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# Tom Thumb Drive – Channel Issues

Any business that sells through multiple channels will eventually face these types of challenges as sales channels start to overlap. Businesses pursue a multiple channel sales strategy because they think that the multiple channels will increase their sales. However, at one point those channels might overlap and suddenly 2 different channels are bidding on the same project. Although having both channels has allowed profits to be higher than with 1 channel alone, in order for the highest total profits, it is important that the different sales channels communicate. To guide this communication, manufactures can set some guidelines.

Different channel partners should work together, especially when the end product they are selling is the only game in town. Although price fixing is prohibited by law, “Resale price maintenance” is generally permitted. Manufactures should consult with their legal teams and then talk to their channel partners about setting minimum prices for their products to be sold at. Manufactures can also set guidelines about what industries their products can be sold in and under what conditions. For example, TomThumb Drives could only allow their channel partners to sell their system only as a component of part of a larger purchase order.

At this point it would probably be a good idea to have a conversation with EDS on their strategy on this order and try to negotiate an agreement that makes both parties happy. For example, EDS could withdraw their bid in return for a cash payment from TomThumb or more favorable pricing on a different order that would be equivalent to the cash payment.

This is also a good time to rethink how their compensation plan lines up with the goals of the entire company. This would help ensure that the different divisions work together as a single entity. Unfortunately because this case involves an external partner, solutions to previous cases, such as working it out internally, or threatening to donate their commission to charity don’t work here. However, the boss of TomThumb Drives could still retire his direct sales people’s quotas to compensate them for getting this deal. This would give them something for the deal, which is not as expensive as paying commission twice. It would help in the sales people’s annual review and get them into an accelerator for future deals.

However, at the end of the day, channel overlap will continue to be a problem that needs to be managed. However, having multiple channels should still be revenue positive, as it seems to be in this case. This means that the company is still better off, notwithstanding a few conflicts. However, with proper management, these conflicts can be minimized.