

Functions and Institutions: The Roots and the Future of Marketing Channels

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From its very beginnings as an academic discipline over a century ago, marketing functions and institutions have been core concepts of marketing. Except for the case of direct marketing channels linking producers directly with final users, all marketing channel structures contain intermediaries involving independent businesses or organizations working together to bring products and services to market. Considering if the functions now being performed by marketing channels may become obsolete in the 21st century, while acknowledging new and changing technologies used to perform these functions, the author concludes that these paradigms of functions and institutions are as relevant now, and for the future, as they ever were.

KEYWORDS *functions of marketing, institutions of marketing, marketing channels, marketing history, online retailing, product flows, retailing*

INTRODUCTION

Marketing as an organized academic discipline has now existed for about 100 years. The seminal article that launched the discipline is generally identified as Arch W. Shaw's (1912) "Some Problems in Market Distribution" that appeared in the *Quarterly Journal of Economics* in August of 1912. Shaw covered a number of topics in that article, but the topic or topics that were arguably the most important in establishing the foundations of marketing thought were those that dealt with functions and institutions. Specifically,

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Shaw delineated, for the first time, what he called the “functions of middlemen.” The functions Shaw referred to were such activities as risk sharing, transportation, financing, selling, assembling, assorting, and re-shipping. The institutions that performed the functions were middlemen such as wholesalers, retailers, agents, and a variety of others.

A half decade later, in 1917, L. D. H. Weld (1917) clarified and extended Shaw’s original work by referring to the functions as *functions of marketing or marketing functions* rather than functions of middlemen. This seemingly minor refinement introduced by Weld actually represented a profound shift in marketing thought. By identifying various functions as functions of marketing rather than functions of middlemen, Weld laid the foundation for analyzing the structure and dynamics of institutional change in marketing channels.

Weld’s insight of delineating functions of marketing rather than functions of middlemen meant that the activities or work performed in marketing (marketing functions) did not belong solely to middlemen or any other entity. Rather, marketing functions were, in effect, “up for grabs” for any and all players in the marketing system including producers, manufacturers, and consumers as well as intermediaries or middlemen (Rosenbloom, 2012).

This point of view was soon captured in the early textbooks of the marketing discipline. As C. S. Duncan, author of the 1920 textbook *Marketing, Its Problems and Methods*, states:

Institutions are organized for the purpose of facilitating the performance of certain functions. The character of the service determines the type and character of the institution. The service or function is therefore more fundamental. (Duncan, 1920, p. 9)

Duncan was also quite explicit about the dynamic nature of the institutional structure of marketing:

At the outset it must be kept clearly in mind that a trade organization [marketing institution] is not a fixed or a permanent thing: The existing organization is not the best or the worst possible, but is an attempt to do a required service effectively. (Duncan, 1920, p. 61)

Thus, from the seminal writings of the marketing discipline almost a century ago, functions and institutions were at the core of marketing thought. The activities of marketing (marketing functions) needed to be performed, and so marketing institutions needed to emerge and evolve to perform them.

The purpose of this article is to show that this early paradigm of marketing functions and institutions is just as relevant today and for the future as it was a century ago, especially for analyzing marketing channels and for planning channel strategy (Rosenbloom, 2012). We begin by examining functions, institutions, and marketing channels.

FUNCTIONS, INSTITUTIONS, AND MARKETING CHANNELS

For several decades after Weld introduced a set of 10 activities he referred to as functions of marketing, numerous other lists appeared in articles and textbooks well into the 1960s (e.g., chronologically Cherington, 1920; Vanderblue, 1921; Agnew, 1936; Duddy & Revson, 1941; Alderson, 1954; Converse, Huegy, & Mitchell, 1965). Some lists were very extensive such as that produced by Ryan, where well over 100 activities or marketing functions were specified (Ryan, 1935). Other scholars took the opposite approach by focusing on a few or even one core marketing function (Carver, 1917; McGarry, 1951).

However, regardless of the particular list, set, or individual marketing function discussed, the core, underlying paradigm was the same: *marketing functions represent the work that needs to be undertaken if sellers and buyers are to consummate transactions*. Thus, some “mechanism” must be made available to perform the functions. As Duncan (1920) points out:

There are certain types of institutions through which men work to accomplish a desired end. The process of distributing goods is the process of men working through certain mechanisms and devices which they have developed and which make their work most effective. The mechanisms and devices are the institutions. Distribution like production has its machinery. (p. 316)

In this paradigm, marketing channels were viewed as the key or dominant mechanism for performing the marketing functions needed to distribute products from producers to consumers. In short, marketing channels provided the “machinery of distribution.”

Fast forward to the second decade of the twenty-first century. Does this paradigm still apply? The remainder of this article addresses this question by examining marketing functions and institutions in the context of contemporary marketing channels and distribution systems. As will be shown, although technology, socio-cultural forces, and global competitive dynamics have profoundly affected the way marketing functions are being performed, and the institutional structure of marketing channels, the classic paradigm introduced by the “founding fathers” of marketing still holds. And this paradigm can still offer powerful insights to researchers studying today’s and tomorrow’s marketing channels as well as practitioners faced with managing modern marketing channels.

In order to gain a modern perspective on the classic concept of marketing functions and institutions in the context of modern marketing channels, five topics need to be examined:

1. Stability of marketing functions;
2. Effectiveness and efficiency in performing marketing functions;

3. Shifting of marketing functions;
4. Marketing functions and marketing flows; and
5. Channel management and marketing functions.

Stability of Marketing Functions

The core concept of marketing functions conceived as the work or activities undertaken to enable sellers and buyers to consummate transactions has not changed since the dawn of the marketing discipline, but the technologies and methods used have changed dramatically. Take, for example, mobile marketing, made possible by applications (also called “apps”) available for laptops, iPads, and smartphones. One such app, “The Find” (and numerous similar apps) enable consumers to perform the search function to compare prices with a touch of the screen while literally being on the move in a shopping center or “big box” store.

A vast array of other technologies such as radio frequency identification (RFID), the Cloud, robotic warehouses, social media, and a host of others have enabled sellers and buyers to connect in the marketplace in ways that even a decade or two ago would have been unimaginable. However, what should be remembered when the dust settles from all of these spectacular new technologies and methods is that they are essentially a means of performing basic marketing functions such as order processing. So, if a consumer touches the screen on her or his iPhone while fast-walking and the online retailer processes the transaction using computing power provided by the Cloud, RFID to track the inventory, and robot forklifts to fulfill the order, what has actually happened? The answer: A marketing function, order processing, has been performed. True, the function was performed at a high-tech level but, conceptually, the same function (order processing) would have been performed if the consumer had used a telephone to call in the order or mailed a post card, and the retailer’s warehouse workers had used pencils, clip boards, and roller skates to process the order!

In summary, while no definitive list of marketing functions has emerged nor should it be expected to, if an activity has to be performed to enable sellers and buyers to consummate transactions, that activity can be considered to be a marketing function (Jones, 1943).

Effectiveness and Efficiency in Performing Marketing Functions

One of the pioneering marketing scholars, Fred E. Clark, writing during the very early years of the emergence of marketing as an academic discipline, made an explicit reference to the concepts of effectiveness and efficiency in the context of marketing functions and the institutions performing them: “If the system [set of marketing institutions] is effective, but costly, it is inefficient” (Clark, 1921, p. 214).

Clearly, Clark is referring to effectiveness as the degree of success experienced by institutions performing marketing functions while efficiency is concerned with the minimizing of the costs of performing marketing functions. Although Clark did not explicitly express the two concepts of effectiveness and efficiency of performing marketing functions in the context of an output/input, this concept was implicit in his seminal article on the subject. The output of the marketing system is the work (marketing functions) undertaken by marketing institutions. The input is the costs associated with performing the marketing functions. If the output were to remain constant while costs were decreasing, the work of marketing would be more efficient. Or, if the output decreases even if costs remained constant, efficiency would decrease.

Today, almost nine decades since Clark's exposition on the subject, the effectiveness versus efficiency of marketing functions paradigm is as relevant for analyzing the work of marketing institutions as it ever was. For example, if a consumer buys a product online but has to wait 2 or 3 days to actually receive the product versus buying it in a "bricks-and-mortar" store where possession is immediate, is the conventional retail store channel providing a greater degree of effectiveness in performing the product availability function than the online retailer? Do online retailers such as the giant Amazon.com, with its incredible information-processing and organizing capabilities that enable a consumer to examine a vast assortment of products or zero in on just one particular product almost instantaneously and have available related information (such as customer reviews of the product), represent a higher degree of effectiveness in performing the information search function than land-based big-box stores such as Best Buy, Staples, and Home Depot? Do outlet stores, often located at a greater distance from consumers than the regular stores in nearby shopping malls, force consumers to, in effect, perform more of the transportation function by forcing consumers to travel greater distances to take advantage of the bargains offered by the outlet stores?

These and myriad other questions related to the marketing functions (outputs) being performed and the costs (inputs) of performing them can all be examined now and in the future by focusing on Clark's concept of effectiveness and efficiency of marketing institutions.

Shifting of Marketing Functions

About as close as the marketing discipline has ever come or is likely to come to having an "axiom," is the well-known statement, "You can eliminate the middleman, but not the functions he performs." This maxim, principle, or truism has been associated with the marketing discipline, and especially with regard to marketing channels, for many decades (Butler, 1917; Beckman & Engle, 1937). Although almost universally accepted as a self-evident truism

in marketing, it was not until the decades of the 1950s, 1960s, and 1970s that the underlying economic basis for this maxim was rigorously examined by marketing scholars (Stigler, 1951; Bucklin, 1966; Mallen, 1973).

Essentially, these analyses demonstrated the core idea behind this marketing adage: *Over time, in a free market economy, marketing functions will be allocated or shifted to the most efficient performers in the institutional structure of the marketing system.* Thus, if a manufacturer cannot perform certain marketing functions as efficiently as, say, a wholesaler, these functions will eventually be shifted to the wholesaler (Rosenbloom & Larsen, 2008). Or, if a retailer becomes more efficient at performing marketing functions traditionally performed by a wholesaler, at some point the retailer will “inherit” those functions from the wholesaler (Rosenbloom, 2012).

This elementary theory of functional shifting in marketing channels still serves today as the core model for analyzing structural change in marketing channels. Further, this applies at both the micro- and macro-levels of channel analysis.

At the micro-, or managerial, level of marketing channels, the design of marketing channel structure for reaching targeted customers no matter how high-tech cannot ignore the paradigm of functional shifting. The Internet-based technologies that have enabled e-commerce channels to be embedded in social networking sites such as Facebook and made mobile commerce possible do not mean that the laws of economics on which functional shifting in marketing channels is based have been repealed. On the contrary, channel managers attempting to develop sophisticated, high-tech, multi-channel structures still need to pay close attention to which channel members can perform the marketing functions most efficiently (Rosenbloom, 2007). The fact that technology can make a particular channel configuration possible does not mean that such a channel structure makes economic sense.

At the macro-level, it has long been understood that any analysis of changing channel structure must have, at its core, a thorough analysis of the shifting of functions among marketing institutions (Breyer, 1934; Barger, 1955; Hollander, 1960). Consider, for example, one of the most important and prevalent marketing institutions to emerge in the last several decades—big box stores such as Best Buy, Staples, Home Depot, and many others.

Recently, questions have arisen about the viability of big box stores as an archetype marketing institution given the spectacular growth of another rapidly growing marketing institution—online retailers. The phenomenon known as *showrooming*, whereby consumers use giant big box stores as a “laboratory” where they can see, touch, and tryout products but then buy the products from online retailers, has made it increasingly difficult for big box retailers to cover the very high costs of providing key marketing functions. These include stocking inventory, providing immediate product availability, product presentation, and personal sales assistance when online retailers can provide these functions at no cost by getting a “free ride” from the big box retailers.

In effect, the big box retailers are subsidizing the online retailers when it comes to performing these very important and expensive marketing functions. The result? Online retailers as an institutional type have become low (or no) cost performers of core marketing functions because they have become a virtually free good courtesy of the big box stores!

Marketing Functions and Marketing Flows

The concept of flows first appeared in the marketing literature in 1952. Eight flows were identified (Vaile, Grether, & Cox, 1952):

1. Physical possession (product) flow;
2. Ownership flow;
3. Promotion flow;
4. Negotiation flow;
5. Financing flow;
6. Risking flow;
7. Ordering flow; and
8. Payment flow.

In the context of marketing channels, these flows serve as the links that connect all parties in the channel structure including producers, intermediaries, and final customers. Ideally, some or all of the flows should be coordinated so that they enhance the effectiveness and efficiency of marketing channels. Thus, for example, the promotion, negotiation, ordering, risking, and payment flows may help pave the way for a smooth flow of products through the channel.

Although the concept of flows in marketing channels has existed for over six decades, their origin in terms of how flows emerge has never been explained (Rosenbloom & Larsen, 2008). Obviously, flows in marketing channels did not just suddenly appear as an act of nature. They must have been created and nurtured by people and institutions participating in marketing channels. In fact, it is mainly the marketing functions performed by marketing institutions and people that serve to bring the flows into existence and keep them going. In other words, flows *follow* from functions and institutions. As the work of marketing expressed in terms of functions is specified, institutions emerge and evolve to perform them and, in turn, channel flows linking all parties in the channel together appear.

What contribution might this concept of flows and its relationship to marketing functions and institutions have for marketing channel strategy, structure, and management in the second decade of the twentieth century? The concept of flows actually has an important contribution to make.

A review of the eight flows reveals that only one of them (i.e., the physical product flow) requires the performance of physical logistical marketing functions to establish and maintain the flow. All of the other seven flows can

be digitized—created and sustained electronically—so that no physical logistical marketing functions are needed. This obvious, but often overlooked, fact presents a two-edged sword for channel analysts and practitioners. On one side of the blade is the fact that seven of the flows can be digitized and conveyed electronically. This means that the opportunities to develop highly effective and efficient marketing channels in the second decade of the twentieth century will, more than ever, be highly dependent on Internet-based electronic technologies. Indeed, even that part of the product flow which can be digitized (such as music, movies, written materials, and services that do not require a physical product) can share in the tremendous potential for digitizing marketing channel flows. While substantial progress has already been made on digitizing the flows (e.g., Apple iTunes and PayPal), an exponential increase is likely to take place in future decades.

The other edge of the blade offers a different message: Physical products cannot be digitized. Physical products must still be stored, displayed, handled, moved, packed, and shipped by forklift trucks, dollies, trucks, trains, boats, and planes. And even though automation has been around for quite some time, people are still heavily involved in performing the functions that create the physical product flow. Further, because most products that we use in our everyday lives are physical, tangible things (a slice of pizza, car, refrigerator, etc.), the physical product flow is not going away anytime soon.

This obvious point concerning the physical nature of most of the product flow, surprisingly, can be easily forgotten when juxtaposed against all of the amazing Internet-based technologies that seem to emerge almost every day. However, no matter how advanced this technology becomes, only electrons, not physical products, travel over the Internet. This simple truism was seemingly forgotten in the early dot-com era of the e-commerce revolution by brilliant young entrepreneurs, highly experienced venture capitalists, and sophisticated investment bankers (Rosenbloom, 2002).

What doomed many of the early dot-com companies that were going to “change everything” by selling everything over the Internet? The answer to that question is *the fact that the physical product flow does not move over the Internet*. Rather, it moves over land, sea, and air. So, good “old fashioned” logistics were still in play even during the dot-com revolution. Unfortunately, many of the so-called business models used by the dot-com or e-commerce entrepreneurs completely ignored this fact, or gave it little attention. The result was a huge failure rate when the dot-com crowd discovered just how difficult and expensive it is to create and maintain physical product flows through marketing channels.

Although this dot-com disaster is now well over a decade old, the same message is still at hand: *Effective and efficient physical channel structure is still needed to create and maintain an effective and efficient product flow*. So, marketing functions involving logistical activities and the institutions performing them are just as relevant today as they were at the dawn of the marketing discipline.

Channel Management and Marketing Functions

When one thinks of channel management as we move well into the second decade of the twenty-first century, the emphasis is typically on new Internet-based technologies, globalization, and multi-channel strategies that integrate online and conventional marketing channels (Rosenbloom, 2007). E-commerce, still a relatively young phenomenon, has been augmented by mobile (m-commerce) in the last few years and even more recently by social media (s-commerce) or Facebook commerce (f-commerce) where commercial e-commerce channels are embedded in social networking sites. However, what may have been overlooked as these new technologies transform marketing channels on a global scale is that the underlying constructs on which they are based are still marketing functions and institutions.

Consider for example, the core set of tasks involved in channel management:

1. Designing marketing channels;
2. Selecting channel members;
3. Motivating channel members; and,
4. Evaluating channel performance.

All of these channel management tasks involve the planning and/or implementing of marketing functions as well as consideration of marketing institutions that are capable of performing marketing functions (Frazier, 1999). This association between marketing functions and institutions with the core channel management tasks is discussed below.

CHANNEL DESIGN, FUNCTIONS, AND INSTITUTIONS

Channel design, which refers to developing new channel structure or modifying existing channel structure to make products and services available to targeted market segments, is the most fundamental channel management task. But what does the channel manager actually do to create and/or modify channel structures to connect buyers and sellers together in the marketplace? The answer is straightforward: The channel manager needs to identify the marketing functions that must be performed and then allocate them to the institutions that can perform them most effectively and efficiently.

This holds whether the channel manager is developing complex, multi-channel structures that reach around the globe or a single channel to serve a small local customer base. It also applies whether the channel manager uses the most advanced technology or “old fashioned” methods in the process of designing the channel.

What is constant for the channel manager, however, regardless of the scope and complexity of the channel design decision, is marketing functions

and institutions. In short, marketing functions must be performed and appropriate institutions must be found to perform them.

CHANNEL MEMBER SELECTION, FUNCTIONS, AND INSTITUTIONS

To implement the channel structure specified in the channel design process, the channel manager is faced with the task of finding and recruiting the appropriate channel members. So, here again, functions and institutions are at the core of the selection phases of channel management.

A host of different kinds of institutions is available for the channel manager to choose from. Traditional wholesalers and retailers, from the giants to the small “mom-and-pop” operations still exist, as do numerous types of agents and brokers including import/export agents, desk jobbers, and freight forwarders. Newer types of institutions have also emerged in recent years such as third-party logistics providers that perform a wide range of marketing functions, especially in the business-to-business sector and online channels. However, regardless of the specific terminology used to describe this vast array of marketing institutions operating between producers and final consumers, all share a basic element of commonality: *They exist because they are able to perform various marketing functions* (Breyer, 1934; Davidson, 1970).

It is the job of the channel manager to distill from this giant collection of institutions the particular mix or team of channel partners that is capable of executing the channel design strategy effectively and efficiently. To do so, there is no escaping the need for the channel manager to have intimate knowledge of the functions involved and the institutions charged with performing them.

MOTIVATION, FUNCTIONS, AND INSTITUTIONS

Except for the case of direct marketing channels linking producers directly with final users, all marketing channel structures contain intermediaries involving independent businesses or organizations working together to bring products and services to market. This inter-organizational structure associated with most marketing channels means that the management of marketing channels occurs in an inter-organizational context. Thus, in the typical marketing channel, there is no superior/subordinate relationship, no line and staff designations, and no managers leading rank and file employees so typical of intra-organizational environments (Little, 1970).

For the channel manager, this inter-organizational context creates motivational challenges that are not typical of intra-organizational settings. For example, sales managers can order members of the field sales force in a firm to, say, attempt to open new accounts in a territory by ordering them to visit the potential accounts in person because the sales force members are

employees of the firm. However, a channel manager in a consumer package goods manufacturer cannot order a supermarket to set up end-of-aisle displays for a new product. Instead, the channel manager seeking to motivate channel members to take a particular action must rely on strategy and persuasion to get something done.

In short, the channel manager needs to know what channel member “buttons to push” to secure their cooperation. To do this successfully, channel managers need to know a great deal about the institutions they are partnering with and their capabilities to implement channel strategies. In other words, substantial knowledge of institutions and functions is key to the successful motivation in the inter-organizational setting of marketing channels.

CHANNEL PERFORMANCE EVALUATION, FUNCTIONS, AND INSTITUTIONS

In the course of evaluating the performance of channel members, channel managers need insight into how effectively and efficiently various marketing institutions are performing myriad marketing functions. This holds whether channels are high-tech and complex or low-tech and relatively simple.

Ultimately, the role of any channel system is to make products and services conveniently available to customers where, when, and how they wish to buy them. If a particular channel structure is not meeting customer demands, channel managers need to know why. And, in order to do that, they need to “get down in the weeds” to examine just how well the channel participants are performing their share of the marketing functions. Further, if corrective action cannot improve existing channel member performance, channel managers need knowledge of other institutions that might be added to the existing channel structure even as the poor performing channel participants are terminated.

So, almost a century after the concept of marketing functions was first introduced to the marketing discipline along with the concepts of the effectiveness and efficiency of the marketing institutions performing the functions (Clark, 1920), when it comes to evaluating channel member performance, these concepts are as relevant to channel management today as they were 100 years ago.

CONCLUSION

From the dawn of marketing as an academic discipline over a century ago, marketing functions and institutions have been core concepts. This is especially the case for the sub-discipline of marketing channels because it is through the performance of marketing functions by the institutions comprising marketing channels that the job of connecting billions of buyers to millions of sellers all over the globe gets done.

Is this century-old paradigm of marketing functions being performed by a changing and evolving institutional structure called marketing channels now becoming obsolete as we move well into the second decade of the twenty-first century? Not at all. It has been argued here that, if anything, the paradigm of functions and institutions is as relevant now, and for the future, as it ever was.

Certainly, new technologies, globalization, and socio-cultural forces have changed, and will continue to change, the specific activities and formats used to perform marketing functions together with the types of institutions performing them. However, when channels researchers or practitioners attempt to explain, plan, and implement how millions of products and services can be made conveniently available to hundreds of millions of consumers all over the world, the marketing functions and institutions needed to do so is a good place to start.

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