

BY STEPHEN MARTIN, DIRECTOR OF EUROPE

## Balancing Regional Channel Priorities

I HAVE JUST RETURNED FROM A PROFESSIONAL PRICING CONFERENCE IN BRUSSELS WHICH WAS WELL ATTENDED BY DELEGATES FROM EUROPE AND THE USA.

I inevitably we fell to discussing comparisons between the two regions and resolving the age old problem of centralised pricing control balanced against the need for local flexibility.

The American contingent argued that Europe is inefficient because there is not enough centralised management of pricing consistency, discounts and channel value (principally sales effort and stock holding). The European contingent responded that centralised consistency comes at the cost of local competitiveness and that, especially in industrial markets, there is so much competition that the costs outweighed the benefits.

After some good natured name calling and character assassination (*"Americans always think they are right, Europeans always complain"*) we agreed the comparison is based upon what we each found worked best for our respective regions and therefore depends upon the characteristics of the region. As usual, it fell to the Frank Lynn & Associates representative to play the role of referee!

The USA is a large relatively homogeneous market, where the EFFICIENT capture of a segment of the market opportunity can generate a highly profitable, scalable business. However a key driver of efficiency is the reduction of local flexibility, so the United States often puts a priority on centralised control. In Europe the opportunity to expand a business is complicated by the country specific laws and customs, so what works in France may not work in Germany, whereas what works in Alabama will generally work in California.

Europe is a large relatively heterogeneous market where the opportunities for income/profit arise from the EFFECTIVE capture of customer loyalty. However Europe is densely populated (approximately 2.5 times as densely as USA) and has experienced several thousand years of conflict and war which has created a much more local



focus. Customer loyalty is created through local relationships, defended by local customs within the local culture and, due to the density of customers and suppliers; this loyalty is constantly under competitive threat.

Much of our discussion revolved around the key issue of managing board and shareholder expectations. As one delegate said *"it is all very well knowing the truth, but until the board agrees that it is the truth then they will expect you to repeat the business model that they have used before"*. Educating the managing board therefore becomes a critical factor prior to selecting a channel management strategy.

The USA approach has the advantage of simplicity, but tends to drive the customer towards a price focussed purchase choice. The European approach has the advantage of customer stability but is very difficult to grow. Margin focussed management and growth focussed management therefore tend to prefer different approaches.

### SUMMARY

*For a more detailed discussion about managing channel pricing dynamics across broad diverse markets such as the United States and Europe, please contact John Henderson, CEO of Frank Lynn & Associates (jhenderson@franklynn.com) or Stephen Martin, Director-Europe (smartin@franklynn.com)*