

Bolster electronics: dealing with dealer demands



Northern Alberta, the oil sands development area surrounding Fort McMurray, is the fastest growing economic area in Canada for several years. Obviously Bolster's total market share in this area was the highest with one third of the total market share it held national wide. Vickers based in Edmonton, Alberta covered 50% of the local market share and 75% of servicing in that area in spite having a national distributor, National Electronics (National). Also local firms preferred to do business with Vickers than National which has their nearest warehouse in Calgary, Southern Alberta around 750 Km from Fort McMurray. (Exhibit 1) Neither Bolster nor National had a video system design team in northern Alberta.

Since one third of the total market share is concentrated in northern Alberta, it is imperative to have a system design team there. If not it leads to a huge potential loss because there are competitions among the top 4 players who have 15% of the market share each. The management tried to convince National to work in northern Alberta in 2007 but it went vain. At the same time Vickers was well established in northern Alberta, its main office, warehouse and engineering team are in Edmonton with a warehouse and sales team in the proposed oil sands area of Fort McMurray which is a six hours drive from Edmonton.

Vickers is in the business for the past 20 years and their salespersons were highly trained and serviced the northern Alberta more effectively than national distributors. This is what the customer exactly wants in terms of good track record and service support in addition to lowest price. They also proved as an effective dealer by taking responsibility of warehouse, inventory storage, engineering expertise and services, relationship with local dealers

and end-users, and increasing the Bolster's business in their area. Hence they requested Bolster a better pricing discount and wanted to be named as distributor.

However the major concern for the management is that if a local dealer was given a distributorship it may deteriorate relationship with their national distributors as it does in 2004 when Albright Industries was given a distributorship in order to make up the shortfall of 7% drop in market share and to provide growth in Quebec. Fortunately, last time National's dissatisfaction disappeared in a long run since they are not competing for the same market.

National doesn't take any leap in past 5 years in doing business in northern Alberta though it was informed about the huge potential of increasing market share. It seems National is not interested in increasing his presence in northern Alberta. Because of technological advancement and increased competition from three other major players it was difficult for Bolster to maintain an overall gross margin of 40% of factory price. In the current scenario if Bolster gives a distributorship to Vickers, it will further affect the financial stability of the company.

Though it has a potential to increasing the market share over 90%, if they got distributor's discount. It will also change the entire distribution channel (a network through which goods moves from the manufacturer to end-users). The distribution cost of each channel plays a major role in selecting the options (Financial Analysis if possible) Customer service is a major issue since industrial video equipment are normally used in harsh environments.

So the distributors or dealers should work faster if there was a production stoppage because of the failure of the video equipment for end-users. Since Bolster is more focused on technological development the responsibility lies with the distributors and the dealers. Though Vickers doubled its trained sales team to four, it is not enough to manage the vast area if it was given a distributorship. Even hiring a sales team seems difficult since compensation for the sales team was competitive in the industry.

THE PROBLEM STATEMENT

How to handle the Vickers' request of distributorship such that it has minimum negative consequences?

OPTIONS

1. Giving Territorial Distributorship to Vickers
2. Giving National Distributorship to Vickers
3. Leave it as a Territorial Dealership
4. Giving only Distributor's Discount but not Distributorship

CRITERIA FOR EVALUATION

1. Relationship with Distributors and Dealers
2. Financial Implications
3. Market Share
4. Customer Satisfaction (Services)

EVALUATION OF OPTIONS

Option 1: Giving Territorial Distributorship to Vickers

If Vickers and National didn't compete for the same market, then it will not

create much dissatisfaction among the management, Vickers and National as it was in 2004, when Albright was given distributorship. If Vickers was given distributorship, Bolster has to give a price discount of 10% it will further deteriorate the financial positioning of Bolster.

It is imperative to increase the market share in northern Alberta, since it has a potential of one third of the total market share. Since neither Bolster nor National have the presence in northern Alberta, it is wise to give a distributorship to Vickers such that they can capture the 90% of the market share in there. It also helps to improve the customer services extended to the end users, since they have a presence.

Option 2: Giving National Distributorship to Vickers

If Vickers was given a National Distributorship, it will obviously deteriorate relationship with National because in a long run they are going to compete for the same market.