

Analyze Cyber-Channel Conflict While Adopting Bancassurance: A Frequency Perspective

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Abstract

Insurers have adopted multiple channels of distribution to sell insurance products during the past decade. Although multiple channel distribution strategies provide tremendous benefits to insurers, but there are many causes which lead to multi-channel conflict. The question of how to identify the factors that cause distribution channel conflicts has received scant attention in the literature and has not been appropriately investigated in prior studies. This study employed methods of Delphi study, GRA, and C.A. to identify the factors that cause distribution channel conflicts in the insurance industry and to assess the frequency of factors that cause insurance distribution channel conflict. According to result of this study the most important three causes leading to multi-channel conflict are “differences in perception of reality used in joint decision making”, “using coercive powers”, and “incompatibility of goals”. Thus, administrators of banks or insurance companies will redesign their organization disciplines or management policies accordingly which can improve the performance of multiple channel strategy.

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1 Introduction

As a result of changes in purchasing behavior, the nature of products and services, information techniques, and the cost of distribution, increasingly diverse and complex distribution strategies have emerged. Employing various channels to serve a given market is becoming a major part of the marketing plans of product and service suppliers [9, 17,

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30].

In this context, to increase market coverage, decrease distribution costs, and target the appropriate segments, insurers have adopted multiple channels of distribution to sell policies during the past decade. The popular channels that have been employed by providers include Internet-led channels, company-led channels, bank-led channels, agent-led channels, broker-led channels, and other cybermediaries (e.g., telephone and TV stations) [22, 28, 38].

Competition in the insurance industry is at an all-time high, which challenges providers to retain existing customers while attracting new ones. Most banks and insurers are looking for the same things — better ways to retain customers and to increase income. Although multiple channel distribution strategies provide tremendous benefits to insurers, they also trigger certain challenges.

Interestingly, many prior studies (e.g., [17, 28]) have found that both intrachannel and interchannel conflict may have positive and negative effects on distribution performance. Webb and Hogan (2002) [17] also found that channel performance is significantly affected by the frequency of channel conflict. Minimizing the occurrence of channel conflict is a means of improving channel performance.

Unfortunately, prior studies have provided few insights for insurance decision makers related to multiple channel conflict. Objective and scientific approaches to academic research are limited, especially in terms of exploring the causes of multiple channel conflict in an insurance sector and investigating the frequency of causes of channel conflict. The purpose of this research is to identify the factors that cause distribution channel conflicts in the insurance industry. This study also contributes to both the insurance marketing literature and the insurance marketing management literature by assessing the frequency of the factors that cause insurance distribution channel conflict.

2 Literature Review

2.1 Motivations of Employing Multiple Distribution Channels

The principal incentives for firms to develop multiple distribution channels are to increase market share, to reduce costs [8, 14, 21], to reach target markets [13, 26], to reach new market segments [10, 21], and to share information and knowledge about customers [21]. Thus, many firms worldwide have adopted multiple channel marketing strategies. This increasingly prevalent trend, which is also known as “multiple distribution strategy,” has dramatically changed the demands that are placed on channel managers [17, 24].

2.2 Conflicts of Employing Multiple Distribution Channels

Channel conflict between channel members tends to be a very negative force which may lower profits for all parties [32]. Many studies have shown channel conflict is inevitable, but not all conflicts are equally dangerous. The adoption of a multiple channel strategy yields both benefits and drawbacks for firms. Many prior studies have argued that the performance of marketing distribution is affected by channel conflicts. Coelho et al. (2003) [5] evaluated 62 U.K. financial service firms and found that multi-distribution channels were associated with higher sales performance but lower channel profitability. Singh (2006) [31] also found that a channel’s efficiency and its conflict were negatively correlated.

Similarly, a study by Chen and Chang (2010) [24] found that insurers that adopted a direct distribution system were more efficient than those that employed a multi-distribution system.

Although a multiple channel strategy provides many advantages for firms, it also presents certain disadvantages. The adoption of a multiple channel may create conflict in the demand for internal company resources and conflicting objectives for various channels, and such conflicts increase the potential for customer confusion and dissatisfaction [13, 17, 18, 21]. Poorly integrated multiple-channels may engender in customer dissatisfaction with the firm's multichannel strategy resulting in loss of customers to competitors [1]. Moreover, channel conflict may also stem from goal incompatibility, clashes over domain, and differing perceptions which lead to poor channel performance as well [39].

2.3 The Factors Causing Distribution Channel Conflict

To manage channel conflict, it is necessary for marketing distribution managers to identify the causes of channel conflict and to minimize this conflict. Many channel conflict studies (e.g., [17, 39]) agree that there are two types of channel conflict. The first type is intrachannel conflict, which is also termed vertical conflict and refers to the friction between a firm and the members of its distribution channels. It often arises when actions that may be good for an insurance company also result in increased competition for its current distribution channel [39]. The second type is interchannel conflict, which is also termed horizontal conflict and refers to the friction between two or more channels at the same level. Horizontal conflict stems primarily from competition between channel participants and the fear of channel cannibalism [39]. Unfortunately, horizontal conflict, if not controlled, will turn into vertical conflict [39].

Interchannel conflict is distinct from intrachannel conflict, which has been the focus of most studies. Interchannel conflict occurs when one coalition believes that another coalition is seeking to gain scarce resource at its expense [15]. Therefore, marketing management expects multiple channel conflict to be a common occurrence when firms have multiple channels and limited resources. A lack of channel management on the supplier's part is also a cause of interchannel conflict because it is likely to produce a confusing situation in which interchannel competition becomes interchannel conflict [17].

Many other studies have observed that poorly designed channel structures, poor alignment with customer segments, communication difficulties, and the use of coercive powers constitute additional causes of interchannel conflict. Conflict between authority and responsibility occurs when an unsuitable channel structure design is used. As a result, channel implementation and performance suffer [23].

In addition to inappropriate channel structure design, targeting the same customers is also a cause of channel conflict. Because most producers sell through several channels simultaneously, channels typically compete to reach the same consumer segments. Another cause of channel conflict, in addition to relying on poorly designed channel structures, targeting the same customer segments, and experiencing communication difficulties, is the use of coercive powers. Cather and Howe (1989) [4] found that conflict was positively correlated with the use of coercive power for both independent and exclusive agency insurers; this result suggests that punitive agency management strategies are associated with increased tension between insurers and agency channels.

In the context of multiple channels, it is clearly necessary to identify the causes of intrachannel conflicts [39]. The studies by Rosenberg and Stern (1970) [19] and Rosenberg

(1974) [20] indicated that goals, domains (roles), and perceptions are causes of intrachannel conflict. The authors explained that goals between and among vertically linked firms often differ and may be incompatible and even mutually exclusive. In the interdependent arrangement of firms in a single channel system, one firm's goals may comprise another firm's constraints, resulting in conflict. Similarly, the channel system features role interdependence in which one firm depends on another firm for work inputs and decision premises [34].

2.4 Relationship between Channel Conflict and Performance

The relationship between channel conflict and its performance has been explored in previous studies. Rosenberg (1974) [20] found that channel conflict may affect a distributor's performance. Webb (2002) [16] and Chen and Chang (2010) [24] obtained similar findings and showed that multiple channels enable firms to capture customers in different market segments and yield higher sale volumes, although such channels also pose many challenges, such as channel conflicts.

Therefore, the management or resolution of channel conflicts largely determines the actual consequences in terms of financial indicators of performance. However, merely identifying the causes of multiple channel conflict cannot decrease channel conflict or improve the performance of distributors. Webb and Hogan (2002) [17] found that channel performance is significantly affected by the frequency of channel conflict. In other words, distribution administrators who want to improve a channel's performance must identify and manage the most frequent causes of channel conflict.

3 Methodology

The methodology in this study consists of two phases (see Figure 1). In the first phase, this study employed the modified Delphi study to identify the causes of insurance multi-channel conflict. In the second phase, the relative frequency of cause leading to multi-channel conflict was assessed by employing a conjoint analysis (C.A.). However, Hair et al., (1998) [12] suggested and figured out the C.A. is useful for measuring up to about six attributes. Before conducting C.A. to calculate the relative frequency of cause triggering off multi-channel conflict, this study employed The Grey Relational Analysis (GRA) previously to shortlist the causes identified by modified Delphi study. Fan (2007) [3] have even used GRA successfully for the shortlist selection of inputs before conducting Data Envelopment Analysis (DEA). Without doubt, GRA is an idea method to select appropriate attributes before conducting the C.A. Both GRA method and the C.A. are described as follows:

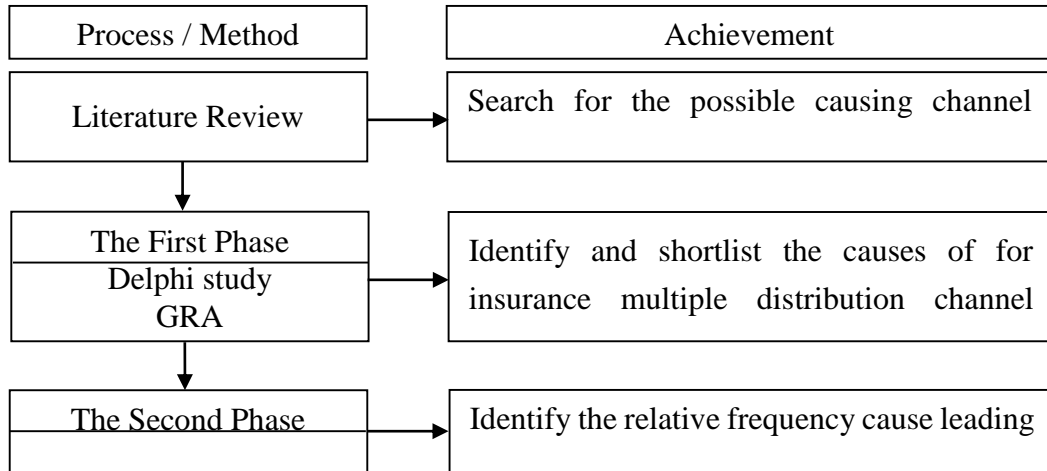


Figure 1: The Structure of the Methodology

3.1 The Grey Relational Analysis

The second purpose of this study is to identify the frequency’s ranking of causes triggering off multi-channel conflict while selling insurance in banks. The grey system method, as developed by Deng (1989; 1999) [14, 15], has been extensively applied in various fields, including decision science. The GRA is calculated as follows:

Let X_0 be the referential series with k entities (or criteria) of $X_1, X_2, \dots, X_i, \dots, X_N$ (or N measurement criteria). Then:

$$\begin{aligned}
 X_0 &= \{x_0(1), x_0(2), \dots, x_0(j), \dots, x_0(k)\}, \\
 X_1 &= \{x_1(1), x_1(2), \dots, x_1(j), \dots, x_1(k)\}, \\
 &\vdots \\
 X_i &= \{x_i(1), x_i(2), \dots, x_i(j), \dots, x_i(k)\}, \\
 &\vdots \\
 X_N &= \{x_N(1), x_N(2), \dots, x_N(j), \dots, x_N(k)\}.
 \end{aligned}$$

The grey relational coefficient between the compared series X_i and the referential series of X_0 at the j -th entity is defined as:

$$\gamma_{0i}(j) = \frac{\Delta \min + \Delta \max}{\Delta_{0j}(j) + \Delta \max}, \tag{1}$$

where $\Delta_{0j}(j)$ denotes the absolute value of difference between X_0 and X_i at the j -th entity, that is:

$$\Delta_{0j}(j) = |x_0(j) - x_i(j)|, \text{ and } \Delta \max = \max_i \max_j \Delta_{0j}(j), \Delta \min = \min_i \min_j \Delta_{0j}(j).$$

The grey relational grade (GRG) for a series of X_i can be expressed as:

$$\Gamma_{0i} = \sum_{j=1}^K w_j \gamma_{0i}(j), \quad (2)$$

Where w_j represents the weight of j -th entity. If the weight does not need to be applied, take $w_j = \frac{1}{K}$ for averaging.

Before calculating the grey relation coefficients, the data series can be treated based on the following three kinds of situation and the linearity of data normalization to avoid distorting the normalized data. They are:

(a) Upper-bound effectiveness measuring (i.e., larger-the-better)

$$x_i^*(j) = \frac{x_i(j) - \min_j x_i(j)}{\max_j x_i(j) - \min_j x_i(j)}, \quad (3)$$

where $\max_j x_i(j)$ is the maximum value of entity j and $\min_j x_i(j)$ is the minimum value of entity j .

(b) Lower-bound effectiveness measuring (i.e., smaller-the-better)

(c)

$$x_i^*(j) = \frac{\max_j x_i(j) - x_i(j)}{\max_j x_i(j) - \min_j x_i(j)}, \quad (4)$$

$$\text{If } \min_j x_i(j) \leq x_{ob}(j) \leq \max_j x_i(j), \text{ then } x_i^*(j) = \frac{|x_i(j) - x_{ob}(j)|}{\max_j x_i(j) - \min_j x_i(j)}, \quad (5)$$

$$\text{If } \max_j x_i(j) \leq x_{ob}(j), \text{ then } x_i^*(j) = \frac{x_i(j) - \min_j x_i(j)}{x_{ob}(j) - \min_j x_i(j)}, \text{ or} \quad (6)$$

$$\text{If } x_{ob}(j) \leq \min_j x_i(j), \text{ then } x_i^*(j) = \frac{\max_j x_i(j) - x_i(j)}{\max_j x_i(j) - x_{ob}(j)}. \quad (7)$$

where $x_{ob}(j)$ is the objective value of entity j .

Thus, GRA method can detect the priority of the frequency's ranking of causes triggering off multi-channel conflict based upon twelve experts' opinions. The procedures of detecting order of the priority are:

- (a) Sample twelve experts and measure their quality characteristics for eight ranks.
- (b) Decide the referential series and the compared series.
- (c) Make data normalization for determining $x_i^*(j)$.
- (d) Compute $\Delta_{0i}(j)$.

- (e) Compute the relational coefficient, $\gamma_{0i}(j)$, of all compared series.
- (f) Compute the GRG, Γ_{0i} and can be to see the order for eight ranks based upon the expert’s opinion.

3.2 Conjoint Analysis

The second purpose of this study was to explore the relative frequency of each cause leading to multi-channel conflict.

The concept of conjoint analysis is introduced in this section, as well as the determined formula of the utility with the conjoint analysis. The final part in this section discusses the process of data analysis with conjoint analysis.

Conjoint analysis (CA) has been employed in research for many years. Panda and Panda (2001) [37] have described CA as a “what if” experiment in which buyers are presented with different possibilities and asked which product they would buy. In other words, CA is a multivariate technique used specifically to understand how respondents develop preferences for products or services [12]. Sudman and Blair (1998) [36] emphasized that CA is not a data analysis process, such as cluster analysis or factor analysis; it can be regarded as a type of “thought experiment,” designed to display how various elements, such as price, brand, and style, can be used to predict customer preferences for a product or service.

The basic CA model was computed with the ordinary least squares (OLS) regression parametric mathematic algorithm [11] using dummy variable regression. This basic model can be represented as follows [25, 35].

$$U(X) = \sum_{i=1}^m \sum_{j=1}^{ki} \alpha_{ij} \cdot X_{ij} \tag{9}$$

Where

- U(X) = Overall utility (importance) of an attribute
- α_{ij} = Overall utility of the j level of the i attribute
- i = 1, 2,....., m
- j= 1, 2,.....ki
- X_{ij} = 1, if the jth level of the ith attribute is present
= 0, otherwise.

According to the CA basic model, Churchill and Iacobucci (2002) [6] presented a six-stage model that is based on the more critical decision points in a conjoint experiment.

3.2.1 Select attributes

The attributes are those insurance companies can do something about and which lead to multi-channel conflict. In other words, the company has the technology to make changes that might be indicated by frequency of cause leading to multi-channel conflict.

3.2.2 Determine Attribute Levels

The number of levels for each attribute has a direct bearing on the number of stimuli that the respondents will be asked to judge.

3.2.3 Determine Attribute Combinations

This will determine what the full set of stimuli will look like.

3.2.4 Select Form of Presentation of Stimuli and Nature of Judgments

Typically, three approaches can be used: a verbal description, a paragraph description, and a pictorial representation. One method for characterizing judgments is to ask respondents to rank the alternatives according to frequency of cause leading to multi-channel conflict. Another method that is gaining popularity among researchers is to use rating scales.

3.2.5 Decide on Aggregation of Judgments

This step basically involves the decision as to whether the responses from respondents or groups of respondents will be aggregated.

3.2.6 Select Analysis Technique

The final step is to select the technique that will be used to analyze the data. The choice depends largely on the method that was used to secure the input judgments from the respondents.

4 Results

4.1 Result of Delphi Study

In order to identify the causes of insurance distribution multi-channel conflict, this study applies a purposive sampling technique and select 10 experts who are employed by different model banks and insurance companies with a known involvement or expertise in bancassurance. The interviews were conducted through e-mail, or face to face.

The aim of Delphi study is to identify the causes of multi-channel conflict. Delphi panelists were asked to justify their answers to interview questions and to rate their level of agreement toward the causes of multi-channel conflict, ranging from strongly agree (SA) (5) to strongly disagree (SD) (1).

The interview protocol was developed based on the literature review. The interview explored more fully the perceptions of experts about the causes of multi-channel conflict. Descriptive statistics of attitude toward each cause of multi-channel conflict at interview were showed as Table 1. In the final round, nine Delphi panelists strongly agreed that “differences in perception of reality used in joint decision making” and “using coercive powers” were the causes of bank and insurance multi-channel conflict. Moreover, eight Delphi panelists strongly agreed that, “communication difficulties”, “incompatibility of goals”, “poor channel management” and “resource scarify”, were the causes of multi-channel conflict. Last, seven Delphi panelists strongly agreed that, “poorly designed channel structure” and “relationship with lower interdependence” were the causes of multi-channel conflict. There were no undecided (UD) (3), disagree (D) (2) and strongly disagree (SD) (1) answers for the causes of multi-channel conflict item at round 3.

Table 1: Descriptive Statistics of Attitude toward Each Cause of Multi-Channel Conflict at Interview Round 2 and Round 3

The Causes of Multi-Channel Conflict	Attitude toward the Causes of Multi-Channel Conflict									
	SA		A		UD		D		SD	
	R2	R3	R2	R3	R2	R3	R2	R3	R2	R3
Communication Difficulties	8	8	2	2	0	0	0	0	0	0
Differences in Perception of Reality Used in Joint Decision Making	8	9	2	1	0	0	0	0	0	0
Incompatibility of Goals	7	8	3	2	0	0	0	0	0	0
Poor Channel Management	7	8	2	2	1	0	0	0	0	0
Poorly Designed Channel Structure	6	7	4	3	0	0	0	0	0	0
Relationship with Lower Interdependence	6	7	3	3	1	0	0	0	0	0
Resource Scarcity	7	8	2	2	1	0	0	0	0	0
Using Coercive Powers	8	9	2	1	0	0	0	0	0	0

*Five Attitudes toward Necessary Competencies: Strongly Agree (SA), Agree (A), Undecided (UD), Disagree (D), and Strongly Disagree (SD).

4.2 Result of GRA

Based on the result of a Wilcoxon Signed Rank test, no significant attitude difference toward each cause of multi-channel conflict was found between R2 and R3. Thus, the 8 items proposed by this study can be identified as the causes of multi-channel conflict.

Table 2: Summary of the GRG Γ_{oi}

The Causes of Multi-Channel Conflict	Γ_{oi}	Rank
Communication difficulties	0.7333	5
Poorly designed channel structure	0.5476	7
Poor channel management	0.6944	6
Relationship with lower interdependence	0.5060	8
Resource scarcity	0.7667	4
Differences in perception of reality used in joint decision making	1.0000	1
Incompatibility of goals	0.8667	3
Using coercive powers	0.9000	2

After conducting the GRA, this research showed the experts' attitude tendency toward the 8 the causes lead to multi-channel conflict (see Table 2) from the most important to the least important as followings: (1) Differences in Perception of Reality Used in Joint Decision Making, (2) Using Coercive Powers, (3) Incompatibility of Goals, (4) Resource Scarcity, (5) Communication Difficulties, (6) Poor Channel Management, (7) Poorly Designed Channel Structure, and (8) Relationship with Lower Interdependence. Thus, it's impossible to select all causes of multi-channel conflict, Hair et al. (1998) [12] figure out the conjoint analysis is useful for measuring up to about six attributes. Based on the result of GRA, this study decides to choose top six the causes lead to multi-channel conflict

including: “Differences in Perception of Reality Used in Joint Decision Making (1.0000)”, “Using Coercive Powers (0.9000)”, “Incompatibility of Goals (0.8667)”, “Resource Scarcity (0.7667)”, “Communication Difficulties (0.7333)”, and “Poor Channel Management (0.6944)” as the causes lead to multi-channel conflict. The adjusted the causes lead to multi-channel conflict by TOPSIS used in this study are reported in Figure 2.

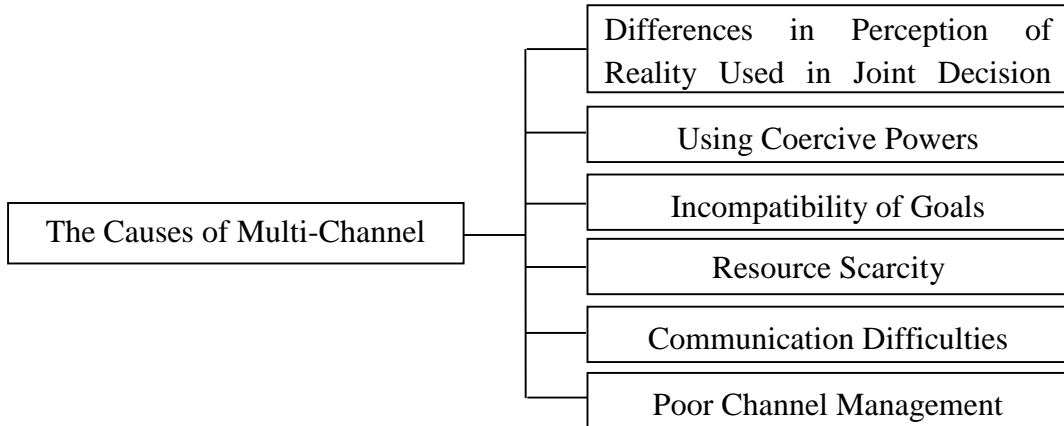


Figure 2: Affect of the Causes Lead to Multi-Channel Conflict in insurance

For a formal analysis, the different attribute levels have to be dummy-encoded in a binary manner. The lowest attribute level serves as a reference point and gets a binary code of 0 [29]. For any other attribute level, a binary digit of 1 is given if the level is present, and 0 is given if it is not.

Due to having two levels for each attribute, the total number of possible combinations is $2^6 = 64$ alternatives (stimuli). This is far too many possible combinations to be evaluated by any decision maker. Therefore, this study had to construct a design of the inquiry that defined a restricted set of stimuli to be considered and the pairs of these stimuli to be compared.

4.3 Result of C.A.

Starting with a basic orthogonal plan generated by Addelman (1962) [33], 6 stimuli were determined (see Table 3). Using the stimuli of the orthogonal array, a difference design was constructed by a randomized procedure following the principles given by Hausrucking and Herker (1992) [7].

Table 3: Attribute Level and Orthogonal Plan Card of the Causes Leading to Multi-Channel Conflict

The Causes of Multi-Channel Conflict	Attribute Level				Card No.							
					1	2	3	4	5	6	7	8
Communication Difficulties	1	Yes	0	No	0	0	1	1	0	1	0	1
Differences in Perception of Reality Used in Joint Decision Making	1	Yes	0	No	0	1	1	1	1	0	0	0
Incompatibility of Goals	1	Yes	0	No	0	0	1	0	1	1	1	0
Poor Channel Management	1	Yes	0	No	0	1	1	0	0	0	1	1
Resource Scarcity	1	Yes	0	No	1	1	1	0	0	1	0	0
Using Coercive Powers	1	Yes	0	No	1	0	1	0	1	0	0	1

The C.A. questionnaire was developed on the basis of some of the literature and shortlisted by TOPSIS methodology, planned with an orthogonal design, and distributed to 30 employees who are working in insurance companies or banks. 30 questionnaires were completed in the survey.

There were sixteen male and fourteen female in the panelist. The age group with the highest frequency was 31-40 that had fifty-three percent; and the dominant educational level of C.A. panelists was master's degrees that had forty-seven percent. Moreover, the bancassurance working experience of 30 C.A. panelists with the highest frequency was 6-10 that had sixty-seven percent in the bank, and fifty-three percent in the insurance company.

Table 4: Relative Affect of the Causes Lead to Multi-Channel Conflict in Insurance

The Causes of Multi-Channel Conflict	Variable	Part-Worth Utility	Relative Importance
Communication Difficulties	1 Yes	0.387	0.17109
	0 No	0.000	
Differences in Perception of Reality Used in Joint Decision Making	1 Yes	0.484	0.21397
	0 No	0.000	
Incompatibility of Goals	1 Yes	0.404	0.17860
	0 No	0.000	
Poor Channel Management	1 Yes	0.255	0.11273
	0 No	0.000	
Resource Scarcity	1 Yes	0.287	0.12688
	0 No	0.000	
Using Coercive Powers	1 Yes	0.445	0.19673
	0 No	0.000	
Total Utility		2.262	

According to the CA report (see Table 4), the most important factor was “Differences in Perception of Reality Used in Joint Decision Making (relative importance = 21.397%)”, the second most important factor was “Using Coercive Powers (relative importance = 19.673%)” and the third most important factor was “Incompatibility of Goals (relative importance = 17.860 %)”.

5 Conclusion and Managerial Implications

There are many causes which lead to multi-channel conflict. Due to the limitation of resources in life insurance companies, try to deal with the most important causes is an acceptable approach to improve the efficiency of multi-channel design. According to result of this study the most important three causes leading to multi-channel conflict are “differences in perception of reality used in joint decision making”, “using coercive powers”, and” incompatibility of goals”.

Since 1964, conjoint analysis study are issued firstly by conjoint measure study of Luce and Tukey (1964) [27], and used many years. Since 1998, Hair et al. (1998) [12] suggest the conjoint analysis is useful for measuring up to about 6 attributes, but no research provides the method of shortlist selections, this study find the TOPSIS is an useful method to help this study to shortlist these attributes.

In order to deal with the channel conflict of “differences in perception of reality used in joint decision making”, marketing managers must spend time understanding how each distributor interprets reality and, where there is a significant difference between what is

seen and what exists, try to eliminate the distortions. Failure to deal with the differences when distributors perceive the job in negative terms will result in increased absenteeism and turnover and lower job satisfaction.

Coercive power is a common method of influencing employee behavior. About the deal with the channel conflict of “using coercive powers”, marketing managers must balance the leadership power using. An essential component of management is to influence the people or units administrators manage so that they do what administrators want them to do. The influence of a manager over his followers is often referred to as power such as reward power, coercive power, legitimate power, referent power and expert power. As can be seen each of the powers is created by the follower’s belief, if the follower does not hold the requisite belief then the leader is not able to influence them. Each of the leadership powers can be used by themselves or combined so that the insurance marketing administrators have maximum influence. The insurance marketing administrators will therefore need to think carefully about which power to use.

To face the problem of “incompatibility of goals” among the distributors, marketing managers must reframing goals to resolve incompatibility. In many cases providers and distributors are absolutely convinced they have opposing goals and cannot agree on anything to pursue together. However, if goals are reframed or put in a different context, the parties can agree. In a joint discussion with the insurers and distributors, the insurance marketing administrators can find that both are able to affirm that they value feedback about positive and negative experiences. Trust is built through a discussion of goals. Perceptions of the incompatibility of the goals changed through clear communication.

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