

Retrospective Commentary on Channel Conflict Issue: crisis into opportunity

By Allan Austin, Altamonte Springs, Florida 23 February 2009

The CEO of an appliance manufacturer asked me to discuss our issue with their VP of Legal & Administration. I had a detailed discussion with him outlining the issue including five possible approaches to resolve things which are outlined below. I proposed the collaborative approach would be best. He said he would get back to me and he has both my home and mobile numbers and has been told I am available to talk, answer questions, 24/7/365.

Current Trajectory

The situation is deteriorating and threats are being made. Ten containers of their product are impounded in a GCC country and we are being asked to have them released or shipped back to their manufacturing operation in the US. Continuing along this trajectory things will get ugly. I painted the picture of them killing the goose that lays their golden eggs. For more than two decades their distributor has invested and worked hard to build their brand in the GCC and attained a dominate market share. Should things continue along this trajectory only bad things could happen with their entire business possibly being in jeopardy.

Legal

This option usually ends in poor results for both sides as no one can predict what a judge will do in the end. It's erratic and expensive. Both sides think they are right of course, in this case since the Customs Authority has determined to not allow the appliances into the country it is highly likely the courts will uphold their decision and not allow the product in but then our relationship would be breached.

Political

The Middle East countries are kingdoms with tribes. In this case one family is trying to horn in on another family's territory. Going to the Emir or his embassaries is also erratic and impractical.

The head of Customs is actually part of the family that is trying to clear customs and one might think it would be easy for him to release the product yet he has not done that most likely because he is a highly ethical man who is doing the right thing in spite of the family consequences. Yet he is under pressure and this is not a good thing for anyone.

Regulatory

The GSO or Gulf Standards Organization in Riyadh is developing a process for this type of issue among many other things. They may not take favorably to the manufacturer's attempt to have their cake and eat it too so to speak; they have signed an exclusive agreement with their distributor yet are hiding behind their distribution company in California as the purchaser saying they cannot control them. This everyone knows is just plain wrong. This company is NOT selling to their customers in the GCC; the competing company is using this distributor to circumvent the manufacturer's agreement and sell to the distributors customers in the GCC. This double dealing could backfire on them with a complete ban on their doing business in any of the GCC countries.

Collaborative

The issue here is like a couple of boys fighting over a pie. The question is who gets which piece and how big the pieces are and so on. Like a mom telling the boys to sit down and decide who gets which piece and having one cut and the other one choose we resolve the conflict.

We need to get their international director to sit with an executive of each family group above the local distributors on both sides. The meeting should take place in one of the offices of the firm in the GCC. He needs to state that there has been channel conflict and it is now time to work out collaboratively among all three parties. The long-term agreement with the distributor must be reaffirmed and upheld.

I pointed out that their President; made a speech last October, 2008 at the Executive Club where he talked about loyalty and the meaning of it and about how "steadfast" they were with their partners which my distributor client has been for decades. The question now is will this manufacturer actually stand behind and support those words.

At this collaboration meeting the International Sales Director presents their goals and vision for growing the business across the Middle East region, then the two groups work out who gets what by geography, by market channel, by industry, by any combination of any factor. An agreement gets drawn up which all parties sign and then fulfill. Again it must be stipulated that my distributor's exclusive agreements are to be upheld and only adjusted based upon acceptable terms.

The following results were achieved:

1. securing US \$12 million dollars of business that was on the edge of oblivion,
2. gaining a 5% commission on all of the competitor's sales into our territories,
3. getting the manufacturer to sign the a new Territory agreement for another GCC country,
4. resolving the issue with customs by getting both parties to explain that they are now working together to build business across the MENA,
5. setting up collaboration training for the manufacturer's head of International Sales; who is coming here to Orlando to get training from me next month,
6. getting the manufacturer to work with my distributor client in expanding the business across the entire Middle East