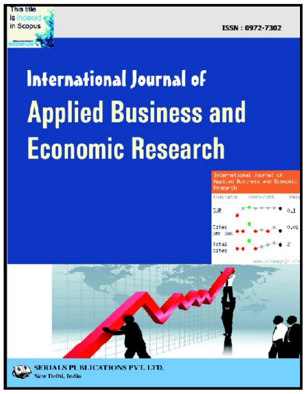

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The Role of the Middleman in a Chronological Order: A Timeframe of Reference

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Abstract: This paper revisits the literature on the role of the middleman in the exchange system. The aim is to suggest a timeframe of reference via which the extant literature can be organized and better understood. Within this framework, the historical changes instrumental in shaping the nature of this role were highlighted. The paper endeavors to establish a link between the social, economic and technological settings of the time and the role the middleman plays in the distribution process. The assum ption put forward here is that as these settings change, so does the role of the middleman. This can be seen in the work the middleman does and the services he offers.

Keywords: Middlemen, Professional trader, distributor, provider, the gap, discrepancies.

1. INTRODUCTION

Rumor has it, that a former Ethiopian President, once said that, if he has it his way he will send all middlemen to the gas chamber. This, at the time, reflected a Marxist interpretation of human history which regards all middlemen as mere parasites who should be exterminated. Extreme though this opinion might be, it helps tap into the social mythology and controversy surrounding the role of the middleman and the value and merit of the work he does. In their views of middlemen, people, it seems, are very opinionated. Today, for instance, it is not unusual in certain countries to read the phrase, "middlemen not welcomed", in ads selling personal items in local newspapers. Broadly speaking, however, two opposing points of view can be identified vis-à-vis the merits and value of the job of middlemen. On one hand, an old but deeply rooted perception that holds middlemen in low regard (Masters, 2007) and view the work they do to be of little economic value. In other words, an unproductive and unnecessary activity that serves only to add costs to products rather than value (Sheth & Parvatiyar, 1995)). Hence, distribution becomes unimportant and as such need only be given little attention (Converse, 1940).

On the other hand, a rich stream of texts, articles, monographs, and studies has, since then, argued otherwise; that middlemen are a hallmark of a modern market economy (Smith, 2005), that the work they do help sustain our current standard of living, insofar, as they make available the vast and enormous array of products and services that we need on a daily basis.

Numerous economists and marketing theorists subscribed to this notion and highlighted the important contribution the middleman makes to the production process. For example, Adam Smith earlier noted that the market is key to the division of labor and specialization (2005). In essence, this means that companies cannot reap the benefits of the economies of scale if they cannot sell sufficient quantities of their output. How much they sell depends very much on their market exposure and coverage and the middleman is key in ensuring such exposure. Viewed from this angle, the work of intermediaries fosters the emergence of new production methods and helps stimulate innovation as well (Smith, 2005). Along the same line of reasoning, Alderson argued that, "in our modern economy, the distribution network making possible specialized mass production on the one hand and the satisfaction of differentiated tastes of consumers on the other" (Alderson, 1954, p. 1113). Likewise, Bartels saw the need for marketing as emanating from the gap that separates producers from consumers. The work of the middleman, therefore, is needed to remove these separations and allow consumption to occur (Bartels, 1965). To Kotler et al. "marketing intermediaries transform the assortments of products made by producers into assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want assortments of products in small quantities." (2011, 403p.). To resolve these disparities, the authors maintained, "channel members buy large quantities from producers and break them down into the smaller quantities and broader assortments wanted by consumers," (ibid, p.403). Perrault and McCarthy argue that, production and marketing are both important parts of the total business system aimed at providing consumers with need-satisfying goods and services. Together, production and marketing create the four economic utilities- form, time, place and possession utility (McCarthy & Perreault, 2003). In so doing, middlemen make available the products customers need at the right time, in the right place and at terms that allow them to take possession of these products.

That said, however, the purpose of this paper is not to argue a case for the middleman; this case is well established and adequately addressed in the literature (Rosenbloom 20011, Coughlan, 2001); rather, the objective is to look at the extant literature from a different perspective and propose a different theoretical context within which the role of the middleman can be viewed and hopefully better understood.

In a recent review that spans thirty years of channel literature; Watson et al., (2015) raised the following points:

(i) The voluminous amount of publications on marketing channels.

(ii) The fragmented and often conflicting nature of such literature.

(iii) A Lack of a unifying theoretical theme to help organize this literature.

These conclusions echo the need for a second look at the role of the middleman from a different perspective. Specifically, it highlights the lack of a frame of reference; a timeline, so to speak, within which it would be possible to trace the significant changes that the role of the middleman underwent. This is the main objective of this review.

By its very nature, therefore, this paper is conceptual. It provides a literature review of the role of the middleman in the exchange process in an attempt to see how this role has changed and developed overtime. To realize this objective, the paper seeks answers to the following questions:

(a) In linking producers with consumers, what specific tasks the middleman undertakes?

(b) How these tasks have changed overtime?

(c) What social, economic and technological factors bear on these changes in the role of the middleman?

2. THE PRE-INDUSTRIAL ERA MIDDLEMAN: A PROBLEM-SOLVER AND PROFESSIONAL TRADER

The role of the middleman during this era can best be understood within the economic, social and market conditions prevalent at the time. Of particular relevance here are the production patterns and the nature of the market. The assumption here is that these factors must have played a prominent role in determining the tasks of the middleman. Two main occupations provided the main livelihood for the majority of the populace prior to the industrial revolution. Namely, agriculture and animal rearing on one hand, and a cottage industry on the other. Between the two, agriculture and animal rearing provided the bulk of occupations for the majority of people. This was supported by a domestic light industrial sector; built mainly around the household and members of the family with very little manufacturing carried on outside the home (Chandler, 1977, p. 17). Products of the time included simple hand-tools designed and made by artisans, textiles fabrics, boots and shoes, various hardware, nails, pins, needles, and a variety of agricultural tools (ibid, p. 18). In the absence of a modern transportation and communication system, markets must have been geographically limited and very localized, barely extending beyond the confines of the town or village square.

With these conditions in mind, both producers and consumer of the day found themselves facing an array of problems. Producers lacked, among other things, the necessary credit to finance their operations. Consumers were unable to assemble an assortment of products befitting their needs. Assuming the role of a trader and a problem-solver, the middleman was able to offer solutions to these problems. For producers, he provided them with the raw materials, tools and furnishing they needed in the production process. In this respect, he was the community financier ... providing short-term loans to finance staple crops and manufactured goods ... as well as long-term loans to planters, farmers, and artisans to enable them to clear the land and to improve their facilities (Chandler, 1977, pp. 17-18). For customers, on the other hand, the middleman's work helped surmount a complicated and difficult hurdle; the assortment discrepancy, i.e. the desire of the customer to have a variety of products from one source in one location. The ability of the middleman to secure goods from distant sources of supply and making them conveniently available addressed this problem. By operating in two markets, he, therefore, helps customers access resources needed and the holders of resources to reach them (Gadde, 2001). In so doing, "he offered his customer an assortment … a combination of products acquired from various sources … that is different from what can be offered by each of suppliers … an own 'products/service' in which the various suppliers' products are but components" (ibid, 2001, p. 3)

That said, the preindustrial middleman, assuming the role of a trader and a problem-solver, became the dominant market 's institution of his time. By the virtue of the work he did, and the services he rendered, he was able to solve the many problems that both producers and customers encountered. Within this context, the middleman was an all-rounder player; a type of trader who, "bought and sold, all types of products and carried out all the basic commercial functions. He was an exporter, wholesaler, importer, retailer, ship-owner, banker, and insurer", (Chandler, 1977 P. 15).

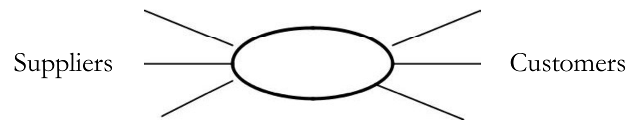

Figure 1: The Middleman as Trader. Source: Gadde (2001)

3. THE POSTINDUSTRIAL ERA MIDDLEMAN: THE WATER CARRIER AND DISTRIBUTOR

The role of the middleman during this period of time changed from that of an all-purpose trader and problem solver in the previous era to a distributor; a water carrier so to speak; somebody who carries a product from A to B. What caused this change was a shift in the balance of power from the middleman to the manufacturer. During this stage, powerful manufacturers with trade-marked goods, had, more or less dominated the business environment and the role of the middleman has become less of a trading nature and more of a distribution nature (Olsson et al., 2013). The inputs to such a role, are to a large extent given, identified and provided by the manufacturer (Gadde, 2001).

The shift in the balance power between the middleman and the manufacturer was an outgrowth of the industrial revolution; that monumental process which had ushered-in some significant changes to the economic and social fabric of the human society. Mainly, a factory mode of production -which led to mass production-, an economic system built on specialization and division of labor, and a gradual process of urbanization.

Mass productions allows producers to reap the benefits of economies of scale as it helped them lower the costs of goods, and hence prices of the products they sold. Yet, mass production poses two problems to manufacturers (Gadde, 2001): First, producing at large-scale entails speculation because manufacturing must be initiated before customers have ordered and bought. Secondly, it increased the need to find markets for their products. Manufacturers, for example, had to reach, "numerous users in such a way that the cost benefits of mass production are not offset by the costs of transfer and transaction". "Unable to sell the entire stock of produced goods, producers were confronted with an increased inventory of finished products" (Sheth & Parvatiyar, 1995, p. 406). Thus, market institutions that were willing to bear the risk of inventory ownership and storage were developed. Wholesalers, distributors and other market intermediaries assumed the role of middlemen who, on one hand, stored the excess production of manufacturers, and, on the other hand, helped in locating and persuading more buyers to purchase goods and services (ibid, p. 406). These conditions provided opportunities for a new role of middlemen – the role as distributor" (ibid, p.5)). (Fig. 2)

In this regard, the middleman is more of a selling agent to the manufacturer than a buying agent for the customer; whereby his job is to help the company find customers or close sales with them (Kotler, 2011).

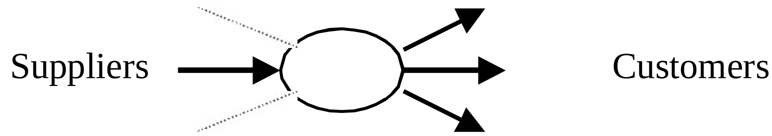

Figure 2: The Middleman as a Water-carrier and Distributor. Source: ibid, 2001

4. THE MODERN MIDDLEMAN: THE PARTNER AND PROVIDER

The balance of power, during this stage, has once again shifted in favor of the middleman at the expense of the manufacturer. The middleman, here, appears to have come full circle from the good old days of the professional trader to the mass distributor and back again. That said, his role has become more elaborate and assumed greater significance in facilitating the flow of goods and services from the producers to consumers. It approximates that of the problem solver and professional trader of the preindustrial stage. With such objective in mind, middlemen seek to identify exchange opportunities based on the end-user requirements and searching for appropriate suppliers of these resources (Bulkin, 1965). At this level, the middleman "is not a hired link in a chain forged by a manufacturer, but rather an independent market, the focus of a large group of customers for whom he buys" (Mc Vey, 1960:64) … an integral part of the user/customer supply network rather than a member of the manufacturer channels. The middleman becomes an integral part of the user/customer supply network rather than a member of the manufacturer channels. is not a hired link in a chain forged by a manufacturer, but rather an independent market, the focus of a large group of customers for whom he buys" (Mc Vey, 1960:64)

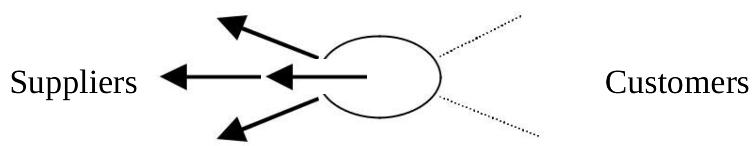

Figure 3: The Middleman as a Partner and Problem Solver. Source: ibid, 2001

Several environmental and market factors are responsible for this shift in the balance of power from manufacturers to middlemen. Four of these can be identified here: (i) the emergence of a new business philosophy (ii) the trend towards more customized marketing (iii) the growing power of retailers and (iv) a demanding customer. These factors have combined to empower middlemen relative to manufacturers and put them center stage in the economic universe. The following is a brief discussion on how these factors had helped in tilting the power balance in favor of the middleman within the marketing channel in this day and age.

Among the notable changes that the business environment underwent at the middle of the last century was a change in the perception of business from a good-producing process to customer satisfying process (Levitt, 1960) i.e. from a production orientation to market orientation. According to this new orientation, the customer becomes the focal point in any productive activity. Ideally, this means that market needs, not management, should determine what products to be made, where, when and at what price. Middlemen are closer to markets than manufacturers and have more information about consumer wants and problems.

Secondly, the standardized approach required in large-scale manufacturing has been replaced by enhanced attention to customization (Lampel and Mintzberg, 1996). New technological advances, new media, and novel manufacturing processes have enabled companies to offer customized solutions to customers. Powerful computers and interactive media have combined to foster this trend. Companies now can interact with customers on a one-to-one basis to design products and services tailor-made to individual needs (Kotler, 2011). In the demand for individualization, middlemen are closer to the end-user -than manufacturers-, and therefore, in certain situations, they have greater opportunities in these efforts (Olsson, *et al.* 2013, p. 5).

The third factor relates to today's customer. Customers are now better educated, well-informed, well-versed in new technologies, and as such more demanding. Gone are the days in which companies can sell to their customer whatever products they have made That said, customers now play an active role in the buying process. Manufacturers are at a disadvantage compared to middlemen in dealing with such sophisticated customers.

Finally, it is now widely recognized that the power within the marketing channel is, for different reasons, tilting towards the retailer. Among these is the rapid internationalization, and consolidation of the industry. The advent of store brands and own labels have also given retailers more clout and bargaining power over manufacturers. Retailers today, for instance, receive items as soon as they are introduced, have their orders promptly filled and get proper service and support (Sheth & Parvatiyar, 1996).

In summary, the good old days of the professional trader, had staged a comeback. With a new business philosophy that stresses the importance of the customer to business, a growing power of retailers, demanding and sophisticated customers and a trend toward mass -customization, today's middleman has once again reasserted his historical role; a provider of solutions.

The Economic Rationale of the Middleman

Middlemen constitute an important economic institution, today. The work they do helps link producers to their customers and makes available the myriad of products and services that customers want on a daily basis. Hence, it can be argued that the quality of their work impacts the livelihood and standard of living of millions of people. The following section outlines how the need for the modern middleman came about, and the important functions he performs.

One consequence of the industrial revolution was the separation of the producers from users. In other words, producers have to serve customers who are separated from them by geography, time, information, values, ownership and quantity and assortment discrepancies. This is what is known in the marketing in the marketing channel literature as the gap which has appeared because of the social and economic changes that the industrial revolution brought about. Three major changes, in particular, worth mentioning. Mainly, a factory mode of production, an economic system built on division of labor and specialization and a gradual process of urbanization.

Mass production and mass consumption resulted in key consequences: (Sheth & Parvatiyar, 1996) First, it forced producers to sell through middlemen. Second, people moved away from small farms to jobs in industrial towns. This movement started a process of urbanization that culminated in the creation of the modern cities where millions of people now live. These people needed retailers to supply them an assortment of basic conveniences of food, shelter and clothing (Cundiff, 1988).

Specialization and division of labor, had also meant that people became increasingly reliant on each other to acquire the products and services they need. Hence, an exchange system that supply them with the products they do not make, becomes a necessity. Moreover, an improved transportation and communication system had broadened markets considerably. The earlier picture of local, small and fragmented markets that characterized the preindustrial economic order gave way to increasingly internationalized markets.

To fully appreciate the magnitude and importance of the work the middleman does, the different shapes and forms that this gap takes need to be outlined (McCarthy, 2003) (Fig. 4).

a) Spatial separation: Producers locate where it is economical to produce while customers are located in many locations.

b) Separation in time: Consumers prefer to use products at a time of their choosing which may not correspond with production timing.

c) Separation of information: Producers lack knowledge of who needs what, when, where and at what price. Consumers do not who produces what, when, where and at what price.

d) Separation in Values: producers look at the costs of making products and wish to sell at the highest price possible. Customers look at the utility and benefits from products.

e) Separation of ownership: Producers make products that they do not want to consume or use but they own. Customer want to consume or use a product that they do not own.

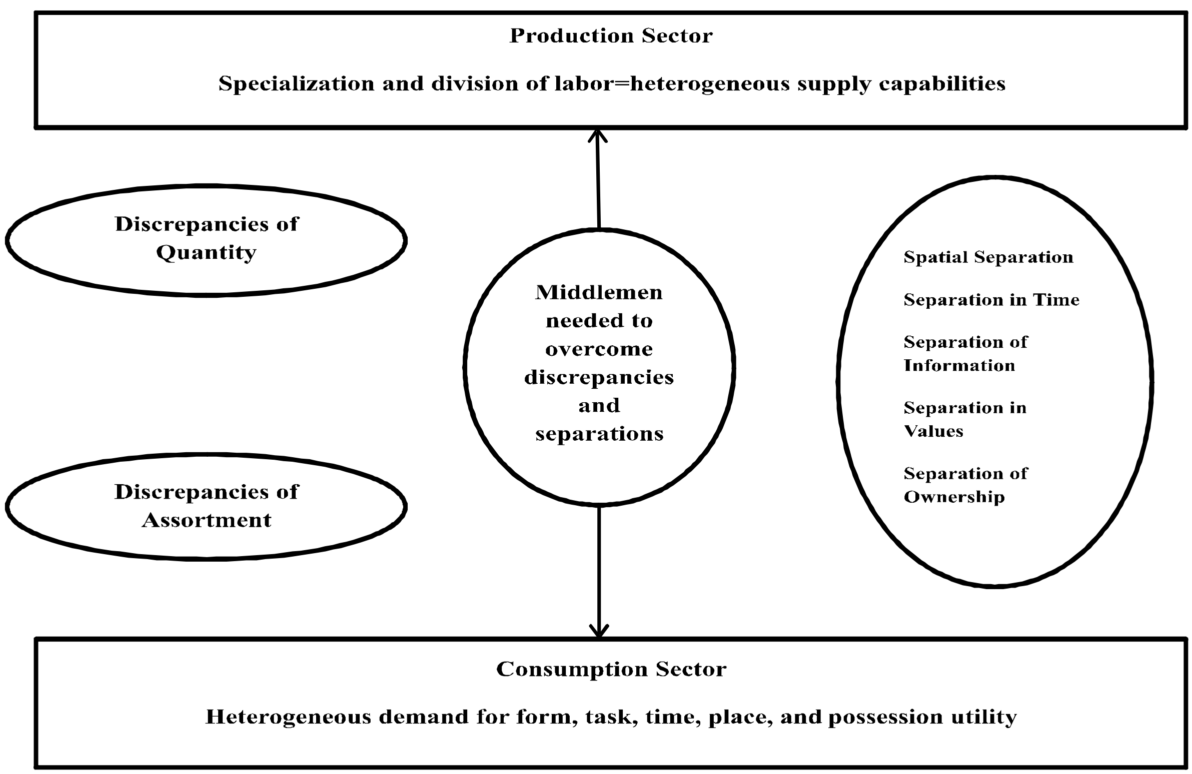

Figure 4: Discrepancies, Separations and Middlemen.
Source: Adapted from McCarthy and Perrault (2003).

f) Discrepancies of quantity: Producers prefer to produce and sell in large quantities. Consumers prefer to buy and consume in small quantities.

g) Discrepancies of assortment: Producers specialize in producing a narrow assortment of goods and service. Consumers need a broad assortment

These separations and discrepancies had meant that producers have different and conflicting orientations and objectives relative to customers. Overriding these separations and discrepancies provides the economic rationale for the middleman, insofar, as the work he does, helps bridge these gaps and link producers with customers. Toward this end, the middleman undertakes a number of important functions which help reconcile these conflicting objectives and orientations. These functions include:

a) Assortments Building: Economically speaking, it makes sense for producers to specialize and make narrow products assortments. Customers, however, prefer broad assortments and the benefits of one-stop shopping. Producers also prefer to produce in large quantities to enjoy economies of scale, while customers love to buy in small quantities. Through the sorting process, as figure (4) shows, middlemen resolve these conflicting orientations by collecting a broader assortment from many suppliers and offer to their customers.

b) Bulk-breaking: Producers prefer to produce and sell in large quantities. Customers, on the other hand, prefer to buy in small quantities to save themselves the costs of carrying and storing the products, if they were forced to buy in large quantities. Middlemen buy products in cartons and lots and sell them to customer in small quantities; i.e. they break-bulk.

c) Creation of economic utilities: The middleman bridges the major place, time, and possession gaps that separate goods and services from those who need them (Alderson, 1954). In doing that the middleman adds value to products by creating three major economic utilities; the place, time,

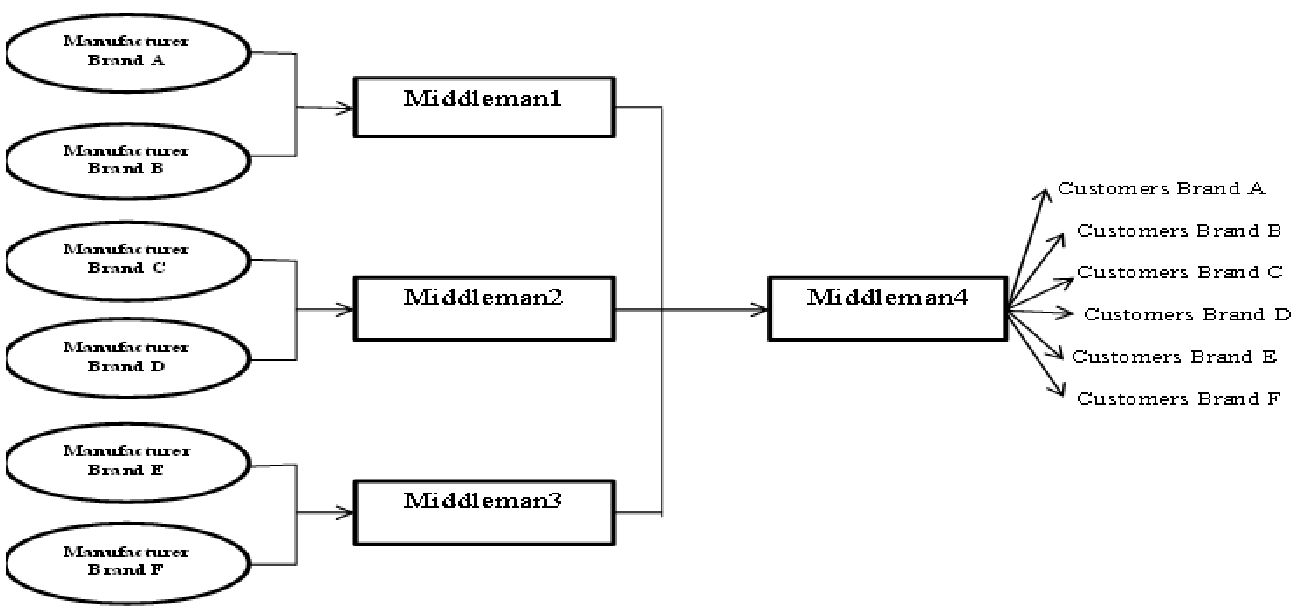

Figure 5: The Middleman Role in the Sorting Process.
Source; Adapted from Berman and Evans (2001)

and possession utilities. In creating the place utility, he offers products at the right place needed by the customer; by creating the time utility he provides products at the right time for the customer; and in creating the possession utility, he makes possible the transfer of title of products from manufacturers to consumers (Perrault and McCarthy, 2003).

d) Reduces contacts: The value of the work the middleman does is attributed to his specialization, experience and scale of operations. In this sense, the middleman offers the manufacturer more than he can achieve on his own (Coughlan et al., 2001). Because transactions can be carried out at lower cost through them than through direct exchange. He reduces the time, effort, costs and contacts needed by manufacturers and customers to reach each other (Alderson, 1954, p.1114). Figure (5) illustrate these benefits. It shows three manufacturers, each using direct distribution to reach their customers. This system requires nine different contacts. Figure (6) shows the three manufacturers working through a distributor, who contacts his customers. This system requires only six contacts (Coughlan *et.al.*, 2001).

e) A sustainer of a standard of living: Among the changes that the human society underwent in the aftermath of the industrial revolution is the process of urbanization. People now reside in cities by their thousands. For them an efficient system of distribution which would ensure they have the products and services they need on a daily basis, is imperative. The middleman and the work he does is key to this system.

f) Other important functions performed by middlemen include selling and promoting, holding inventory, transportation and risk bearing. Selling and promoting results in two benefits to both producers and customers: transfers the title to goods to customers, and helps reach many

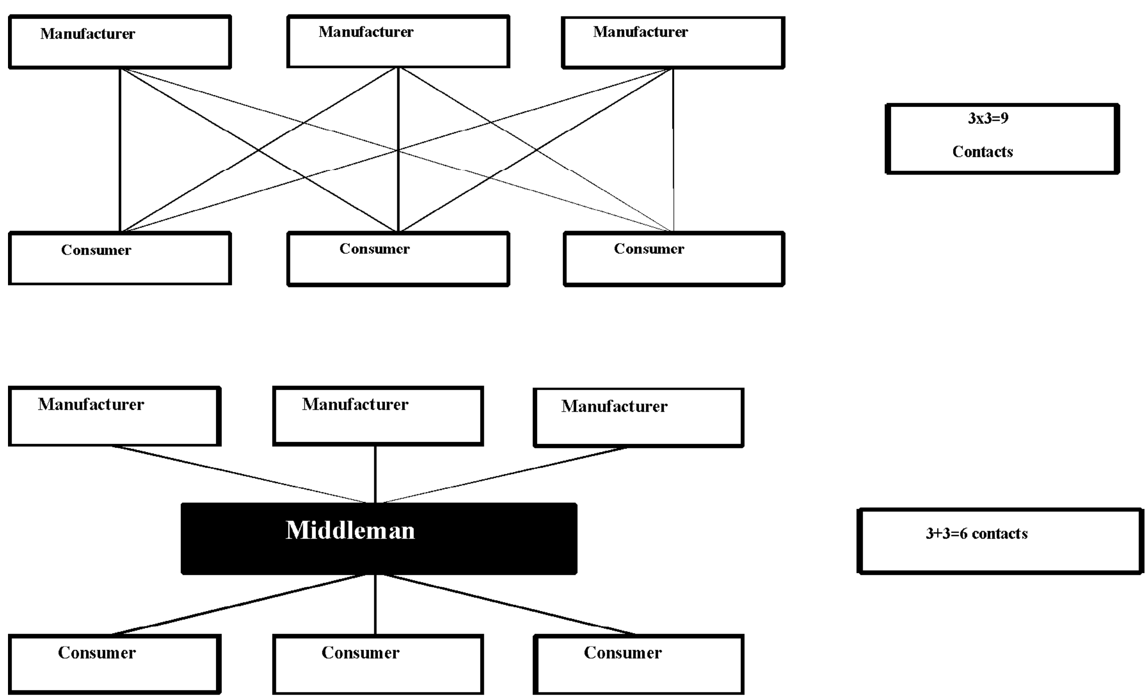

Figure 6: Number of Contacts with and without Middlemen

customers. By holding inventory, they bridge the time gap that separates the production and consumption cycles. The transportation function helps overcome the spatial gap that separates producers from users. Finally, middlemen absorb the risk of holding title to goods and bearing costs of thefts, damage, spoilage and obsolescence (Kotler, 2011).

SUMMARY AND CONCLUSIONS

The thesis put forward in this paper is that, for a better understanding of the role of the middleman, such a role should be seen against the backdrop of the economic and social order of the day. As economic and social conditions change, so does the role of the middleman. In summary, the middleman played three different roles in the three different time periods outlined.

First: The preindustrial era Middleman: When demand factors were paramount and the market was a buyer's market, the role of the middleman was largely dictated by the needs of the customer. The middleman's job was to provide solutions to his customers' problems. Customers could have been suppliers as well as end-users. So, the preindustrial middleman was a professional trader and a problem solver. In serving his customers he assumed different roles. He could have been a financier, exporter, importer, wholesaler, retailer, ship-owner and an insurer (Chandler, 1977).

Given the nature of the market then, and in view of the geographical proximity of the trader and his customers, it is perhaps interesting to note that the marketing practice of the time approximated that of individual marketing; one-to-one marketing, so to speak (Kotler, 2011). The relationship between the trader and his customers was close and personal. The trader may know his customer by name because he was the guy next door, a relative, a friend, or somebody who happened to be living in the same village or town or in the nearby villages and towns. Customers would personally approach the middleman with their needs and he would offer solutions for them. In this respect, the middleman would probably see himself more of a buying agent for his customers, rather than a selling agent for the producers. Such a scenario, "provided a greater potential for emotional bonding that transcend the economic exchange They can understand and appreciate each other needs better, are more inclined to co-operate with one another, and thus became more relationship oriented, "(Seth & Parvatiyar, 1999, p. 398). These were the conditions that have most impacted and molded the role of the preindustrial middleman.

Second: The Postindustrial Era Middleman: After the industrial revolution, the production patterns and markets dynamics changed. The factory mode of production has opened the door for mass production; which needed mass distribution as well. Given these conditions, the supply factors gained prominence. That is to say, the balance of power had again shifted in favor of the manufacturer and the role of the middleman was reduced to that of a distributor.

As advances in transportation and communication had further expanded markets, manufacturers realized that, they had to provide for customers who were far apart from them, separated by gaps of geography, time, information, ownerships and quantity and assortment discrepancies. It fell on the middleman to bridge these gaps. Toward this end, he has to undertake a myriad of activities, known as the universal functions of marketing.

Third: The Modern Middleman: By the middle of twentieth century markets conditions had come full circle from a buyer's market to a seller's market and back again to a buyer's market. The marketing concept became the reining business philosophy. Within this philosophy, the customer takes center stage. His needs and wants provide the rationale for the allocation of economic resources. Middlemen are much closer to customers than manufacturers. Armed with adequate data bases, and their own store brands and private labels, they offer their customers more than what a single manufacturer can offer. These are very much the conditions that defined the role of the middleman today; a role of a partner and a provider of solutions for his customer's problems.

In conclusion, it must be said that, the theoretical framework outlined here and within which the role of the middleman plays out, is by no means conclusive. At best, it is tentative and suggestive; an attempt, so to speak, to map out a picture of the role of the middleman against the social and economic milieu of the time. Therefore, the need for the framework to be further refined and verified still stands.

Another point to be raised, is that, the three roles outlined here, that middlemen played should not be seen as mutually exclusive. Rather, they may very well coexist. It is possible, for example, for one middleman to be playing all the three different roles simultaneously. Likewise, different middlemen may play different roles during one period of time.

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