GUIDELINES

FOR HANDLING LINE CONFLICT

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What to Do With a Potential Line Conflict

These Guidelines provide direction for representatives and manufacturers when they make policy and planning decisions about sales, marketing and line conflict issues. Please note pages 4 through 6 of these Guidelines provide more in-depth detail and background information about the process for handling line conflicts.

The following list summarizes the essential issues and actions that the representative and the manufacturer need to discuss and/or take when they jointly face decisions specific to line conflicts.

Action Step	**Action Completed**
1. Take a case-by-case approach; constantly communicate and be flexible	____
2. Be objective and focus on the facts. Review all facets of the situation, including joint expectations, annual objectives and the annual business plan.	____
3. Review the representative's past performance in handling line conflicts.	____
4. Review the representative's current functions, activities and sales efforts in the territory or marketplace in question – different functions may apply to competing lines.	____
5. Develop a trial period plan to deal with the potential conflicting line. The plan should include objectives and timelines. Then, communicate the plan to the appropriate parties.	____
6. The Representative should also develop a plan to ensure confidentiality of key competitive information, such as pricing, product availability and promotions.	____
7. Provide full disclosure – discuss the manufacturer's strategies, rep firm succession and/or merger plans and the importance and long term benefit of the partnership.	____
8. Create and mutually agree on a manufacturer's policy for new product introductions.	____
9. Once a conflict is being discussed, both parties need to identify and determine which type of conflict is under question. The four conflict types include potential, allowable, functional or real. With the exception of a real conflict, most conflicts can be resolved through discussion and planning.	____
10. Reach a joint conclusion and decision on how to resolve the conflict. Develop and implement a plan to resolve the conflict.	____

Action Step	**Action Completed**
11. If the conflict is deemed “not allowable”, then the manufacturer and representative need to decide on their next actions. For example, the representative might decide to drop the competing line or the manufacturer might decide to terminate the representative. In the latter case, the manufacturer needs to provide the representative with written notice of termination within sixty days.	____
12. If the manufacturer and representative part ways, the representative should transfer all necessary records and information to the appropriate parties. In addition, the manufacturer should provide written notice to distributors and end-user customers to inform them of the change in local representation.	____

Background: The Context of Change

Any discussion regarding line conflicts should take place within the context of the broader changes and trends taking place in the industries today. In fact, major industry trends and changes are contributing factors that result in potential line conflicts.

These trends include:

- Increased consolidation and strategic alliances among manufacturers, representatives and distributors,
- Increased outsourcing of the sales and marketing function to representatives among manufacturers,
- Diversification of manufacturer’s product lines into new segments,
- Increased blurring of channel functions and transaction origination,
- Increased specification work and product ordering outside the territory with delivery occurring inside the territory,
- Increased specialization of representative activities and functions,
- A shift away from geographically driven representation to total account management,
- Increased end-user demand for value-quality products at highly competitive prices.

Effectively managing line conflicts requires the representative and manufacturer to build a better strategic alliance and business partnership.

Communication is Key

By definition, a strategic alliance between a representative firm and their manufacturer should be a straight forward relationship between separate organizations resulting in the mutual attainment of business objectives. Ideally, this alliance has the goal of delivering the highest value products and services to the entire channel. However, this goal is only achievable through cooperation and open communication.

To make the partnership work, both the manufacturer and representative must communicate their expectations. Because expectations are always changing, constant communication is vital. Constant communication within the strategic alliance will allow both the manufacturer and the representative to manage those processes that they may not have direct control over.

LINE CONFLICTS: Key Strategies and Discussion Topics

Take a Case-By-Case Approach: Deal with each potential line conflict individually before acting. Because every market is different and representative firm service different functions for their manufacturers, a "one-size fits all" approach to line conflicts should not be used.

Take Emotion Out of the Decision-Marking Process: Because the manufacturer/representative alliance must operate under agreed-upon expectations and objectives it is important to realize that the objectives for the representative may be different with each manufacturer involved in the conflict. Many manufacturers feel that their market strategies versus their competitors' preclude representation within the same rep firm. It is important that both parties objectively review all facets of the situation before drawing any conclusions. Then, meet face-to-face and determine if the potential conflicts affects any strategic/tactical objectives, including sales objectives by channel, merchandising objectives, and brand positioning, especially for "core products".

Review the Representative's Conflict Performance History: Determine if the representative is currently managing conflicting lines and whether or not they have proven a long-term ability to effectively manage those conflicts. Determine if the manufacturer deems the conflict acceptable in another market. In addition, evaluate the manufacturer's willingness to jeopardize the current representative's value in the market versus the potential conflict.

Review the Representative's Current Functions: Discuss the specific functions and activities the representative currently performs for the manufacturer in that specific marketplace. Because representatives provide different types of service for different manufacturers, determine what type and level of services the representative is providing. For example, if the representative only makes end-user calls for one manufacturer and only calls on distribution for another manufacturer, there may be agreed-upon objectives that can allow a conflict to exist.

Give It Time: Ensure for an adequate trial period when a line conflict arises. Develop mutually agreed upon objectives for the trial period and communicate them to all concerned. The trial period objectives should have expectations for both parties and measurable evaluation criteria.

Maintain Confidentially: Because the manufacturer may perceive that line conflicts might allow the representative to divulge proprietary information, such as pricing or availability, the representative should develop a plan to ensure that all discussions and outcomes related to line conflicts remain confidential. Because some representatives are expanding into other segments and territories, the issue of confidentiality becomes more important. As more and more information is exchanged across larger market areas, it is important that the representative guarantee confidentiality to the manufacturer.

Provide Full Disclosure: Discuss potential acquisition strategies on the part of the manufacturer, and determine the representative's succession plan or merger partners. Assess the long-term contract arrangements that could be made between the representative and the manufacturer, and evaluate the value of preserving the manufacturer/representative alliance beyond a single line. In addition, full disclosure will allow the representative to obtain consent from other manufacturers regarding any potential conflicts with other lines that they represent.

Create a Policy on New Product Introductions: Introducing new products into the marketplace increases the potential of line conflicts. It is important for the representative and manufacturer to establish a mutually agreed upon policy for new product introductions. Because of the proliferation of new product introductions (sometimes with high failure rates), it is appropriate to establish a period (for example six months) to be taken on a potential conflict involving a new product introduction. If the new product has met with success at the distribution and end-user levels after the established moratorium period, then the representative and manufacturer should examine the potential conflict using these guidelines.

RESOLVING LINE CONFLICTS

In most cases and for non-core products, MRERF/IPA recommends that the manufacturer give the representative an opportunity to demonstrate their ability to manage a line conflict. Again, clear and open communication is of paramount importance. This should take place between the executive marketing staff of the manufacturer and the representative focusing on strategies, objectives, successes, and problems to manage the conflict.

Solving the line conflict requires the representative and manufacturer to follow this process:

1. Discuss the conflict.
2. Determine and agree on the type of line conflict that is occurring (see types below).
3. Reach a conclusion and develop a plan to resolve the conflict.
4. Implement the plan for line conflicts resolution.

There are four basic types of line conflicts described below, with recommendations on their resolution.

1. **Potential conflicts –** These arise because manufacturers expect themselves or their representatives to enter a specific new segment or sell a new product at "some time in the future", or to expand the selling area of a product currently in limited test markets.

   Recommendation: The conflict is manageable.

2. **Allowable Conflicts –** A conflict that both the manufacturer and the representative agree can be effectively managed without affecting sales or other agreed-upon objectives for either party.

   Recommendation: Discuss and prepare a concise written plan of sales and marketing objectives, reporting and other expectations. Evaluate the representative's accomplishment of the plan. (See *Guidelines for Planning the Business Year.)* Communicate regularly and openly about the allowable conflict and related performance issues.

3. **Functional Conflicts –** A line conflict that occurs because the representative is representing two or more competing manufacturers, but not providing the same level of service to each, or selling each manufacturer's products to different channels or segments – for example, either residential and commercial, but not both.

   Recommendation: The conflict should be manageable if the manufacturer and representative have agreed upon, evaluated and met their expectations, strategies, and objectives. If the representative and/or manufacturer do not meet the expectations, then an exit or termination plan needs to be developed.

4. **Real Conflicts –** Based on an evaluation of objectives criteria and the business year plan, it is determined that the market objectives cannot be met through local representation of the competing product lines.

   Recommendation: The manufacturer and representative should reevaluate the business year plan and reset mutually agreed upon market objectives. If they meet their respective objectives, they should enact a no-conflict policy.

Steps for resolving a Real Conflict:

- If a conflict is "not allowable" then the manufacturer should provide the representative with 60-day advance written notification of termination. This period takes into account the costs associated with termination, such as severance, training, orders, and delivery. The termination notice should include specific reasons for the termination, the effective date, and confirm the details of the current contract and severance agreements. In addition, the manufacturer should not interview or recruit a new representative for the territory until the current representative receives a written termination notice.

- By following an orderly transition of responsibility to the newly appointed representative, all parties can minimize any disruption of service and administrative functions. This includes a timely and professional transfer of information records to the newly appointed representative agency. In addition, the manufacturer should notify distributors, end-users, and OEMs to tell them about the changes in representation to ensure that they are not adversely affected.

CONCLUSIONS

Because the manufacturer/representative relationship is a strategic alliance and long-term business relationship, resolving line conflicts requires an open, genuine, ethical and professional approach. Remember that open communication is the key. In addition, be flexible. The manufacturer and representative need to deal with each conflict individually and analyze it within the context of the common goals of both parties. Using these Guidelines will bring a fair resolution to most line conflicts.

The Guidelines for Handling Line Conflicts were developed with input from the NEMRA Executive Committee and the NMG (manufacturer member) Executive Committee for the benefit of all members.

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