

The story of X, Y and Z – Conflict and Disintermediation

The Cast

X - a small software company whose partner made the first call

Y - a larger software company that got the order and passed the order on to X

Z- the client, who had serious problems including a time when their entire customer database got corrupted. The client is number 2 worldwide in their business.

Act 1 – The Problem

The phone rang at around 7pm last night. What unfolded then was the story of X,Y and Z, three companies involved in a software business. Z is a major client the second in revenues worldwide in the business that they are in, but, like everyone else, going through the churn of the present economic crisis. Y is an intermediary, a software company that had more business than it could handle. Y had got the account from Z for a large software project, and passed it on to X for a 25% fee.

"I have a crisis and was wondering if you could spare some time?" asked Bob a senior partner at X. From the tone I knew it was not something to say NO to.

"Here is the problem. Our biggest client is Z for a while now, and currently our biggest team is working on their project. Y brought in the business for us and over time the customer has come to trust us and give us more and more work. We continue to give Y 25% of the revenues. Now suddenly Y has lost all its other business. He called me and said that he is taking Z away from us (X). I understand its a matter of survival for him but its also a matter of survival for us. Besides, Y does not have the competence to do this project. Is it ok if I call up Z directly and tell them that X is not competent and they should stay with us?"

When I hung up the phone, his problem was no longer just his, it was mine too, and I sat down to think about it. The problem needed a solution in a few hours, and I did not have the luxury of background research and talking to experts, etc. So here is how I went about it..

Act II - The Analysis and Conclusion

First comes the question of whether it is ethical or not.

1. Company Y knows how important this business is for X, however they are in dire straits.
2. Company Y is not taking a consultative approach
3. Company X has invested in building competence handle Z, while Y has not done any such thing.
4. Is it in the best of interest of the client?

It seems that Y is unable to delivery the service to Z and the only option they have are (i) to experiment and build capacity at the cost of the client in terms of time and effort involved or

- (ii) to outsource it to a cheaper vendor so that they get to keep a bigger share of the profits.
5. Is there a breach of contract?
The contract is not just a piece of paper, it is also the understanding between two parties. Not all aspects of which may be on paper. There is an ongoing arrangement between X and Y which seem to be working. Actions of X seem to imply the idea of building it long term. X has continued to honour the commitment of giving Y their share of 25% even though they have now a lot of contact with the customer and the customer knows that X is doing the work. If anything it seems like Y has initiated the termination of the contract rather unilaterally
 6. It is ethical for any party to make a bid for business and it is the client who will choose which is in its best interest. Of course the client must consider intangible factors like trust, the effort involved in building a new relationship, etc. But definitely it is ethical for another company to make a bid for the business. Especially since the contract between X and Y is to be terminated by Y.

However it would be unethical if X used confidential information provided by Y to its advantage (fair practice). In this case the only information available to X that would not be available to a competitor would be the cost involved.

Conclusion:

In conclusion, it is ethically acceptable for X to brief Z of the emerging situation and make a direct bid for the business.

Act III – Recommendation

Our recommendation is that X can go ahead and bid directly for Z's business, but keep in mind that it does not look good to paint Y in a bad light. It will give Z the idea that X and Y are fighting and hence could be a trouble spot. This could lead Z to take the business to a new vendor. Also keep in mind that the current times are worrisome for all concerned.

“Hi, its me.. I called Bob back in about three hours. “I gave your matter some thought and here is what I think you should do...” I quickly ran over the points mentioned above. “I think you should call up Z (the client) and brief him on the situation, making sure NOT to paint Y in a bad light. Explain why Y wants to do this. Also explain that (i) by now you understand Z's business quite well and have built the competence that the project requires and that (ii) when things are not doing well its best not to upset the boat unless there is a clear advantage to Z. Finally, also tell Z that you are proposing that we continue with the existing arrangement (which means that Y will continue to get 25%), rather than rework a new arrangement, except that from now X will manage the relationship, not Y”

We had a long chat, and I closed saying that I am available on the phone **ANY TIME** Bob needs me..until this is over. Having done my part, I went off to sleep. Next day morning there was an email from Bob.

“We won the battle... now I need to get some sleep, I can't think any more... signing off.”



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