

First Creation Consulting

Negotiation Exercise

SyncMaster Screens

**SyncMaster Screens
(Account Manager Brief)**

Information Known to Both Parties

Bank of Baronde buys approximately 5,000 PC Flat Screen Monitors every year. To reduce risk and to benefit from competition, BOB has followed a policy of multiple sourcing. Whenever possible, they have divided their business between the two or three most competent suppliers.

From time to time, and at least once a year, BOB reviews the performance of each of its suppliers. Factors taken into account include: on time delivery; quality of product; price; willingness to make smaller, more frequent shipments; willingness to deliver directly to all of BOB's offices, which are geographically located throughout the UK; prompt and helpful response to complaints; product innovation.

BOB has just completed a review of its vendors. A negotiation session regarding next year's business with one of its suppliers, SyncMaster Screens is scheduled for today. Participating in this session will be representatives of the two companies: BOB's Purchasing Manager(s) and SyncMaster's Sales Representative(s).

SyncMaster has been one of BOB's three main suppliers of Monitors for the past 8 years. SyncMaster's performance has been considered satisfactory in the past, as evidenced by the long term business relationship. During the past three years, SyncMaster has sold 1,500 Monitors to BOB at \$200 per unit; total cost \$300,000.

The remainder of BOB's business has been divided between RXG and DC Screens. It is generally known that RXG has lost a major account recently and is very eager to replace the lost business.

The rumour in the market place is that if RXG does not replace its lost client soon it will go out of business.

Information Known Only to the SyncMaster Screens Representatives

SyncMaster Management anticipates a slow-down in business during the next twelve months due to an expected softening in the world economy. In order to maintain profits and dividend payouts, they are very eager to increase volumes with their major accounts with BOB being one of them and reduce costs of servicing the account. Accordingly, they have set the major accounts team that looks after the BOB account the following objectives:

1. Due to a dramatic increase in raw materials and the oil price we need you to negotiate a maximum price increase of 7.5% from \$200 a Monitor to a maximum of \$215 with a minimum of a 5% increase to \$210 per Monitor.

(Based on market intelligence you are aware that the technology industry is seeing a price increase of approximately 10% for all related products.)

2. Increase our share of BOB's business - target of up to 70% - minimum 50% of their total order. Anything less than 50% will be regarded as a non-profitable deal.

It has been calculated that we need to generate a minimum of \$525,000 in revenues from BOB in order to make the relationship profitable. This is due to the high maintenance costs of servicing the account.

3. The small, frequent shipments have got to be reduced, or even better eliminated. We want to ship full van or lorry loads only.

A full van load is 150 monitors whilst a lorry load is 300. Due to delivery costs you can not accept orders of less than 100 monitors per van load or 200 per lorry load as this will erode your profitability.

You would entertain frequent deliveries as long as they did not mean having to send out vans without at least 100 per monitors on board.

You are currently delivering three shipments per month of approximately 45 monitors per shipment.

4. New policy on damaged goods on arrival at customer premises to be introduced.

Any damaged goods are returned and subject to a two day evaluation before a decision is made on replacement.

If the fault is down to SyncMaster a replacement unit will be shipped out within two days.

If you achieve all four objectives the company will reward your performance with a generous bonus. A promotion will also be a strong possibility to a senior management position.

On the other hand, if you fail to achieve the objectives it will be looked upon negatively and could adversely affect any potential bonus payment. If you were to lose the account altogether this could lead to you eventually losing your job as BOB constitutes a significant amount of revenue for the firm.

The SyncMaster major accounts team has as a result of their regular networking around the firm made the following discoveries:

1. A new efficient customer help desk system is in the process of being installed and would enable customers to dial in and obtain very fast responses from knowledgeable people regarding just about every problem that was likely to come up. This system is due to be opened for customer use within one month.

Currently customers receive an on-line customer help service only, which is regarded as not being very helpful.

Customers who have orders of 2000 or more monitors automatically qualify for the new customer help desk facility. Customers whose orders are less than 2000 will receive the on-line service only. However this is at the discretion of the account manager and the business potential of the customer. The account manager has the authority to allow a customer access to the new customer help desk.

2. The Engineering Department is about to announce the launch of a new highly efficient Monitor that would cut electrical consumption by 17%, without any sacrifice in performance.

This has come about due to the pressure of global warming and the need to reduce carbon emissions.

The company wants to be seen as helping to address the environmental issue which in turn would be very positive PR.

The price of the new Monitor will be \$35 higher than the existing Monitor. This would result in an approximate price of \$245 - 250. As this is a new product and the company wants to promote it heavily you are able to offer volume discounts of up to 7.5% for orders over 2,500 monitors and 10% for orders over 3,500 monitors.

Your Assignment

Please prepare to meet with the negotiating team from Bank of Baronde. Carefully construct your negotiation and strategy for implementation.

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**Bank of Baronde
(Purchasing Managers Brief)**

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BOB has just completed a review of its vendors. A negotiation session regarding next year's business with one of its suppliers, SyncMaster Screens is scheduled for today. Participating in this session will be representatives of the two companies: BOB's Purchasing Manager(s) and SyncMaster's Sales Representative(s).

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Information Known Only to the BOB Purchasing Managers

BOB Management is aware of a down turn in business due to the softening of the world economy and is seeking to maintain costs at current levels in an attempt to maintain profits and dividend payouts. It has issued a directive to the Purchasing Department emphasising the following points:

1. Price increases proposed by vendors are to be resisted vigorously. As a last resort you can accept an increase of a maximum of a 7% increase per unit which is your maximum budget allowance for next year.

(The increase of 7% is based on market intelligence; it is known that manufacturer's costs have gone up across the industry. The anticipated average increase for technology based products is 9%.)

Your total budget spend for next year on monitors is \$1,070,000.00. This includes all associated costs such as storage, delivery and write offs for defective or broken monitors.

2. To maximize efficiency, inventory levels are to be minimized. All efforts are to be made to schedule deliveries of Monitors as "just-in-time," so that no inventory is to be stored in costly storage space.

To store the Monitors BOB has to rent storage space at \$20 per square metre per day. Approximately five monitors take up 1sqm.

You are seeking to gain agreement to a 3 day delivery time from receipt of an order. You would, if pushed agree to a delivery time of a maximum of 5 days but no more.

You currently receive three shipments a month from SyncMaster of approximately 45 monitors per shipment.

3. Damaged Monitors are not acceptable because they cause delay and could lead to lost revenues. You are looking to gain agreement that in the event that a defective monitor is delivered that it will be replaced same day at the cost of the supplier or at least within two days.
4. Suppliers must be prepared to introduce SLA's and a help desk to respond to any problems. The current on-line help facility is not acceptable.
5. We want to use innovative suppliers that constantly look to improve the quality and performance of their Monitors. Any energy savings could be translated into reduced operating costs. If a supplier could convince you that this was the case with their Monitors you could consider this and factor it in to the pricing. You have the flexibility to pay up to a maximum of an additional 7 % per unit giving you a total of a 14% price increase with if convinced of its benefits and savings.

You are also conscious of the Banks stance on global warming and its drive to be seen as a responsible member of the community by looking at ways to reduce its carbon foot print.

If convinced of any energy savings and the resulting PR benefits to the Bank of acting responsibly on this issue would support any decision to increase the price paid per monitor to a maximum of 14%.

However if possible you would like the PR benefits without having to pay a higher price.

You have already met with both RXG and DC Screens; the best offer from RXG was \$218 for their existing standard monitor and \$228 for a new energy efficient screen they will be launching in six months time. They were not able to give any specific details on the new monitor at this stage in development.

DC Screens quoted you \$230 for their standard monitor and indicated that they could improve on this price if they were able to gain a greater share of your total volume. However based on your meeting with them you are not wholly convinced that they could improve a great deal if at all and very concerned that they could be out of business in six months time due to their trading difficulties.

You have been very frustrated with the negotiations with RXG and DC Screens as they have insisted on substantial price increases. You have been surprised by their attitude in that they seem prepared to loose business rather than climb down on their price increase.

This has put you in a very difficult position as you have only one supplier left to negotiate with in order to achieve your budget targets. This has left you in a weakened position.

You do not want SyncMaster to know that you are in a potentially weak position and therefore will use the strategy of offering a larger percentage of your total business in return for keeping any price increase to the minimum possible. You recognise that how you use this bargaining chip will be critical to your over all success in achieving your budget targets.

Senior Management are giving the purchasing managers the flexibility to use only two suppliers instead of three if there was clear indication that this would lead to lower costs with acceptable risk. It would entertain the possibility of using only one supplier if the savings were compelling enough.

To emphasise the seriousness of these goals, management has also announced a plan to encourage 5% of their employees to retire early on a reduced pension. There were also rumours of impending elimination of one level of management. To soften the impact of these devastating announcements and rumours, management had instituted a system of generous bonuses to be paid to managers whose performance had resulted in substantial cost savings or increases in sales volume.

Your Assignment

Please prepare to meet with the negotiating team from SyncMaster Screens. Carefully construct your negotiation and strategy for implementation.