

CASE 12.1
Managing Channel Conflict in the Global IT Industry
Carol Reade, San Jose State University

1. What are the concerns and interests of Fabulous Computers International, Paradise Computers, Vendor A and Vendor Z?

Fabulous Computers International and its subsidiary Paradise Computers share similar interests and concerns. Both have an interest in selling computers and in serving the sophisticated needs of clients in order to maintain and expand the market share of Fabulous products. Both are concerned that the reputation of the brand and of the channel members will suffer if the conflict is allowed to persist, resulting in a loss of business and market share. Vendor A has an interest in selling as many computers as possible, and may not see a problem in outbidding Vendor Z given the quota system. Vendor Z has an interest in serving clients with sophisticated systems needs, and in making a profit. Vendor Z is concerned that if it is blocked from selling Fabulous products it will not make the sales quota, which will have an adverse effect on its profits.

2. What is the root cause of the channel conflict?

The quota system appears to be the root cause of the conflict. While the marketing strategy increasingly calls for customized solutions and after sales service, the incentive structure continues to revolve around increasing the sales volume of computers. The quota system produces competition among the channel members to sell the most computers, even if it means poaching clients.

3. Develop options that could reduce conflict between the channel members.

Paradise needs to create an incentive structure that fosters collaboration among channel members. For instance, Paradise could reward joint bidding by Vendor A and Vendor Z, which would allow both companies to offer and be rewarded for their strengths.

4. If the channel conflict remains unresolved, what effect might it have on Paradise and on Fabulous products?

Unresolved channel conflict could result in loss of reputation and business for Paradise and its business partners, and a loss of market share for Fabulous products.