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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	<b>GEOGRAPHIC DIVERSIFICATION AND BANK PERFORMANCE: EVIDENCE FROM ETHIOPIA</b> <i>DR. P. HRUSHIKESAVA RAO &amp; ELEFACHEW MOSSISA</i>	1
2.	<b>RELATIONSHIP BETWEEN FIRM RESOURCES AND SMALL FIRM GROWTH IN BANGLADESH</b> <i>MD. MOSHARREF HOSSAIN, YUSNIDAH IBRAHIM &amp; MD. MOHAN UDDIN</i>	6
3.	<b>INNOVATION NETWORK IN TAIWAN TELECOMMUNICATION INDUSTRY BASED UPON SOCIAL NETWORK PERSPECTIVE</b> <i>CHUN-YAO TSENG &amp; TZU-LIN CHIANG</i>	11
4.	<b>ADVENT OF THE RETAIL SECTOR IN INDIAN ECONOMY: A PERSPECTIVE ACROSS DECADE</b> <i>SWATI SAXENA &amp; DR. HUSEIN ABDULRAHIM HASAN</i>	16
5.	<b>GOODS AND SERVICES TAX: A LEAP FORWARD ECONOMIC GROWTH AND DEVELOPMENT</b> <i>MINAKSHI GUPTA</i>	19
6.	<b>INITIAL PUBLIC OFFERING UNDER-PRICING: A CASE STUDY OF TWITTER IPO</b> <i>SAVITHA, P &amp; B. SHIVARAJ</i>	25
7.	<b>THE CONFINE OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS PERFECTLY CONTROL MARKETING MIX STRATEGIES: CHANNEL MANAGEMENT PERSPECTIVE OF FAST MOVING CONSUMER GOODS (FMCG) INDUSTRIES IN INDONESIAN</b> <i>DR. AGUS TRIHATMOKO, R., DR. MUGI HARSONO, DR. SALAMAH WAHYUNI &amp; DR. TULUS HARYONO</i>	31
8.	<b>AN ANALYSIS OF NON PERFORMING ASSETS OF INDIAN BANKS</b> <i>OMBIR &amp; SANJEEV BANSAL</i>	37
9.	<b>FINO'S TECHNOLOGICAL SOLUTIONS FOR THE YESHASVINI COOPERATIVE FARMERS HEALTH CARE SCHEME</b> <i>DR. G. KOTRESHWAR &amp; V.GURUSIDDARAJU</i>	43
10.	<b>PERFORMANCE OF FISH WORKERS COOPERATIVE SOCIETIES</b> <i>A. NALINI &amp; DR. P. ASOKAN</i>	46
11.	<b>A STUDY ON ASSOCIATION AND CAUSALITY RELATIONSHIP BETWEEN NSE EQUITY SPOT AND DERIVATIVE MARKETS</b> <i>SATYANARAYANA KOILADA</i>	48
12.	<b>DIVIDEND POLICY AND ITS IMPACT ON STOCK PRICE: A CASE STUDY ON SENSEX COMPANIES</b> <i>BHAGYA LAKSHMI.K &amp; DR. N. BABITHA THIMMAIAH</i>	54
13.	<b>IMPACT OF GLOBALIZATION ON THE EXTERNAL SECTOR OF INDIAN ECONOMY</b> <i>IBRAHIM CHOLAKKAL</i>	58
14.	<b>A STUDY ON GROWTH AND INSTABILITY IN INDIA'S BANANA CULTIVATION AND EXPORT</b> <i>DR. R. GANESAN</i>	62
15.	<b>ROLE OF ASHA WORKERS IN RURAL DEVELOPMENT WITH REFERENCE TO KOTTAYAM DISTRICT</b> <i>TISSY ERUTHICKAL</i>	66
16.	<b>ROLE OF MECHANIZATION IN AGRICULTURAL IN THE PRESENT SOCIO-ECONOMIC SITUATIONS: A CASE STUDY OF ANDHRA PRADESH</b> <i>H. RAMANJINEYULU &amp; DR. K. SOMASEKHAR</i>	70
17.	<b>CRITICAL ANALYSIS OF THE RIGHT TO FAIR TRIAL</b> <i>RIDDHIMA MUNSHI &amp; DR. SANJAY SOLANKI</i>	73
18.	<b>DYNAMIC CAUSALITY RELATIONSHIP BETWEEN FDI INFLOWS, TRADE BALANCE, AND ECONOMIC GROWTH IN WORLDWIDE SELECTED TOP 25 HOST COUNTRIES DURING POST LIBERALIZATION REGIME: A QUANTITATIVE APPROACH</b> <i>SARMITA GUHA RAY</i>	78
19.	<b>WORKING CONDITIONS OF THE UNORGANISED SECTOR IN KERALA: REFERENCE TO SALES WOMEN IN THE TEXTILE SHOPS</b> <i>FREEDA V SIMON</i>	84
20.	<b>INTRA-GENERATIONAL RELATIONSHIPS AMONG THE AGED PENSIONERS OF BHUBANESWAR, ODISHA</b> <i>AMITA MOHAPATRA</i>	86
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	91

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**THE CONFINE OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS PERFECTLY CONTROL  
MARKETING MIX STRATEGIES: CHANNEL MANAGEMENT PERSPECTIVE OF FAST MOVING CONSUMER  
GOODS (FMCG) INDUSTRIES IN INDONESIAN**

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**ABSTRACT**

*The interest of marketing research to obtain a deep understanding of relationship marketing since 45 years ago, relatively less of the research put role strategies of marketing mix. This research reveals perspective of relationship marketing within agency theory and channel management structure of fast moving consumer goods (FMCG) industry. The purposes of this research are to identify, describe, and obtain a deep understanding of the confine of efficient contract between principals and distributors towards marketing mix strategies. The research design of this research is qualitative method by phenomenology and constructionism approach. Data collected from two distributors companies which partnering with national and multinational company. Result concludes that environment factors, commercial term, aspects of marketing mix strategies and organizational function directly and indirectly determines relationship development. Essential content about environment, commercial term, marketing mix and organizational function are the prospectus on the policy making in the company, specifically determined legal contract agreement between principal and agent. The contract agreement essentially moves toward to strategies of marketing mix. These findings constructively have essential implication as the proposition in relationship marketing and agency theory in marketing area. Practitioner may take the advantages. This research's advantage for practitioner is to enrich knowledge to improve their channel performance and relationship development with their partner.*

**KEYWORDS**

relationship marketing, marketing mix, efficient contract, agency theory, marketing strategies, channel management, principal and distributor, fast moving consumer goods (FMCG).

**INTRODUCTION**

**M**arket potency of Fast Moving Consumer Goods (FMCG) product in Indonesia is very huge, indicated by phenomenon of total univers are 2.524.111 stores ("a research company", 2010). FMCG's marketing has important role in countries development (Saragapani and Mamatha, 2008). Yet, there are limited academic researches for FMCG's marketing. Meanwhile, there are a lot of national and multinational company operates in Indonesia. It is an interesting phenomenon, to investigate how apply FMCG marketing strategy at their channel. Indonesia FMCG's companies apply channel management by conventional approach or widely known as indirect channel (Trihatmoko, Harsono, Wahyuni and Haryono, 2016), with the result that structurally put distributors as the first line (Kotler and Armstrong, 2013; Evans and Berman, 1992). Although this decade, some big companies put their products to modern markets without distributors. The uniqueness of this research is not only to take a look at Indonesia FMCG marketing perspective only but also to explain how crucial marketing mix position in the context of relationship between producer companies as the principal and distributors as main agent. This study of relationship marketing involves marketing strategies, so as substantially mingles transactional marketing mix. The concept of product, price, place and promotion (4Ps) are the paradigm of marketing mix which dominate marketing ideas, researches, and practices since introduced about 40 years ago (Gronross, 1997). Today this paradigm is beginning to lose position, relationship marketing is one approach to marketing which eventually has entered the marketing literature (Gronross, 1997). The first research of relationship marketing did by 1970 and appears on marketing literatures since about 1980s (Rao and Perry, 2002; Theron et al. 2008). Gronross's postulate (1997) is correct till today, by 2000 until today the focus of the researchers is about strengthen the construction and interpretation of relationship marketing, as did by Jap and Ganesan (2000); Rao and Perry (2002); Parsons (2002); Zineldin and Philipson (2007); Theron, Terblanche and Boshoff (2008); Sashi (2009); Alvarez, Casielles and Martin (2011); Song, Su, Liu and Wang (2012); Tareq (2012); Mazhari, Madahi and Sukati (2012); Aminu (2012); Roman and Martin (2014) and Trihatmoko et al. (2016). Research based on relationship marketing approach limitedly exploring marketing mix (4Ps). The result of Zineldin and Philipson (2007) concluded some companies take an advantage traditional 4Ps marketing concept, when the others mixed the relationship and transactional marketing mix. Going deeper,



Trihatmoko et al. (2016) investigates how the salespeople of distributor FMCG products, apply marketing mix strategies to build the relationship with the customers. Base on previous literatures encourage the researchers to take a look back the position of marketing mix at the context of relationship marketing between company and distributors in FMCG industry as the originality of this research.

### IMPORTANCE OF THE STUDY

Study of marketing mix in channel management structures is urgent to do to remind the paradigm of marketing mix as the basic of marketing activities. Specifically, for marketing academics this research will enrich the orientation towards marketing FMCG by relationship marketing approach. Generally, this research encourages researchers to do advanced researches, so as will contribute to advancement of the recent 4Ps marketing mix. This research also provides the advantages for managers and executives of multinational companies who interest build a carrier in Indonesia. Last but not least, for the future entrepreneurs in distributors area will be provided by insights the role of distributors as the main agent of the FMCG companies.

### LITERATURE REVIEW

Morgan and Hunt (1994) explain that the relational exchange in relationship marketing grouped as four function: supplier, buyer, internal and lateral partnership. By partnership perspectives between producer companies and distributors is the relationship between principal as suppliers and agent as buyers. Agency theory uses the metaphor of contract to describe relationships in which one party delegates work to another (Jensen and Meckling, 1976 within Bergen, Duta and Walker, Jr., 1992). The theory describes that efficient contract between principal and agent influenced by uncertainty and moderating factor: environment. Efficient contract is one that brings about the best possible outcome for the principal given the constraints imposed by the situation, rather than one that maximizes the joint utility of both principal and agent (Bergen et al., 1992). The challenge of relationship marketing is to recognize the subtle changes in the business environment and to adapt to them (Zineldin and Philipson, 2007). The environment directly affects the degree of decision-making uncertainty experienced by channel members (Achrol and Stren, 1988). Dwyer and Welsh (1985) proposed model of environmental characteristics impact on channel structure and process, and channel configuration.

Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Morgan and Hunt, 1994). Marketing mix is a collection of sub-activities and create relationships with customers as well as supplier and dealers, etc. (Zineldin and Philipson, 2007). This literature review indicates that marketing mix variabilities are the contents of efficient contract. The main concern to reveal is how effective marketing mix have been applied for channel management structures, and the problem statement are: (1) how is the legality format of agency contract agreement between principals and distributors? (2) what are the confine of efficient contract and how determine the confine, and why should be confined?

### OBJECTIVES

The objectives of this research are to identify, describe, and obtain a deep understanding confine of efficient contract, between principals and distributors in marketing mix strategies policy. This explorative research does to reveal the phenomenon the legality of agencies contract agreement between principals and distributors. The focus of this research is to investigate the agreement legality documents to find out the purposes of marketing mix strategies policy and channel management. Conceptually, the research result proposed by propositions to enlarge the marketing mix and channel management concept.

### FRAME WORK

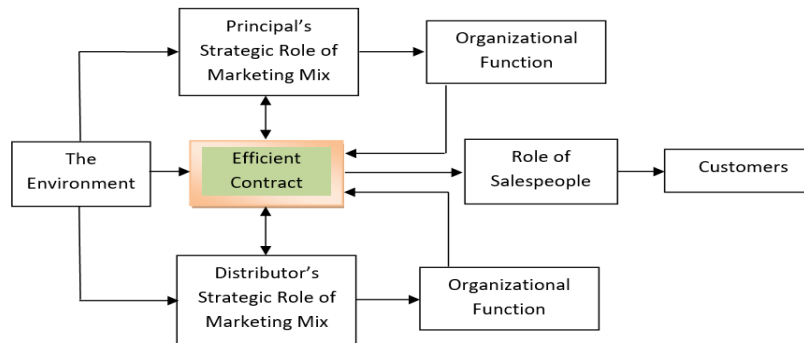
Based on previous literatures perspectives about partnership between principals and agents, conceptually could be understood that: (1) partnership between principals and distributors in FMCG industry uses metaphor agencies contract (Morgan and Hunt, 1994; Jensen and Meckling, 1976); (2) Efficient contract determined by environment condition (Bergen et al., 1992; Achrol and Stren, 1988; Dwyer and Welsh 1985); (3) Principals target is market competitive advantage outcome (Bergen et al., 1992); (4) Distributor is intermediaries on marketing activity which set by principals (Morgan and Hunt, 1994); (5) Distributor is the sub-activity from marketing mix (Zineldin and Philipson, 2007; Trihatmoko et al., 2016). Theoretical indicators (1-5) lead to estimate that efficient contract between principals and distributors included marketing mix strategies, and efficient contract stimulated by environment factors.

Principal might collect more information about the agent's behavior by investing in monitoring activities and systems, and could the write contract that bases the agent's rewards on information about his or her behavior (Bergen et al., 1992). Partnership between supplier and buyer involve internal partnerships that is employer and functional departement (Morgan and Hunt, 1994). Based on that literatures perspectives could be estimated that efficient contract between principals and distributors controlled by employer as the organizational function principal and distributor.

The result of Trihatmoko et al. (2016) has proposed propositions that the role of salespeople in FMCG distributor companies determine the relationship quality with the customers based on historical implementation of marketing mix strategies. In the channel management concept, the functional distributor that is selling or distributing product to the customers such as wholesaler, retail, institutional, or the other special outlet (Kotler and Armstrong, 2013; Evans and Berman, 1992). The role of salespeople in FMCG distributor company as personal selling function, they do direct communication and interaction with the customer in the selling process (Trihatmoko et al., 2016). Integrated marketing communication (IMC) has become a major way of achieve the objective of the company (Mihart, 2012). The principal could write a contract whereby the agent's rewards are determined by performance outcome, such sales volume (Bergen et al. 1992). Mihart (2012) explain that IMC works specifically through all of the marketing mix or widely known as "4Ps": product, price, place and marketing communication or promotion". Based on those literatures review estimates that distributor salespeople take their roles refers to efficient contract of marketing mix strategies when offering their product to the customers.

The perspective conceptualization above could be described in efficient contract framework between principals and distributors (Figure 1). This framework is umbrella and a guidance of analysis tools in qualitative research (Fatchan, 2011; Saldana, 2011; Creswell, 2013) that is to identify, describe, and obtain deep understanding the confine of efficient contract between principals and distributors related to marketing mix strategies comprehensively.

FIGURE 1: PROPOSED MODEL OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS



## METHOD

This research uses qualitative method by phenomenology theoretical design (madhab) that is channel management phenomenon of FMCG product marketing (Proctor, 2005; Creswell, 2009; Jonker and Pennink, 2010; Fatchan, 2011; Saldana, 2011; Creswell, 2013; Gupta and Awasthy, 2015; Taylor, Bogdan and DeVault, 2016). Phenomenology is research strategy approach to identify human experiences of certain phenomenon, in this case the distributors of FMCG experiences on making contract agreement with their principals (Fatchan, 2011; Saldana, 2011; Creswell, 2013). Data interpretation for this research is constructionism/constructivism philosophy that is based on the location of the FMCG business (Fatchan, 2011; Saldana, 2011; Creswell, 2013; Hammersley, 2013; Gupta and Awasthy, 2015). Therefore, unit analysis of this research is distributor companies as main agent of FMCG industry. Data collecting do by observing agreement documents between principals and distributors (Saldana, 2011). The data obtained from executives of distributor companies located in Central Java, Indonesia. The norms of these agreements principally has no difference from the other region in Indonesia, so as the documents from distributors companies located in Central Java could be determined as the representative of agreement pattern for another region in Indonesia.

Distributor agreement documents have been selected from two multinational companies and three national companies in Indonesia. Company names could not be reported in this research because of its legality of the agreement and it is confidential for the companies, so that in data analysis coded by C1, C2... and C5. For data validation, we uses quite long processes that are triangulation, member check, presisten observation, audit trial and data interpretation analysis (Fatchan, 2011; Creswell, 2013). We also conduct discussion or open interview with managers and executives of distributor companies as the research participants. Triangulation and presisten observation conducted for build credibility, audit trial and member check conducted for assess data interpretation analysis to find the dependability and conformability (Creswell, 2013).

## RESULT & DISCUSSION

### LEGALITY OF AGENCIES CONTRACT AGREEMENT

This research on partnership between principals and distributors has revealed agencies contract agreement phenomenon. Initial observation obtains a deep understanding physical form of agreement from five principals companies with two different distributors. The result of initial observation from five agencies agreements produces the norms description of efficient contract between principals and their distributors.

In practice world, agencies agreement named as distributor agreement (*Indonesian: Perjanjian Distributor; Perjanjian Penunjukan Distributor; or Perjanjian Kerjasama Distributor*). Physical form of agreement formatted in law-discussion based on Indonesia's law approaching. Principal referred to as First Party and Distributor referred to as Second Party. Therefore, the parties agree to define the terms and conditions applicable to that agreement, as follows articles (*Indonesian: Pasal*) that manage the confines of relational agreements. Distributor agreement document signed by each representative of the party that is the company's director or president director, who their name legally stated in company's establishment document. For some reasons, an executive or manager may have signed the agreement if they already have mandatory letter from the director. After the agreement has been signed, the agreement will be valid for one year and will be extended. In the case of agreement severance, it depends on one party and will be approved by another party, if there is a quarrel will be conduct discussion or law enforcement. Here we have article specimen (Note: C1.A1.3: Agreement document of company 1, article 1-number 3, and etc).

"... when mediation has been doing... then the agree-parties to choose permanent and general domicile... as the place to disagreement settlement" (C1.A.18.4).

"... second party shall take the responsibility and be charged in the name of law." (C2.A.16..5).

"... any dispute arising... will be settled by mutual agreement, if..., the parties to chose parmanent domicile at...District Court". (C3.A.19.6).

"This agreement shall be interpreted and construed... of the master agreement with respect to governing law". (C4.A.11.1)

The whole identification and description result on FMCG industry distributor agreements indicate that efficient contract formulated in detail and has legal consequences. Theoretically, this research proposition one, as:

P1: Norms of efficient contract between principals and distributors formulated and regulated grounded of legal environment where the agreement made.

This finding, contributes to agency theory by Jensen and Meckling (1976) related to metaphor of contract to discribe relationships and partnership within relationship marketing by Morgan and Hunt (1994). Specifically, the formation, principals as seller and distributors as buyer in the business to business (B2B) context of FMCG products category.

### THE CONFINE OF EFFICIENT CONTRACT

Stage two of observation conducted by exploring one by one of every single article in distributor agreement. The research focus is to produce identity and essence of environment and marketing mix related with others aspect of business term and organizational functions.

### THE ENVIRONMENT

Environment is stimulus factor of relationship development between principals and distributors. The agreement provision describes that environment is the principals and distributors perspective to estimate business prospective that is commercial term. Logically, when among the parties will earn margin, sales volume and others business development beneficial, they will agree to make a contract. Whereas when one party could not support these provision offer by another party, there will no agreement made. Here we have specimens of agreement provision regulating efficient contract to identify environment related with commercial term to build business relational (Note: first party is principal; second party is distributor).

"First party is a company that producing multiple consumer product...as mention in Exhibit..." (C2, C3).

"Second party is the distributor of food and baverage products of first party..." (C5).

"...initial statement within distributor agreement that is first party and second party identities mentioned: NN is a company in this case represented by NN (a director)" (C1-C5).

Understanding the introduction of agreement could be interpreted that both parties has qualification information of each party and discover the competition of categorical product in the market, so as both parties expecting the influence to commercial volume and value of their business. This lead to proposition two, as:

P2.1: Competitive environment of products determine the commercial term to build the relationship.

Next discussion, interpreting P1 that legal agreement is quite clear as the protection of both parties, yet it bring financial risk consequence, so that the next proposition, as:

P2.2: Socio-cultural environment determine commercial term to build relationship.

A director represented the company lead that director and another organizational functions has connectivity among the individual to give business opportunity each other, so that the proposition, as:

P2.3: Internal-political structure environment determine commercial term to build relationship.

Principals of big company in this research stipulate requirement to the distributor in the form of Bank Guarantee as collateral liabilities.

"Second party give the full authority to first party to withdraw the bank guarantee in the condition they could not pay..." (C2.A.3.2.12).

"Second party shall provide an unconditional..., for the benefit of first party..." (C3.A7.1).

"... to guarantee debt re-payment..., second party devolve the bank guarantee... issued by NN Bank..., nominal..." (C5.A.3).

Bank Guarantee issued by bank through credit agreement between distributor and bank to protect the financial condition of principal. The scheme indicates all parties depend on external party that is bank, and the proposition, as:

P2.4: External-economic environment determine commercial term to build relationship.

The principal stipulate requirement to the distributor to provide infrastructure to make them capable of operating distributor business functions.

"second party has the duty to provide proper infrastructure to store and keep the product as the provision of first party" (C1.A.7.1).

"... procurement of infrastructure needs..., those procurement based on the agreement of both party, involving third party" (C2.A.1.6).

"second party shall assist the successful sales and marketing... by providing a sufficient, professional and effectiveness organizational structure..." (C3.A.10.1).

Infrastructure is internal resource investment provided by distributor, so that proposition, as:

P2.5: Internal-economic environment determine commercial term to build relationship.

Others perspective of environment that is market competitive, its example in the agreement postulated that coverage area and customers type is about confined by principal.

"Second party is only required deliver product in the certain marketing area... NN District" (C1.A.2.1).

"... outlet is the determined customer by first party... within coverage area..." (C2.A.1.6).

"Second party shall distribute the products in the special territory of NN city... to the exclusion of any others territory" (C3.A.1.3).

The edge of territorial and typical customers "modern or traditional trade" are business prospective in the market, that is proposition, as:

P2.6: Competitive environment of market determine commercial term to build relationship.

The concept of environment related with commercial term to describe that at the initial process both principals and distributors has their own policy to fulfill their duty as postulated in the agreement that is commercial term contents. Up to this stage, the proposition three, as:

P3: Commercial term is dominant factor towards each partner to determine company's policy to build relationship.

The findings related environment factors, commercial term, and relationship development contribute to identify and describe detail structure of agency theory by Jensen and Meckling (1976) and Bergen et al., (1992), Achrol and Stren (1988), Dwyer and Welsh (1985) that efficient contract determined by environmental condition. This result confirms to Morgan and Hunt (1994), Jensen and Meckling (1976) to ensure that partnership between principals and distributors of FMCG industry uses metaphor agencies contract in the process of applying relationship marketing approach, specifically in Indonesia.

## COMPANY'S POLICY AND MARKETING MIX

The result of this research identifies that company's policy clearly stated in the agreement document as main rule to associate the relationship implementation between principals and distributors. The director or the other executive acts as company's representative, so as company policy is their responsibility within company strategies role. Company policy domination lies on marketing mix strategies (4Ps) as the distribution and selling channel to the customers, therefore, gives the direct consequences to commercial term.

### PRODUCT

"First party product... which may be changed from time to time by first party, including but not limited to the new product,... Second party acknowledges that trade marks, trade names, logos and copyrights remain the sold intellectual property of the principal and..." (C3.A.1.2 and A.17.1).

"First party has the duties to: control the standard quality and product quality the goods that will be distributed and sold by second party... Second party prohibited to do increment and/or change the product in any form..." (C2.A.3.1.1 and A.3.2.10).

"Second party should do the NN distribution system as stipulation... keep the product image and take the responsible to market return that not caused by first party" (C1.A.7.2).

### PRICE

"Second party shall sell the products in accordance with the price, minimum order requirements and terms structure as determined first party... Changes to price-list may be made from time to time by first party... Second party shall comply with the structure..., shall not change or depart from the aforesaid structure... without the prior written approval from the first party" (C3.A.3.1-3).

"... the outlet price structure set by first party after consult with second party based on marketing strategies and fair profit... first party shall inform the second party by the written document... Before the change of price enforced... second party shall be bent down to the term of payment policy to the determined outlet of first party" (C2.A.4.1 and A.5.1; A.4.9).

"... selling price determined by first party accordingly determined price list of... First party may change the price without approval of second party..." (C1.A.4.1 and A.4.2).

### PLACE

"Second party shall distribute the products in the special territory of NN city... to the exclusion of others territory.... It is the sole right of the first party to determine the territory..." (C3.A.1.3).

"Outlet means customers based on first party provision that should be served by second party within the determined" (C2.A.1.1).

"First party considering profit and loss distribution potency, and may change marketing area with the written report to the second party, without any compensation to second party..." (C1.A.2.2).

"... covered channel are wholesaler, provision/retail, semipermanen shop..., general mini market, or another approved channel by NN-first party" (C5.4).

### PROMOTION

"Second party may only undertake promotional activity for the products after receiving letter of instruction from the first party. Second party shall not carry out any advertising..." (C3.A.13.1-2).

"Second party shall propose promotion fund, event fund to increase the product selling to the first party and control the promotion and the event that will be held" (C3.A.3.1.5).

"... second party shall not to promote through magazines, newspapers, radio, poster, another images, and another electronic media and shall not use brand or first party logo on their invoice, memo, letterhead, and envelopes... related to product without first party permission" (C1.A.8.3 and A.8.4).

Strategic role of product, price, place and promotion in the contract agreement reflect that principal do marketing mix strategies, and distributor as the executor. The proposition four, as:

P4.1: Principal strategic policy of product, price, place and promotion define distributor policy as the guidance implementation.

Marketing mix transaction consequences in this business-to-business scheme is about to provide commercial benefit to the principals and distributors. As mutual benefit explained as: pricing strategies impact company's margin in term of buying-selling price; promotion strategies impact the business volume in the selling increment strategy; marketing territory, product competitive advantages, and its integration to the price structure and promotional program directly affect gross profit and/or company profitabilities. It provides the proposition, as:

P4.2: Marketing mix policies directly impact the commercial term of both principals and distributors.

Proposition three (P3) indicates that commercial term impacts company policy, then lead the proposition, as:

P4.3: The marketing mix strategies result indirectly impact the further company policy, as long as the contract remain valid.

The findings of strategic role of product, price, place and promotion contribute to define the real position of marketing activities in the efficient contract by Morgan and Hunt, 1994, Zineldin and Philipson, 2007; Trihatmoko et al., 2016 postulate that distributors are the intermediaries or sub-activity of determined marketing activities by the principals.

**ORGANIZATIONAL FUNCTION & CUSTOMERS**

The marketing mix strategies implementation by distributor controlled by organizational function of both parties, as declared in the agreement.

“... following types of reports: Avertese event report, event of special interest... by each party as having responsibility for overseeing collaboration and compliance with the procedure...”(C4.1.11.12).

“Second party undertakes to provide report of sales and inventory movement,... weekly basis. First party will have the right to audit: stock level..., the realisation of the marketing and distribution of the product,...”(C3.A.12.3).

“Second party shall provide..., executive sales team and support sales teams and first party product distribution” (C1.A.7.9).

“... system, planning, sales target and productivity are the distribution system of NN-first party” (C5.A.3).

“Principals put the representatives for the equivalent of area sales supervisor, area sales manager, regional sales manager to do control function and coordination to the marketing activities of distributors. Distributor organizational structure of marketing functions are sales manager, sales supervisor, and sales person (salespeople). Among the organizational function shall collaborate to control and giving the feedback toward marketing activities, such as: trade promotion program, discount price, salesperson training, sales person effectiveness and etc., distributor customer served by sales person consist of wholesaler, retail and other institution or special outlet in modern or traditional trade” (source: researcher’s observation).

Those organizational role phenomena identify that each company policies that is put the employees of the company to fully control all marketing activities by salespeople to the customer. Salespeople are organizational individual act as pure executor to achieve the sales and product distribution to the distributor customer. Customer buying decision process or customer buyer behavior depends on role of salespeople within product offering process. Then the proposition five, as:

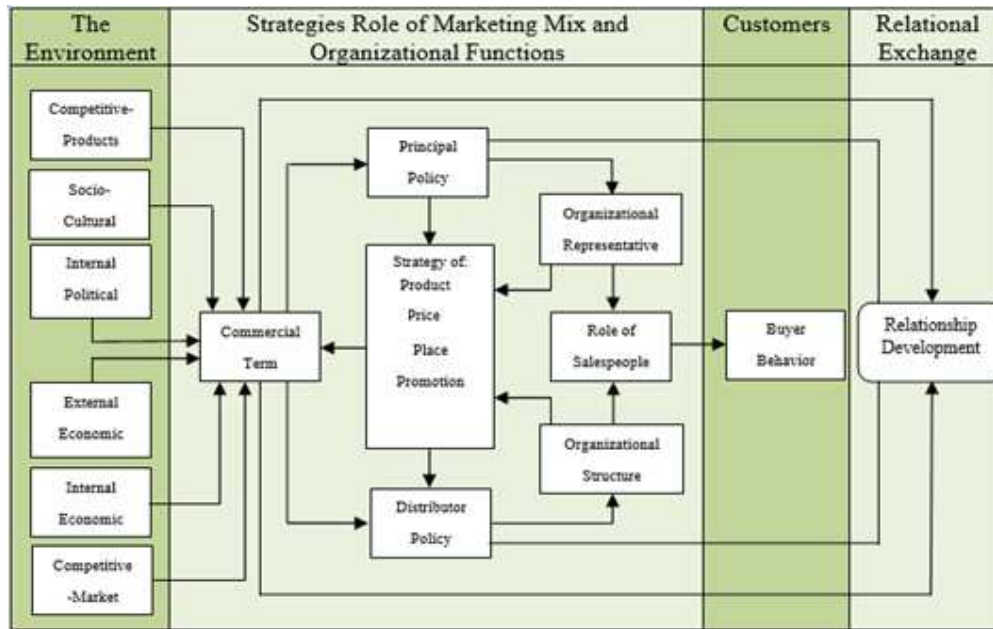
P5.1: Principal policy on determining the organizational representative and the distributor policy on determining organizational structure.

P5.2: The whole organizational functions cooperatively control the marketing activities and the role of salespeople.

P5.3: The role of salespeople define the selling effectiveness and distribution and/or customer buying decision process “buyer behavior”.

The organizational function exploring result contribute to identify the individual who do marketing activities. It is aligning Trihatmoko et al. (2016) and Mihart (2012) that the relationship between salespeople and the customer in the purpose for realizing the “4Ps” marketing mix strategies. The relationship channel structure between principals and intermediaries’ customer support the conventional channel management concept by Kotler and Armstrong (2013) and Evans and Berman (1992). Theoretically the role of salespeople parallel with Trihatmoko et al. (2016) and Mihart (2012) that IMC implemented directly by sales person to their customers, except the IMC by advertising through media. The salespeople performance is to achieve target sales volume, so as this finding supports Bergen et al. (1992) postulate that the principal could write a contract whereby the agent’s rewards are determined by performance outcome. The whole concept of efficient contract determined by proposition “P1-P5”, so as can be formatted into the confine of efficient contract construct (Figure 2).

**FIGURE 2: THE CONFINE OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS**



**CONCLUSION**

Figure 2 shows that mayor finding in this research, that are: First, environment factors antecedent relationship development and essential role of strategies of marketing mix determine the success of relationship development. Second, commercial term is central point that determined relationship development. Third, decision among the parties and/or one party towards the limited contract (to extend or stop the contract) since the early process until the implementation of contract agreement indirectly related by situational environment and the effectiveness of marketing mix strategies. Fourth, organizational function directly contributes both in provision by principals and implementation by distributors. Fifth, marketing mix strategies policy defined based on situational environment factor related with commercial business, and all of these postulated within the articles of legal contract agreement.

Based on these major findings, can be concluded that: First, (1) agencies contract agreement between principals and distributors regulated in detail the interest, objectivity, also the right and duty of each party. (2) during the agreement implementation to fulfill interest, objectivity, also the right and duty of each party protected. Second, (1) the confine of efficient contract regulate company’s policies, that are internal and external infrastructures, internal organizational function, commercial term, market competition targeting, strategies of marketing activities and the other integrated aspects within the strategic role. (2) policy determination done by commercial progress of marketing mix strategies objective. (3) the confine of efficient contract purposed to avoid miss-understanding within partnership and to protect the risk for each party, also for contract severance. Figure 2 construction illustrate that product, price, place, and promotion have important role to build the relationship between principals and distributors. So that, the last conclusion that since the planning, implementation and evaluation of marketing mix strategies fully controlled by the provision confine of efficient contract.

**RECOMMENDATION**

This research identifies, describes, and explains phenomenon of efficient contract between principal and agent constructively. **These findings** have essential implication in marketing area as proposition on relationship marketing and agency theory. The research findings indicate that relationship between principals and its main distributor is about strategies: product, price, place and promotion. Established construction from relationship between principals and distributors exploration indicate that policy of the company related with internal and external environment and the role of marketing mix strategies. This concept philosophically implies to marketing theory that is relationship marketing originate from marketing strategies include product, price, place, and promotion. Therefore, theoretical approach study on relationship marketing highly recommended to cite marketing mix strategies as theoretical base of relationship marketing development. The result indicates that efficient contract's process and realization based on its environment, that imply to commercial term aspects. Therefore, it suggested for strategic decision maker manager more precise when analyzing environment in order to make fair policy to all parties. It also indicates that personal-individual organization is a key person who responsible for all marketing activities. So that, managers highly suggested formulating Key Performance Indicator (KPI) based on progress performance of the marketing activities is to avoid subjectivity of characteristic personal-individual organization. The result reveals that agreement documents have it law consequences. There for, if there is a agreement severance, it is extremely recommended to both of director conduct interpersonal-individual approach cooperatively. The result reveals that salespeople as the executor of all of product, price, place, and promotion policies or programs. Last recommendation is about directors and managers should provide more attention to the salespeople, because your "eggs" are in the basket they bring.

**LIMITATIONS AND SCOPE OF FUTHER RESEARCH**

The data of this research is about limited on distributor agreement documents of big scale producer companies and main distributors in Indonesia. So that, the future research on small-medium scale producer companies and main distributor could be an interesting research. Going deeper, this research is about limited marketing management perspective, meanwhile within distributor agreement consist of commercial and law aspects. It highly recommended the academics of law and another management area will do further research on different perspective. Channel management research in this research is exclusively focus on FMCG industry, so that it could not be generalized for all industries. It is highly possible another researchers to replicate this research framework for non-FMCG industries channel management.

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## CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	GEOGRAPHIC DIVERSIFICATION AND BANK PERFORMANCE: EVIDENCE FROM ETHIOPIA <i>DR. P. HRUSHIKESAVA RAO &amp; ELEFACHEW MOSSISA</i>	1
2.	RELATIONSHIP BETWEEN FIRM RESOURCES AND SMALL FIRM GROWTH IN BANGLADESH <i>MD. MOSHARREF HOSSAIN, YUSNIDAH IBRAHIM &amp; MD. MOHAN UDDIN</i>	6
3.	INNOVATION NETWORK IN TAIWAN TELECOMMUNICATION INDUSTRY BASED UPON SOCIAL NETWORK PERSPECTIVE <i>CHUN-YAO TSENG &amp; TZU-LIN CHIANG</i>	11
4.	ADVENT OF THE RETAIL SECTOR IN INDIAN ECONOMY: A PERSPECTIVE ACROSS DECADE <i>SWATI SAXENA &amp; DR. HUSEIN ABDULRAHIM HASAN</i>	16
5.	GOODS AND SERVICES TAX: A LEAP FORWARD ECONOMIC GROWTH AND DEVELOPMENT <i>MINAKSHI GUPTA</i>	19
6.	INITIAL PUBLIC OFFERING UNDER-PRICING: A CASE STUDY OF TWITTER IPO <i>SAVITHA, P &amp; B. SHIVARAJ</i>	25
7.	THE CONFINE OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS PERFECTLY CONTROL MARKETING MIX STRATEGIES: CHANNEL MANAGEMENT PERSPECTIVE OF FAST MOVING CONSUMER GOODS (FMCG) INDUSTRIES IN INDONESIA <i>DR. AGUS TRIHATMOKO, R., DR. MUGI HARSONO, DR. SALAMAH WAHYUNI &amp; DR. TULUS HARYONO</i>	31
8.	AN ANALYSIS OF NON PERFORMING ASSETS OF INDIAN BANKS <i>OMBIR &amp; SANJEEV BANSAL</i>	37
9.	FINO'S TECHNOLOGICAL SOLUTIONS FOR THE YESHASVINI COOPERATIVE FARMERS HEALTH CARE SCHEME <i>DR. G. KOTRESHWAR &amp; V.GURUSIDDARAJU</i>	43
10.	PERFORMANCE OF FISH WORKERS COOPERATIVE SOCIETIES <i>A. NALINI &amp; DR. P. ASOKAN</i>	46
11.	A STUDY ON ASSOCIATION AND CAUSALITY RELATIONSHIP BETWEEN NSE EQUITY SPOT AND DERIVATIVE MARKETS <i>SATYANARAYANA KOILADA</i>	48
12.	DIVIDEND POLICY AND ITS IMPACT ON STOCK PRICE: A CASE STUDY ON SENSEX COMPANIES <i>BHAGYA LAKSHMI.K &amp; DR. N. BABITHA THIMMAIAH</i>	54
13.	IMPACT OF GLOBALIZATION ON THE EXTERNAL SECTOR OF INDIAN ECONOMY <i>IBRAHIM CHOLAKKAL</i>	58
14.	A STUDY ON GROWTH AND INSTABILITY IN INDIA'S BANANA CULTIVATION AND EXPORT <i>DR. R. GANESAN</i>	62
15.	ROLE OF ASHA WORKERS IN RURAL DEVELOPMENT WITH REFERENCE TO KOTTAYAM DISTRICT <i>TISSY ERUTHICKAL</i>	66
16.	ROLE OF MECHANIZATION IN AGRICULTURAL IN THE PRESENT SOCIO-ECONOMIC SITUATIONS: A CASE STUDY OF ANDHRA PRADESH <i>H. RAMANJINEYULU &amp; DR. K. SOMASEKHAR</i>	70
17.	CRITICAL ANALYSIS OF THE RIGHT TO FAIR TRIAL <i>RIDDHIMA MUNSHI &amp; DR. SANJAY SOLANKI</i>	73
18.	DYNAMIC CAUSALITY RELATIONSHIP BETWEEN FDI INFLOWS, TRADE BALANCE, AND ECONOMIC GROWTH IN WORLDWIDE SELECTED TOP 25 HOST COUNTRIES DURING POST LIBERALIZATION REGIME: A QUANTITATIVE APPROACH <i>SARMITA GUHA RAY</i>	78
19.	WORKING CONDITIONS OF THE UNORGANISED SECTOR IN KERALA: REFERENCE TO SALES WOMEN IN THE TEXTILE SHOPS <i>FREEDA V SIMON</i>	84
20.	INTRA-GENERATIONAL RELATIONSHIPS AMONG THE AGED PENSIONERS OF BHUBANESWAR, ODISHA <i>AMITA MOHAPATRA</i>	86
21.	REQUEST FOR FEEDBACK & DISCLAIMER	91

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MARKETING MIX STRATEGIES: CHANNEL MANAGEMENT PERSPECTIVE OF FAST MOVING CONSUMER  
GOODS (FMCG) INDUSTRIES IN INDONESIAN**

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**ABSTRACT**

*The interest of marketing research to obtain a deep understanding of relationship marketing since 45 years ago, relatively less of the research put role strategies of marketing mix. This research reveals perspective of relationship marketing within agency theory and channel management structure of fast moving consumer goods (FMCG) industry. The purposes of this research are to identify, describe, and obtain a deep understanding of the confine of efficient contract between principals and distributors towards marketing mix strategies. The research design of this research is qualitative method by phenomenology and constructionism approach. Data collected from two distributors companies which partnering with national and multinational company. Result concludes that environment factors, commercial term, aspects of marketing mix strategies and organizational function directly and indirectly determines relationship development. Essential content about environment, commercial term, marketing mix and organizational function are the prospectus on the policy making in the company, specifically determined legal contract agreement between principal and agent. The contract agreement essentially moves toward to strategies of marketing mix. These findings constructively have essential implication as the proposition in relationship marketing and agency theory in marketing area. Practitioner may take the advantages. This research's advantage for practitioner is to enrich knowledge to improve their channel performance and relationship development with their partner.*

**KEYWORDS**

relationship marketing, marketing mix, efficient contract, agency theory, marketing strategies, channel management, principal and distributor, fast moving consumer goods (FMCG).

**INTRODUCTION**

**M**arket potency of Fast Moving Consumer Goods (FMCG) product in Indonesia is very huge, indicated by phenomenon of total unvers are 2.524.111 stores ("a research company", 2010). FMCG's marketing has important role in countries development (Sarangapani and Mamatha, 2008). Yet, there are limited academic researches for FMCG's marketing. Meanwhile, there are a lot of national and multinational company operates in Indonesia. It is an interesting phenomenon, to investigate how apply FMCG marketing strategy at their channel. Indonesia FMCG's companies apply channel management by conventional approach or widely known as indirect channel (Trihatmoko, Harsono, Wahyuni and Haryono, 2016), with the result that structurally put distributors as the first line (Kotler and Armstrong, 2013; Evans and Berman, 1992). Although this decade, some big companies put their products to modern markets without distributors. The uniqueness of this research is not only to take a look at Indonesia FMCG marketing perspective only but also to explain how crucial marketing mix position in the context of relationship between producer companies as the principal and distributors as main agent. This study of relationship marketing involves marketing strategies, so as substantially mingles transactional marketing mix. The concept of product, price, place and promotion (4Ps) are the paradigm of marketing mix which dominate marketing ideas, researches, and practices since introduced about 40 years ago (Gronross, 1997). Today this paradigm is beginning to lose position, relationship marketing is one approach to marketing which eventually has entered the marketing literature (Gronross, 1997). The first research of relationship marketing did by 1970 and appears on marketing literatures since about 1980s (Rao and Perry, 2002; Theron et al. 2008). Gronross's postulate (1997) is correct till today, by 2000 until today the focus of the researchers is about strengthen the construction and interpretation of relationship marketing, as did by Jap and Ganesan (2000); Rao and Perry (2002); Parsons (2002); Zineldin and Philipson (2007); Theron, Terblanche and Boshoff (2008); Sashi (2009); Alvarez, Casielles and Martin (2011); Song, Su, Liu and Wang (2012); Tareq (2012); Mazhari, Madahi and Sukati (2012); Aminu (2012); Roman and Martin (2014) and Trihatmoko et al. (2016). Research based on relationship marketing approach limitedly exploring marketing mix (4Ps). The result of Zineldin and Philipson (2007) concluded some companies take an advantage traditional 4Ps marketing concept, when the others mixed the relationship and transactional marketing mix. Going deeper,



Trihatmoko et al. (2016) investigates how the salespeople of distributor FMCG products, apply marketing mix strategies to build the relationship with the customers. Base on previous literatures encourage the researchers to take a look back the position of marketing mix at the context of relationship marketing between company and distributors in FMCG industry as the originality of this research.

### IMPORTANCE OF THE STUDY

Study of marketing mix in channel management structures is urgent to do to remind the paradigm of marketing mix as the basic of marketing activities. Specifically, for marketing academics this research will enrich the orientation towards marketing FMCG by relationship marketing approach. Generally, this research encourages researchers to do advanced researches, so as will contribute to advancement of the recent 4Ps marketing mix. This research also provides the advantages for managers and executives of multinational companies who interest build a carrier in Indonesia. Last but not least, for the future entrepreneurs in distributors area will be provided by insights the role of distributors as the main agent of the FMCG companies.

### LITERATURE REVIEW

Morgan and Hunt (1994) explain that the relational exchange in relationship marketing grouped as four function: supplier, buyer, internal and lateral partnership. By partnership perspectives between producer companies and distributors is the relationship between principal as suppliers and agent as buyers. Agency theory uses the metaphor of contract to describe relationships in which one party delegates work to another (Jensen and Meckling, 1976 within Bergen, Duta and Walker, Jr., 1992). The theory describes that efficient contract between principal and agent influenced by uncertainty and moderating factor: environment. Efficient contract is one that brings about the best possible outcome for the principal given the constraints imposed by the situation, rather than one that maximizes the joint utility of both principal and agent (Bergen et al., 1992). The challenge of relationship marketing is to recognize the subtle changes in the business environment and to adapt to them (Zineldin and Philipson, 2007). The environment directly affects the degree of decision-making uncertainty experienced by channel members (Achrol and Stren, 1988). Dwyer and Welsh (1985) proposed model of environmental characteristics impact on channel structure and process, and channel configuration.

Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Morgan and Hunt, 1994). Marketing mix is a collection of sub-activities and create relationships with customers as well as supplier and dealers, etc. (Zineldin and Philipson, 2007). This literature review indicates that marketing mix variabilities are the contents of efficient contract. The main concern to reveal is how effective marketing mix have been applied for channel management structures, and the problem statement are: (1) how is the legality format of agency contract agreement between principals and distributors? (2) what are the confine of efficient contract and how determine the confine, and why should be confined?

### OBJECTIVES

The objectives of this research are to identify, describe, and obtain a deep understanding confine of efficient contract, between principals and distributors in marketing mix strategies policy. This explorative research does to reveal the phenomenon the legality of agencies contract agreement between principals and distributors. The focus of this research is to investigate the agreement legality documents to find out the purposes of marketing mix strategies policy and channel management. Conceptually, the research result proposed by propositions to enlarge the marketing mix and channel management concept.

### FRAME WORK

Based on previous literatures perspectives about partnership between principals and agents, conceptually could be understood that: (1) partnership between principals and distributors in FMCG industry uses metaphor agencies contract (Morgan and Hunt, 1994; Jensen and Meckling, 1976); (2) Efficient contract determined by environment condition (Bergen et al., 1992; Achrol and Stren, 1988; Dwyer and Welsh 1985); (3) Principals target is market competitive advantage outcome (Bergen et al., 1992); (4) Distributor is intermediaries on marketing activity which set by principals (Morgan and Hunt, 1994); (5) Distributor is the sub-activity from marketing mix (Zineldin and Philipson, 2007; Trihatmoko et al., 2016). Theoretical indicators (1-5) lead to estimate that efficient contract between principals and distributors included marketing mix strategies, and efficient contract stimulated by environment factors.

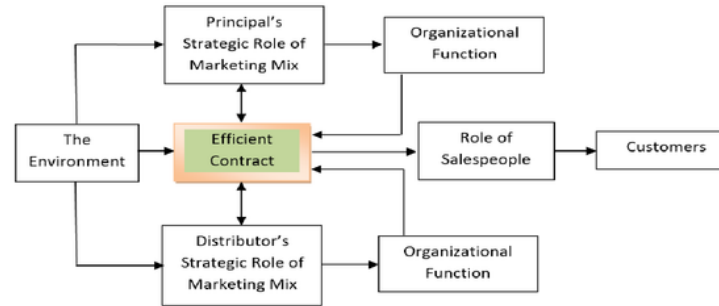
Principal might collect more information about the agent's behavior by investing in monitoring activities and systems, and could the write contract that bases the agent's rewards on information about his or her behavior (Bergen et al., 1992). Partnership between supplier and buyer involve internal partnerships that is employer and functional department (Morgan and Hunt, 1994). Based on that literatures perspectives could be estimated that efficient contract between principals and distributors controlled by employer as the organizational function principal and distributor.

The result of Trihatmoko et al. (2016) has proposed propositions that the role of salespeople in FMCG distributor companies determine the relationship quality with the customers based on historical implementation of marketing mix strategies. In the channel management concept, the functional distributor that is selling or distributing product to the customers such as wholesaler, retail, institutional, or the other special outlet (Kotler and Armstrong, 2013; Evans and Berman, 1992). The role of salespeople in FMCG distributor company as personal selling function, they do direct communication and interaction with the customer in the selling process (Trihatmoko et al., 2016). Integrated marketing communication (IMC) has become a major way of achieve the objective of the company (Mihart, 2012). The principal could write a contract whereby the agent's rewards are determined by performance outcome, such sales volume (Bergen et al. 1992). Mihart (2012) explain that IMC works specifically through all of the marketing mix or widely known as "4Ps": product, price, place and marketing communication or promotion". Based on those literatures review estimates that distributor salespeople take their roles refers to efficient contract of marketing mix strategies when offering their product to the customers.

The perspective conceptualization above could be described in efficient contract framework between principals and distributors (Figure 1). This framework is umbrella and a guidance of analysis tools in qualitative research (Fatchan, 2011; Saldana, 2011; Creswell, 2013) that is to identify, describe, and obtain deep understanding the confine of efficient contract between principals and distributors related to marketing mix strategies comprehensively.



FIGURE 1: PROPOSED MODEL OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS



## METHOD

This research uses qualitative method by phenomenology theoretical design (madhab) that is channel management phenomenon of FMCG product marketing (Proctor, 2005; Creswell, 2009; Jonker and Pennink, 2010; Fatchan, 2011; Saldana, 2011; Creswell, 2013; Gupta and Awasthy, 2015; Taylor, Bogdan and DeVault, 2016). Phenomenology is research strategy approach to identify human experiences of certain phenomenon, in this case the distributors of FMCG experiences on making contract agreement with their principals (Fatchan, 2011; Saldana, 2011; Creswell, 2013). Data interpretation for this research is constructionism/constructivism philosophy that is base on the location of the FMCG business (Fatchan, 2011; Saldana, 2011; Creswell, 2013; Hammersley, 2013; Gupta and Awasthy, 2015). Therefore, unit analysis of this research is distributor companies as main agent of FCMG industry. Data collecting do by observing agreement documents between principals and distributors (Saldana, 2011). The data obtained from executives of distributor companies located in Central Java, Indonesia. The norms of these agreements principally has no difference from the other region in Indonesia, so as the documents from distributors companies located in Central Java could be determined as the representative pattern for another region in Indonesia.

Distributor agreement documents have been selected from two multinational companies and three national companies in Indonesia. Company names could not be reported in this research because of its legality of the agreement and it is confidential for the companies, so that in data analysis coded by C1, C2... and C5. For data validation, we uses quite long processes that are triangulation, member check, presisten observation, audit trial and data interpretation analysis (Fatchan, 2011; Creswell, 2013). We also conduct discussion or open interview with managers and executives of distributor companies as the research participants. Triangulation and presisten observation conducted for build credibility, audit trial and member check conducted for assess data interpretation analysis to find the dependability and conformability (Creswell, 2013).

## RESULT & DISCUSSION

### LEGALITY OF AGENCIES CONTRACT AGREEMENT

This research on partnership between principals and distributors has revealed agencies contract agreement phenomenon. Initial observation obtains a deep understanding physical form of agreement from five principals companies with two different distributors. The result of initial observation from five agencies agreements produces the norms description of efficient contract between principals and their distributors.

In practice world, agencies agreement named as distributor agreement (*Indonesian: Perjanjian Distributor; Perjanjian Penunjukan Distributor; or Perjanjian Kerjasama Distributor*). Physical form of agreement formatted in law-discussion based on Indonesia's law approaching. Principal referred to as First Party and Distributor referred to as Second Party. Therefore, the parties agree to define the terms and conditions applicable to that agreement, as follows articles (*Indonesian: Pasal*) that manage the confines of relational agreements. Distributor agreement document signed by each representative of the party that is the company's director or president director, who their name legally stated in company's establishment document. For some reasons, an executive or manager may have signed the agreement if they already have mandatory letter from the director. After the agreement has been signed, the agreement will be valid for one year and will be extended. In the case of agreement severance, it depends on one party and will be approved by another party, if there is a quarrel will be conduct discussion or law enforcement. Here we have article specimen (Note: C1.A1.3: Agreement document of company 1, article 1-number 3, and etc).

"... when mediation has been doing.... then the agree-parties to choose permanent and general domicile... as the place to disagreement settlement" (C1.A.18.4).

"... second party shall take the responsibility and be charged in the name of law." (C2.A.16..5).

"... any dispute arising...will be settled by mutual agreement, if..., the parties to chose parmanent domicile at...District Court". (C3.A.19.6).

"This agreement shall be interpreted and construed... of the master agreement with respect to governing law". (C4.A.11.1)

The whole identification and description result on FMCG industry distributor agreements indicate that efficient contract formulated in detail and has legal consequences. Theoretically, this research proposition one, as:

P1: Norms of efficient contract between principals and distributors formulated and regulated grounded of legal environment where the agreement made.

This finding, contributes to agency theory by Jensen and Meckling (1976) related to metaphor of contract to discribe relationships and partnership within relationship marketing by Morgan and Hunt (1994). Specifically, the formation, principals as seller and distributors as buyer in the business to business (B2B) context of FMCG products category.

### THE CONFINE OF EFFECIENT CONTRACT

Stage two of observation conducted by exploring one by one of every single article in distributor agreement. The research focus is to produce identity and essence of environment and marketing mix related with others aspect of business term and organizational functions.

### THE ENVIRONMENT

Environment is stimulus factor of relationship development between principals and distributors. The agreement provision describes that environment is the principals and distributors perspective to estimate business prospective that is commercial term. Logically, when among the parties will earn margin, sales volume and others business development beneficial, they will agree to make a contract. Whereas when one party could not support these provision offer by another party, there will no agreement made. Here we have specimens of agreement provision regulating efficient contract to identify environment related with commecial term to build business relational (Note: first party is principal; second party is distributor).

"First party is a company that producing multiple consumer product...as mention in Exhibit..." (C2, C3).

"Second party is the distributor of food and baverage products of first party..." (C5).

"...initial statement within distributor agreement that is first party and second party identities mentioned: NN is a company in this case represented by NN (a director)" (C1-C5).

Understanding the introduction of agreement could be interpreted that both parties has qualification information of each party and discover the competition of categorical product in the market, so as both parties expecting the influence to commercial volume and value of their business. This lead to proposition two, as:

P2.1: Competitive environment of products determine the commercial term to build the relationship.

Next discussion, interpreting P1 that legal agreement is quite clear as the protection of both parties, yet it bring financial risk consequence, so that the next proposition, as:

P2.2: Socio-cultural environment determine commercial term to build relationship.

A director represented the company lead that director and another organizational functions has connectivity among the individual to give business opportunity each other, so that the proposition, as:

P2.3: Internal-political structure environment determine commercial term to build relationship.

Principals of big company in this research stipulate requirement to the distributor in the form of Bank Guarantee as collateral liabilities.

"Second party give the full authority to first party to withdraw the bank guarantee in the condition they could not pay..." (C2.A.3.2.12).

"Second party shall provide an unconditional..., for the benefit of first party..." (C3.A.7.1).

"... to guarantee debt re-payment..., second party devolve the bank guarantee...issued by NN Bank..., nominal..." (C5.A.3).

Bank Guarantee issued by bank through credit agreement between distributor and bank to protect the financial condition of principal. The scheme indicates all parties depend on external party that is bank, and the proposition, as:

P2.4: External-economic environment determine commercial term to build relationship.

The principal stipulate requirement to the distributor to provide infrastructure to make them capable of operating distributor business functions.

"second party has the duty to provide proper infrastructure to store and keep the product as the provision of first party" (C1.A.7.1).

"...procurement of infrastructure needs..., those procurement based on the agreement of both party, involving third party" (C2.A.1.6).

"second party shall assist the successful sales and marketing... by providing a sufficient, professional and effectiveness organizational structure..." (C3.A.10.1).

Infrastructure is internal resource investment provided by distributor, so that proposition, as:

P2.5: Internal-economic environment determine commercial term to build relationship.

Others perspective of environment that is market competitive, its example in the agreement postulated that coverage area and customers type is about confined by principal.

"Second party is only required deliver product in the certain marketing area... NN District" (C1.A.2.1).

"... outlet is the determined customer by first party...within coverage area..." (C2.A.1.6).

"Second party shall distribute the products in the special territory of NN city...to the exclusion of any others territory" (C3.A.1.3).

The edge of territorial and typical customers "modern or traditional trade" are business prospective in the market, that is proposition, as:

P2.6: Competitive environment of market determine commercial term to build relationship.

The concept of environment related with commercial term to describe that at the initial process both principals and distributors has their own policy to fulfill their duty as postulated in the agreement that is commercial term contents. Up to this stage, the proposition three, as:

P3: Commercial term is dominant factor towards each partner to determine company's policy to build relationship.

The findings related environment factors, commercial term, and relationship development contribute to identify and describe detail structure of agency theory by Jensen and Meckling (1976) and Bergen et al., (1992), Achrol and Stren (1988), Dwyer and Welsh (1985) that efficient contract determined by environmental condition. This result confirms to Morgan and Hunt (1994), Jensen and Meckling (1976) to ensure that partnership between principals and distributors of FMCG industry uses metaphor agencies contract in the process of applying relationship marketing approach, specifically in Indonesia.

## COMPANY'S POLICY AND MARKETING MIX

The result of this research identifies that company's policy clearly stated in the agreement document as main rule to associate the relationship implementation between principals and distributors. The director or the other executive acts as company's representative, so as company policy is their responsibility within company strategies role. Company policy domination lies on marketing mix strategies (4Ps) as the distribution and selling channel to the customers, therefore, gives the direct consequences to commercial term.

### PRODUCT

"First party product...which may be changed from time to time by first party, including but not limited to the new product,... Second party acknowledges that trade marks, trade names, logos and copyrights remain the sold intellectual property of the principal and..." (C3.A.1.2 and A.17.1).

"First party has the duties to: control the standard quality and product quality the goods that will be distributed and sold by second party... Second party prohibited to do increment and/or change the product in any form..." (C2.A.3.1.1 and A.3.2.10).

"Second party should do the NN distribution system as stipulation:... keep the product image and take the responsible to market return that not caused by first party" (C1.A.7.2).

### PRICE

"Second party shall sell the products in accordance with the price, minimum order requirements and terms structure as determined first party... Changes to price-list may be made from time to time by first party...Second party shall comply with the structure..., shall not change or depart from the aforesaid structure... without the prior written approval from the first party" (C3.A.3.1-3).

"... the outlet price structure set by first party after consult with second party based on marketing strategies and fair profit... first party shall inform the second party by the written document.... Before the change of price enforced... second party shall be bent down to the term of payment policy to the determined outlet of first party" (C2.A.4.1 and A.5.1; A.4.9).

"... selling price determined by first party accordingly determined price list of... First party may change the price without approval of second party..." (C1.A.4.1 and A.4.2).

### PLACE

"Second party shall distribute the products in the special territory of NN city...to the exclusion of others territory.... It is the sole right of the first party to determine the territory..." (C3.A.1.3).

"Outlet means customers based on first party provision that should be served by second party within the determined" (C2.A.1.1).

"First party considering profit and loss distribution potency, and may change marketing area with the written report to the second party, without any compensation to second party..." (C1.A.2.2).

"... covered channel are wholesaler, provision/retail, semipermanen shop..., general mini market, or another approved channel by NN-first party" (C5.4).

### PROMOTION

"Second party may only undertake promotional activity for the products after receiving letter of instruction from the first party. Second party shall not carry out any advertising..." (C3.A.13.1-2).

"Second party shall propose promotion fund, event fund to increase the product selling to the first party and control the promotion and the event that will be held" (C3.A.3.1.5).

"... second party shall not to promote through magazines, newspapers, radio, poster, another images, and another electronic media and shall not use brand or first party logo on their invoice, memo, letterhead, and envelopes... related to product without first party permission" (C1.A.8.3 and A.8.4).

Strategic role of product, price, place and promotion in the contract agreement reflect that principal do marketing mix strategies, and distributor as the executor. The proposition four, as:

P4.1: Principal strategic policy of product, price, place and promotion define distributor policy as the guidance implementation.

Marketing mix transaction consequences in this business-to-business scheme is about to provide commercial benefit to the principals and distributors. As mutual benefit explained as: pricing strategies impact company's margin in term of buying-selling price; promotion strategies impact the business volume in the selling increment strategy; marketing territory, product competitive advantages, and its integration to the price structure and promotional program directly affect gross profit and/or company profitabilities. It provides the proposition, as:

P4.2: Marketing mix policies directly impact the commercial term of both principals and distributors.

Proposition three (P3) indicates that commercial term impacts company policy, then lead the proposition, as:

P4.3: The marketing mix strategies result indirectly impact the further company policy, as long as the contract remain valid.

The findings of strategic role of product, price, place and promotion contribute to define the real position of marketing activities in the efficient contract by Morgan and Hunt, 1994, Zineldin and Philipson, 2007; Trihatmoko et al., 2016 postulate that distributors are the intermediaries or sub-activity of determined marketing activities by the principals.

**ORGANIZATIONAL FUNCTION & CUSTOMERS**

The marketing mix strategies implementation by distributor controlled by organizational function of both parties, as declared in the agreement.

"... following types of reports: Avertese event report, event of special interest... by each party as having responsibility for overseeing collaboration and compliance with the procedure..."(C4.1.11.12).

"Second party undertakes to provide report of sales and inventory movement,... weekly basis. First party will have the right to audit: stock level..., the realisation of the marketing and distribution of the product..."(C3.A.12.3).

"Second party shall provide..., executive sales team and support sales teams and first party product distribution" (C1.A.7.9).

"... system, planning, sales target and productivity are the distribution system of NN-first party" (C5.A.3).

"Principals put the representatives for the equivalent of area sales supervisor, area sales manager, regional sales manager to do control function and coordination to the marketing activities of distributors. Distributor organizational structure of marketing functions are sales manager, sales supervisor, and sales person (salespeople). Among the organizational function shall collaborate to control and giving the feedback toward marketing activities, such as: trade promotion program, discount price, salespeople training, sales person effectiveness and etc., distributor customer served by sales person consist of wholesaler, retail and other institution or special outlet in modern or traditional trade" (source: researcher's observation).

Those organizational role phenomena identify that each company policies that is put the employees of the company to fully control all marketing activities by salespeople to the customer. Salespeople are organizational individual act as pure executor to achieve the sales and product distribution to the distributor customer. Customer buying decision process or customer buyer behavior depends on role of salespeople within product offering process. Then the proposition five, as:

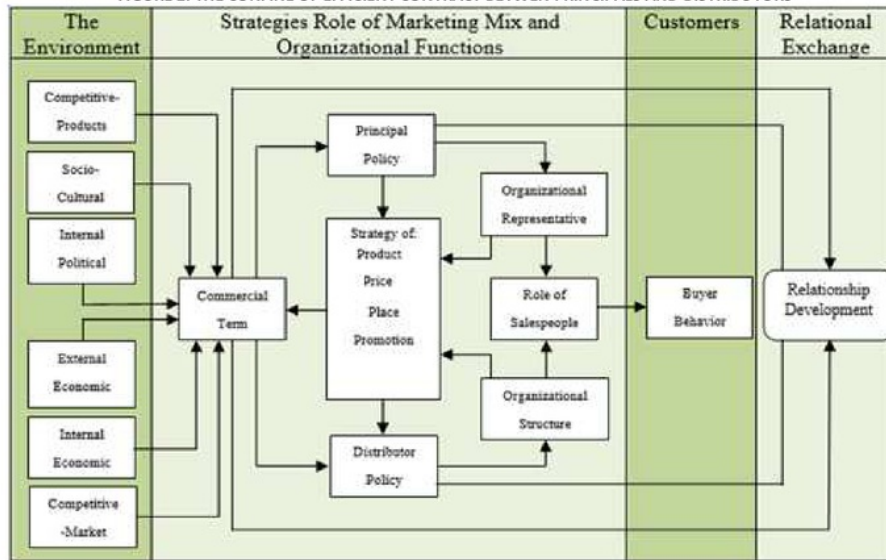
P5.1: Principal policy on determining the organizational representative and the distributor policy on determining organizational structure.

P5.2: The whole organizational functions cooperatively control the marketing activities and the role of salespeople.

P5.3: The role of salespeople define the selling effectiveness and distribution and/or customer buying decision process "buyer behavior".

The organizational function exploring result contribute to identify the individual who do marketing activities. It is aligning Trihatmoko et al. (2016) and Mihart (2012) that the relationship between salespeople and the customer in the purpose for realizing the "4Ps" marketing mix strategies. The relationship channel structure between principals and intermediaries' customer support the conventional channel management concept by Kotler and Armstrong (2013) and Evans and Berman (1992). Theoretically the role of salespeople parallel with Trihatmoko et al. (2016) and Mihart (2012) that IMC implemented directly by sales person to their customers, except the IMC by advertising through media. The salespeople performance is to achieve target sales volume, so as this finding supports Bergen et al. (1992) postulate that the principal could write a contract whereby the agent's rewards are determined by performance outcome. The whole concept of efficient contract determined by proposition "P1-P5", so as can be formatted into the confine of efficient contract construct (Figure 2).

**FIGURE 2: THE CONFINES OF EFFICIENT CONTRACT BETWEEN PRINCIPALS AND DISTRIBUTORS**



**CONCLUSION**

Figure 2 shows that mayor finding in this research, that are: First, environment factors antecedent relationship development and essential role of strategies of marketing mix determine the success of relationship development. Second, commercial term is central point that determined relationship development. Third, decision among the parties and/or one party towards the limited contract (to extend or stop the contract) since the early process until the implementation of contract agreement indirectly related by situational environment and the effectiveness of marketing mix strategies. Fourth, organizational function directly contributes both in provision by principals and implementation by distributors. Fifth, marketing mix strategies policy defined based on situational environment factor related with commercial business, and all of these postulated within the articles of legal contract agreement.

Based on these major findings, can be concluded that: First, (1) agencies contract agreement between principals and distributors regulated in detail the interest, objectivity, also the right and duty of each party. (2) during the agreement implementation to fulfill interest, objectivity, also the right and duty of each party protected. Second, (1) the confine of efficient contract regulate company's policies, that are internal and external infrastructures, internal organizational function, commercial term, market competition targeting, strategies of marketing activities and the other integrated aspects within the strategic role. (2) policy determination done by commercial progress of marketing mix strategies objective. (3) the confine of efficient contract purposed to avoid miss-understanding within partnership and to protect the risk for each party, also for contract severance. Figure 2 construction illustrate that product, price, place, and promotion have important role to build the relationship between principals and distributors. So that, the last conclusion that since the planning, implementation and evaluation of marketing mix strategies fully controlled by the provision confine of efficient contract.

**RECOMMENDATION**

This research identifies, describes, and explains phenomenon of efficient contract between principal and agent constructively. **These findings** have essential implication in marketing area as proposition on relationship marketing and agency theory. The research findings indicate that relationship between principals and its main distributor is about strategies: product, price, place and promotion. Established construction from relationship between principals and distributors exploration indicate that policy of the company related with internal and external environment and the role of marketing mix strategies. This concept philosophically implies to marketing theory that is relationship marketing originate from marketing strategies include product, price, place, and promotion. Therefore, theoretical approach study on relationship marketing highly recommended to cite marketing mix strategies as theoretical base of relationship marketing development. The result indicates that efficient contract's process and realization based on its environment, that imply to commercial term aspects. Therefore, it suggested for strategic decision maker manager more precise when analyzing environment in order to make fair policy to all parties. It also indicates that personal-individual organization is a key person who responsible for all marketing activities. So that, managers highly suggested formulating Key Performance Indicator (KPI) based on progress performance of the marketing activities is to avoid subjectivity of characteristic personal-individual organization. The result reveals that agreement documents have it law consequences. There for, if there is a agreement severance, it is extremely recommended to both of director conduct interpersonal-individual approach cooperatively. The result reveals that salespeople as the executor of all of product, price, place, and promotion policies or programs. Last recommendation is about directors and managers should provide more attention to the salespeople, because your "eggs" are in the basket they bring.

**LIMITATIONS AND SCOPE OF FUTHER RESEARCH**

The data of this research is about limited on distributor agreement documents of big scale producer companies and main distributors in Indonesia. So that, the future research on small-medium scale producer companies and main distributor could be an interesting research. Going deeper, this research is about limited marketing management perspective, meanwhile within distributor agreement consist of commercial and law aspects. It highly recommended the academics of law and another management area will do further research on different perspective. Channel management research in this research is exclusively focus on FMCG industry, so that it could not be generalized for all industries. It is highly possible another researchers to replicate this research framework for non-FMCG industries channel management.

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# THE CONFINE OF EFFICIENT CONTRACT

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# THE CONFINE OF EFFICIENT CONTRACT

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PAGE 1

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PAGE 2

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PAGE 3

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PAGE 4

---

PAGE 5

---

PAGE 6

---

PAGE 7

---

PAGE 8

---

PAGE 9

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PAGE 10

---

PAGE 11

---

PAGE 12

---

PAGE 13

---

PAGE 14

---

PAGE 15

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2.6

**LEMBAR**  
**HASIL PENILAIAN SEJAWAT SEBIDANG ATAU PEER REVIEW**  
**KARYA ILMIAH : JURNAL ILMIAH\***

Judul Karya Ilmiah (artikel) : The confine of efficient contract between principals and distributors perfectly control marketing mix strategies: channel management perspective of fast moving consumer Goods (fmcg) industries in indonesian

Jumlah Penulis : 4 Orang (Agus Trihatmoko, **Mugi Harsono**, Salamah Wahyuni, Tulus Haryono)

Status Pengusul : ~~Penulis pertama~~ / penulis ke 2 / ~~penulis korespondensi~~\*\*

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- c. Volume,nomor,bulan,tahun : **Vol. No. 6, Issue No. 09, September 2016**
- d. Penerbit : **Aca IJRCM Org**
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*Asri Laksmi Riani*  
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