NEGOTIATION CASE
Porto Industries

Buyer's Information - Porto

Gerald Stecklen, a buyer for Porto, is responsible for developing a negotiating plan and strategy for the purchase of a component (called New Prod) for a newly designed product. After evaluating the quotations submitted by potential suppliers, he has decided to pursue purchase negotiations with Technotronics.

New Prod was designed and developed by Porto engineers for a product currently under development. Prototypes of the component were produced by a small specialized firm without production volume capacity. Gerald knew the high tech industry had between five and eight potentially qualified suppliers who were familiar with the complex manufacturing process required to produce New Prod. Supplier capacity was available since the industry was just recovering from a period of underutilization.

Seven suppliers received a request for quotation. The RFQ included a 12 month delivery schedule for 200,000 units plus a possible follow-on order for up to 200,000 units. The quotes also included payment terms and shipping (F.O.B. point) information (Exhibit 1B)

Five of the seven suppliers receiving RFQ's responded. (Exhibit 2B). Technotronics had the lowest quoted price at $5.90 per unit. Tyler Manufacturing was very close except for a high unit cost of transportation. Both companies were acceptable suppliers and Gerald decided to pursue negotiations with Technotronics. He is well aware that the lowest quoted price does not always mean the lowest total cost. For that reason, Gerald knows that issues besides price will have to be discussed with Technotronics. The requests for quotation were intended to reduce the list of suppliers before commencing negotiations.

Gerald requested a cost estimate for New Prod from his staff analyst to help him formulate his negotiating plan. The analysis (Exhibit 3B) provides a "should be" cost of $4.10 per unit excluding tooling and transportation. This cost included learning curve effects. He believed that production times for this component should decrease as volumes increased due to learning. Based on discussions with internal engineers, Gerald estimated that production of this component should demonstrate a 85%-90% learning rate.* He was not sure, however, that this rate applied specifically to Porto since he has not visited the Technotronics facility.

Quality control measures were a vital concern for Gerald. All products were subject to strict quality guidelines and New Prod was no exception. Technotronics, Tyler Manufacturing, and Space Metals each have a record of solid performance ratings for quality and delivery.
With this information, Gerald now sat down and planned his negotiating strategy.

* This means that as production volumes double from a previous level, direct labor requirements should decreases 10-15% on average.

Exhibit 1B
Expected New Prod Delivery Schedule

Month	Quantity
December	20,000
January	20,000
February	25,000
March	15,000
April	15,000
May	15,000
June	10,000
July	10,000
August	15,000
September	20,000
October	20,000
November	15,000
Total	**200,000**

Payment terms: Net 25
Transportation Terms: Sellers Plant, Freight Collect
Using Location: Detroit, Michigan

Exhibit 2B
Quotation Summary

Supplier	Unit Price	Tooling Costs	Estimated Transportation Cost Per Unit
Bauer Manufacturing	No quote	---------	--------
Metal Modes	$6.10	$30,000	$0.08
Tyler Manufacturing	$5.95	$40,000	$0.16
Avicraft, Inc.	No quote	---------	--------
Technutronics	$5.90	$40,000	$0.06
Aerobotics, Inc.	$6.25	$45,000	$0.08
Space Metals	$6.40	$50,000	$0.09

Exhibit 3B
Buyer's "Should" Cost Estimate
(For 200,000 units)

	Total Cost	Unit Cost
Material:		
0.3525 lbs./unit x $5.648/lb.	$398,215	$1.991
Direct Engineering Labor:		
1500 hours x $11.50/hr.	$17,250	$0.0863
Engineering Overhead:		
$17,250 x 120%	$20,700	$.01035
Direct Manufacturing Labor:		
3900 hours x $8.50/hr.	$33,150	$0.1658
Manufacturing Overhead:		
$33,150 x 250%	$82,875	$0.4144
SUB TOTAL	$552,190	
General and Administrative Costs:		
$552,190 x 35%	$193,265	$0.9663
SUB TOTAL	$745,455	
Profit: $745,455 x 10%	$74,545	$0.3727
TOTAL	**$820,000**	**$4.10**
Estimated Tooling Charges:	$25,000	

Please answer the following questions from a buyers perspective.

1. Prepare to negotiate a contract with Technotronics. Develop the following for the negotiation:
    a) Specific Objectives (Remember to use SMART). Remember that price is not the only variable subject to negotiation. Outline which are the must haves and would like to have.
    b) Most Desirable Option (MDO)
    c) Least Acceptable Alternative (LAA)
    d) Best Alternative to a Negotiated Agreement (BANTA)

2. What do you think will be the most important issue(s) to the seller?

    If you are working with another on-line student or business partner, go ahead and conduct the negotiation with the seller. You may share as little or as much information with the seller during the negotiation as you desire. Be sure to record any agreement you reach in the form of a contract.

    If not, review the seller's information and answer the questions at the end of the seller information, as if you were a seller and were not knowledgeable about the buyers information. Then ask yourself what did you learn.