These activities are "digital" when technologies connect organizations to exchange information or conduct related transactions. Scholars in information systems research often use two groups of terms interchangeably to describe these technologies: business-to-business electronic commerce and other similar phrases as well as inter-organizational information systems (Sila, 2015; Teo, Wei, & Benbasat, 2003). These terms can include any open or closed, digital connection between two organizations, such as electronic data integration, enterprise resource planning systems, electronic hubs, online platforms, online shops, or webshops.

Identifying a definition for the remaining activities which encompass digital marketing channels is difficult because the literature on digital marketing overall is abundant but fragmented (Yadav & Pavlou, 2014). The nature of relevant activities determines the level of possible digitalization (Webb, 2002). On the one hand, activities involving human interaction, such as negotiation and relationship building, are hard to be conducted digitally but can be simplified with digital tools. Similarly, activities involving the physical exchange of goods and materials, such as logistics, transportation, and storage, cannot be conducted digitally but have the potential to be facilitated by digital means (Webb, 2002). On the other hand, some activities

are ubiquitous in the digital environment, for example, lead generation through online advertising, sales through online shops, and complimentary services such as financing.

The applied definition of digital marketing channels for this study, therefore, is two-fold. First, it follows the classification by Yadav & Pavlou (2014) and perceives marketing channel activities as interactions between channel stakeholders. Second, it builds upon the suggestion by Trenz (2015), who posits that the dichotomy of online vs. offline does not adequately reflect today's channel realities. Therefore, I define a digital marketing channel as a channel that leverages digital technologies to establish, facilitate, and enhance channel activities between members of a marketing channel.

2.2. Opportunities and challenges of digitalizing marketing channels

Marketing scholars agree that for manufacturers, digital marketing channels, and digital disintermediation create “unprecedented opportunities” (Gielens & Steenkamp, 2019: 368). There are numerous opportunities in digital channels. Their underlying benefit often stems from lower transaction costs (Watson, Worm, Palmatier, & Ganesan, 2015). By avoiding double marginalization and inefficient pricing, direct, digital channels enable lower transaction costs and higher profitability (Chiang et al., 2003; Webb, 2002). Direct, digital channels allow manufacturers to interact with end-users directly and to reach new customer and market segments (Gielens & Steenkamp, 2019; Webb, 2002). When determining which channel functions to perform internally and how to cooperate with channel partners, direct, digital channels can provide greater proximity, reduced dependency, and more control over marketing channels for manufacturers (Watson et al., 2015). Besides, firms can create valuable, rare, and hard-to-imitate resources through access to customer data via direct and online channels (Watson et al., 2015). Digital channels facilitate the selling of more complex and customized products and enable better customer service (Hsu, Kraemer, & Dunkle, 2006; Son & Benbasat, 2007).

Additional opportunities also arise for the entire channel and other channel members, i.e., intermediaries and end-users. Wider arrays of products become visible and available (Brynjolfsson et al., 2003). The internet provides more information about products and prices, thereby reducing search costs (Agatz, Fleischmann, & van Nunen, 2008). Prior research also suggests that even distributors can benefit from direct channels by manufacturers, through lower wholesale prices by manufacturers and labour division, which mitigates double marginalization and thus improves efficiency (Arya, Mittendorf, & Sappington, 2007; Li, Gilbert, & Lai, 2014; Tsay & Agrawal, 2010). Many marketing scholars find that positive relationships improve performance for all related parties in the long run, when upstream or downstream members of a channel are not perceived as potential competitors but primarily as partners (Watson et al., 2015). Establishing e-business technologies between firms fosters partnership success, raising financial performance, effectiveness, and efficiency (Spralls, Hunt, & Wilcox, 2011). Finally, Yan & Pei (2015) find that cooperative advertising between manufacturers and distributors can also improve channel performance as a whole.

In contrast to these opportunities, there are also challenges of digital marketing channels for manufacturers as well as entire channels. Many marketing scholars identify channel conflict as the most serious challenge, which can occur within a marketing channel but also within a firm (Agatz et al., 2008; Webb, 2002). Within a firm, buyers could move their purchases from offline to online channels (Agatz et al., 2008). Within a channel, manufacturers could harm long-standing relationships through digital disintermediation, i.e., removing intermediaries from the channel (Webb, 2002). Direct channels by manufacturers may cannibalize distributors' sales (Chiang et al., 2003).

Manufacturers may face further challenges. There are, of course, technological challenges, such as the lack of IT infrastructure, skills, and expertise (Iacovou, Benbasat, & Dexter, 1995). When adding a digital channel and hence selling through multiple channels, it can be difficult to coordinate channel strategies, allocate resources, and integrate data to understand customers'

behavior (Neslin et al., 2006). Additionally, digital channels can cause internal multi-channel conflict in manufacturing firms concerning the alignment of goals, communication, and coordination (Webb & Lambe, 2007). Moreover, managing digital channels presents a trade-off between process integration and separation. Contrary to traditional channels, online channels frequently encompass additional related services, e.g., delivery to a specific location or at a specific time. These services can become crucial components for manufacturers to provide (Agatz et al., 2008). Due to their immediate impact on delivery capacities, fluctuations in demand tend to have a stronger impact on digital channels and logistics, therefore, need to be more flexible (Agatz et al., 2008). Lastly, new, pure online players may establish digital channels. This could not only increase competition but also pose a threat to a manufacturer's brand and reputation (Gielens & Steenkamp, 2019).

Complexity in marketing channels overall continues to grow. Many scholars acknowledge that marketing channel systems are mostly not dyadic or even triadic relationships. Rather, they are interdependent networks of multiple parties, focusing on long-term success (Watson et al., 2015). These networks are often characterized by multiple, interdependent stakeholders, governed by normative and social structures (Watson et al., 2015). Conceptualizing research can account for this complexity. Marketing scholars call for more methodological diversity and comprehensive, interdisciplinary research designs to reflect the complexity of many of today's marketing channels (Kozlenkova et al., 2015; Krafft et al., 2015). To examine complex channel networks and to develop concepts and hypothesis frameworks, marketing channel researchers encourage qualitative research (Krafft et al., 2015). Therefore, this study explores the following research question in a theory-building, multiple-case study: what are the opportunities and challenges of digitalizing complex marketing channels?

3. Methodology

3.1. Data collection and analysis in theory-building, multiple-case study research

To understand the opportunities and challenges of digitalizing marketing channels, I conduct a theory-building multiple-case study. Case study research is a suitable method to investigate this phenomenon and its context, the marketing channel (Yin, 2014). Moreover, a theory-building case study enables combining the two research strands, which – in isolation – do not offer a comprehensive answer to my research question (Eisenhardt & Graebner, 2007). In my multiple-case study research, I investigate six cases, analyzing four types of data sources: (1) the primary data source were multiple semi-structured interviews with decision-makers in relevant positions of focal firms, followed by (2) informal and focused follow-up questions where necessary. I complemented these data sources with (3) annual reports for further within- and cross-case analysis and conducted (4) over 20 additional interviews with industry experts, investors and decision-makers at professional distributors and applicators to get a solid understanding of the industry's marketing channel. The data analysis process consisted of three key steps: within-case analysis for each case, followed by cross-case comparison and comparison with extant literature. Applied pattern matching and triangulation of multiple data sources during analysis, as well as a case study database and protocol, ensured internal and construct validity as well as reliability of my results (Yin, 2014).

3.2. Industry setting of the cases

The phenomenon that sparked my initial interest is the sluggish implementation of digital solutions in the construction sector overall and in the German building material industry in particular. Many different business functions and stakeholder interactions in this industry have not yet been digitalized (McKinsey Global Institute, 2017). The setting of the building material industry in Germany is appropriate and informative to study my research question for two reasons: first, in the industry in Germany, there is a huge number of interdependent channel members, so I can adequately investigate my research question in a very complex marketing channel network. Second, unlike many other industries, businesses in the construction sector in general and building materials industry, in particular, have failed to successfully implement digital marketing channels or carry out considerable portions of their sales via these channels (Statista, 2018). Therefore, both opportunities and challenges are on top of the management agenda.

4. Findings

4.1. Three archetypes with different considerations when digitalizing marketing channels

Due to space limitations, I omit the within-case analysis and focus on cross-case analysis in this shortened version of the paper. The within-case analysis yields opportunities and challenges encountered by focal firms when digitalizing marketing channels. Cross-case comparison of focal firms provides distinct patterns of similarities and differences in these opportunities and challenges. Based on these distinct patterns, I induct a framework of three archetypes. These archetypes are summarized in **Table 1**. Archetypes share a set of common opportunities but differ by additional opportunities, by their subsequent intent of digitalizing marketing channels and by the challenges they encounter in doing so.

Firms like Archetype I aim to maintain the current marketing channel with all involved stakeholders and only digitalize selected processes and activities, for example, by offering an online ordering platform. They leverage digital marketing channels primarily to increase their efficiency. Firms like Archetype II aim to diversify their marketing channel to be prepared for potential future disruptions like new entrants. They also identify efficiency potentials, but additionally, they establish touchpoints with downstream channel partners, such as digital tools and services, to accommodate for increased product complexity and facilitate customization. Firms like Archetype III redefine the marketing channel with digital solutions. These firms not only realize efficiency gains from automating activities and processes. They also intensify relationships with end-users, potentially disintermediating distributors, and add new business models enabled through digital means.

4.2. Opportunities by archetype

Opportunities common for all three archetypes include primarily saving costs through improved process efficiency, responding to expectations and standardization efforts by channel partners, and providing more information to existing customers. Primarily with electronic commerce solutions, through open webshops or closed ordering platforms, order processing can become faster and more reliable compared to today's practices: *"We really receive handwritten orders via fax, it is not uncommon."* One executive expects *"30 to 60% fewer resources if processes like ordering are automated"*. Additionally, distributors organized in trading organizations are implementing digital ordering systems to standardize orders, and manufacturers complying with these systems stand to benefit. Finally, existing customers and end-users are increasingly looking for product information online, even for products like building materials: *"For our photovoltaic products, digital marketing channels are increasingly important. These products require comprehensive information for end-users."*

In addition to these opportunities, firms like Archetype II understand the importance of digital touchpoints for applicators in the marketing channel, like construction companies and

artisans: *“We have understood that the applicator’s interaction point on the construction site will become more digital.”* This supports the increasing complexity and customization of products: *“Because there is so much complexity, you have to digitize. Otherwise, normal applicators would not cope with the number of different systems.”* However, firms like Archetype II do not want to disrupt the existing marketing channels: *“We are very happy with the good partnership along the value chain with the distributor and applicator.”* Because distributors supply services such as logistics and financing of small businesses, they are valued partners in the marketing channel: *“The dealer has many capabilities that we do not have.”*

In addition to opportunities identified by Archetype I, firms like Archetype III identify a different set of opportunities to redefine marketing channels. These opportunities include offering additional services previously provided by other channel members, potentially disintermediating them: *“In an early phase, we want to lock in the customer and demonstrate our know-how.”* Moreover, they have a very customer-centric business model and establish new, digital business models, targeting respective decision-makers for their products, which can be end-users, but also architects or applicators. To target these decision-makers, firms like Archetype III systematically generate leads through digital channels: *“We use all the typical tools like platforms, paid advertising and organic traffic.”*

4.3. Challenges by Archetype

Challenges common for all three archetypes are due to industry characteristics and established practices and structures. First, all focal firms note caution and reactivity among channel members: *“Everybody is slowing it down”*, one executive stated. Second, the industry is highly fragmented, especially on the levels of distributors and applicators. Therefore, many different players would have to adopt new digital channel solutions. Third, existing structures have developed over decades, and firms often rely on established, face-to-face business relationships: *“There are well-established sales channels to conduct the business. The business is a handshake-business”*. Firms like Archetype I and II identify additional challenges that make the implementation of digital channels difficult. They often encounter difficulties with data quality, due to the lack of a joint data standard in the industry. In addition, distinct product attributes make logistics challenging. Products are often complex, customized, and require expertise to apply or install. The products are bulky, heavy, and, therefore, costly to transport, which requires advanced logistical capabilities. *“Logistics are the largest challenge,”* one executive described.

Archetype III-firms recognize two challenges in addition to industry-wide ones as identified by all firms, and uniquely work around these challenges. These two challenges are the high costs for applicator firms to implement advanced software and the struggle for manufacturers to build or hire the new required capabilities. Previously discussed challenges mentioned by Archetypes I and II appear to be to industry-wide, common challenges supposedly outside of each focal firms’ power to overcome. Archetype III-firms, however, find ways to mitigate some of these challenges. For example, to alleviate the challenge of fragmentation, Archetype III-firms target fewer, large, and integrated customers with their new digital services. Further, Archetype III-firms mitigate low adoption among applicators due to the high investment costs of digital purchasing software. Hence, Archetype III-firms provide applicators with a holistic digital toolkit, including digital ordering platforms and adequate mobile applications: *“Our partner portal supports our installers to order via the online shop or an app and allows them to make their processes more efficient.”*

Table 1: Summary of opportunities and challenges for identified archetypes

| | Archetype I Increasing efficiency in the marketing channel | Archetype II Diversifying the marketing channel | Archetype III Redefining the marketing channel |
|----------------------|---|---|--|
| Opportunities | <ul style="list-style-type: none"> ▪ Reduce costs and increase overall process efficiency ▪ Respond to expectations or requirements by channel partners ▪ Provide more information and better services to existing customer base | | |
| | <ul style="list-style-type: none"> ▪ Establish touchpoints for new customer base among downstream channel partners | | |
| | <ul style="list-style-type: none"> ▪ Reach end customer directly by removing intermediaries from the marketing channel ▪ Enable growth through business model upgrades | | |
| Challenges | <ul style="list-style-type: none"> ▪ Caution and reactivity among players ▪ Existing, well-established structures relying on personal interactions and limited pressure to change ▪ Fragmentation of downstream level partners on the distributor and especially on the applicator level | | |
| | <ul style="list-style-type: none"> ▪ Difficulty with data quality and technology implementation ▪ Logistical challenges to ensure local and timely deliveries ▪ Distinctive product attributes in need of explanation, expertise and application support | | |
| | <ul style="list-style-type: none"> ▪ High investment costs of digital tools and processes among small downstream level partners ▪ Difficulty in attaining necessary capabilities | | |

5. Discussion and Implication

This study's key insight is that with different identified opportunities and challenges of digital marketing channels, subsequent intents of digitalizing marketing channels differ. While some firms aim to implement electronic commerce technologies to facilitate purchasing and reduce cost, others use digital channels to disintermediate downstream channel partners and upgrade their business model. Prior research has identified opportunities (e.g., Gielens & Steenkamp, 2019) and challenges (e.g., Neslin et al., 2006) of digital marketing channels. But the literature on digital marketing overall is fragmented (Yadav & Pavlou, 2014), and a comprehensive definition of digital marketing channels is unclear. Gaps also remain in understanding digitalization efforts of marketing channels, which are characterized by complexity, fragmentation, and interdependence among channel members.

I make two contributions to existing marketing channel research. First, I develop an interdisciplinary definition of digital marketing channels. Second, I induct a framework to deepen the understanding of firms' considerations when digitalizing marketing channels in complex, fragmented, and interdependent channels. Marketing scholars have defined and

investigated many aspects of digital marketing, but the definition of digital marketing channels, especially for a context involving interactions between firms and businesses, remains unclear (Kannan & Li, 2017). Utilizing definitions from information systems research for inter-firm ordering technologies (Sila, 2015; Teo et al., 2003), I provide a comprehensive definition of digital marketing channels in fragmented business-to-business and business-to-consumer contexts. This comprehensive definition is based upon the structuring framework by Yadav & Pavlou (2014), who group digital marketing interactions by involved parties, e.g., firms and firms or firms and consumers (Yadav & Pavlou, 2014).

The inducted framework extends considerations by Gielens & Steenkamp (2019) on digital disintermediation by brands due to the rise of e-commerce models. Their set of opportunities and challenges is limited to firms' internal considerations, such as pricing power, direct interaction with consumers, and improved efficiency or lack of scale and financial resources (Gielens & Steenkamp, 2019). This study identifies additional opportunities targeted towards all involved downstream channel partners, such as distributors and applicators, but also end-users. Furthermore, the inducted framework broadens challenges identified by Neslin et al. (2006), by adding industry and product characteristics and taking into account the fragmentation and complexity of the marketing channel (Neslin et al., 2006).

Lastly, this study provides managerial insights for the construction industry and beyond. Prior literature has proposed channel strategies for manufacturers to actively manage channel conflicts, which include the promotion of channel partners or diverting orders to distributors (Webb, 2002). In addition to these strategies, the presented framework illustrates two insights. First, identified opportunities of manufacturers and their subsequent intents of digitalizing marketing channels vary. Accordingly, strategic initiatives towards downstream channel partners vary among manufacturers, and executives should develop precise and targeted digitalization initiatives, which exploit the identified opportunities. Second, overcoming challenges, which inhibit the digitalization of marketing channels on the levels of distributors and applicators, can improve overall performance and deepen channel ties. It can also equip manufacturers with critical capabilities and a better understanding of end-users and decision-makers of their products. These approaches could help the building material industry, and construction sector overall, to catch up on current deficiencies in digitalization.

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