CASE STUDY

Merry Management Training

Merry was a training consultancy producing a range of management training courses. Their own staff delivered the courses. They also marketed a range of distance learning management courses which they marketed internationally through agents. A client that successfully completed a training course would receive a Merry certificate.

In the mid-1990s John Razor of Merry investigated the possibility of entering the Middle East. Research had shown that there were potential opportunities for distance learning management programmes, particularly in the Gulf States. By chance he met Yabmob Nig, the managing director of a small management consultancy firm based in Dubai called Ala-Meer Ltd. Ala-Meer was owned by two partners, Yabmob Nig and a silent partner who took no part in the management of the business. The silent partner, a local Dubai businessman, was necessary because Yabmob Nig was an expatriate from India and so could not be sole director of the business.

Yabmob and John had a series of meetings and developed a good rapport. It was not thought necessary to draw up a detailed contract at this stage and so a brief memorandum of understanding (MOU) was signed. The main terms of the MOU were as follows:

1. Ala-Meer had exclusive rights to market and recruit clients throughout the Middle East.
2. Ala-Meer would receive 20 per cent of the fee income.
3. Ala-Meer would charge for other services as agreed.
4. All fees would be made payable to Merry but collected by Ala-Meer.

Ala-Meer were very effective marketers. They very easily got potential clients to sign up for a course but were finding it hard to get clients to make the payments direct to Merry.

Yabmob Nig persuaded John Razor to change the method of payment. The new method of payment allowed clients to pay Ala-Meer in the local currency who would then pass on the payments to Merry. Ala-Meer were then able to market the courses much more easily and were soon recruiting clients from most of the countries in the Middle East. They did this by newspaper advertising, mailshots, Web advertising and subscribing to a number of search engines on the Internet.

Client numbers grew rapidly and everyone was pleased with the market development. Merry was dispatching a large volume of material to the Middle East and Merry staff were conducting seminars in the region on a regular basis. This was the honeymoon period for the business relationship, as both parties had a common objective – to grow sales. A high degree of trust existed between the parties at this stage.

At the end of the first two years of operations Merry undertook a financial audit of the partnership. However, this was quite difficult to do, as there were no proper audited accounts. Under Dubai law, firms do not have to publish audited accounts. Even so, the auditors found evidence to indicate that the business could be a profitable partnership. However, the cash flow was poor. They found that few clients were making payments directly to Merry; most were making payments to Ala-Meer. The audit also showed there was a substantial sum of money that should have been paid to Merry by Ala-Meer which had not been paid.

Yabmob Nig was holding back payment as he and John Razor disagreed on the amount of fees that were outstanding. Ala-Meer were claiming a large amount of expenses that Merry argued had not been agreed in the contract. Ala-Meer saw the 20 per cent margin as pure profit whereas Merry had assumed costs would be defrayed from this percentage. Ala-Meer were also aggrieved that Merry had started marketing their courses in Turkey; they thought they had exclusive rights to the whole of the Middle East, and, to them, that included Turkey.

After long negotiations Merry found it almost impossible to agree the sum that Ala-Meer should pay as a result of the fees they had collected. Ala-Meer were constantly claiming 'additional costs' and reporting lower recruitment figures than Merry had delivered material for. In the end Merry had to send out its own accounting staff to audit Ala-Meer records and agree how much Ala-Meer had to pay to Merry. The relationship between the two parties deteriorated rapidly from this point on and Merry terminated the relationship.

QUESTIONS

1. Why did this promising business relationship go so badly wrong?
2. How could Merry have protected their business in the Middle East more effectively?
3. What lessons can be drawn from this case regarding cross-cultural negotiations?

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