NEGOTIATION CASE
Porto Industries

Seller's Information - Technotronics

Brad Tennant, Sales Manager for Technotronics, was developing a strategy for a negotiation session to be held with Gerald Stecklen, a buyer at Porto Corporation. Mr. Stecklen requested the meeting to discuss the quotation submitted by Technotronics for New Prod, a newly designed component.

Brad's company submitted the quotation for New Prod in response to a request for quotation of 200,000 units plus a possible follow-on order of up to 200,000 units (Exhibit 1S). Working with the Engineering and Manufacturing staffs, Brad developed an estimate of manufacturing and tooling costs (Exhibit 2S).

The process required to produce the component was unique and somewhat complex. Therefore, quality control requirements for the part were quite involved. Furthermore, if material or equipment problems occurred, an additional $0.60 to $0.70 per unit would be required to produce the part at a level that satisfied the buyer's requirements. Additional tooling might also be required beyond the quoted tooling charge of $40,000. However, Brad wanted to keep tooling charges to a minimum.

The Porto business would be beneficial to Technotronics since they were operating at 75% capacity. Porto was also a long-time customer. The contract would amount to approximately $1,000,000 plus a possible addition of $1,000,000 if the additional 200,000 units were realized.

Estimated direct costs to produce the component were $2.71 (raw material + direct engineering + direct labor) of the $4.68 total cost to produce. Brad wanted to establish a per unit selling price that would cover all direct costs and significantly contribute to fixed costs and profit. Furthermore, he needed to consider the quality cost contingencies.

After some discussion by the management committee and a review of estimated costs for the part, a quotation was agreed upon. The quality cost contingencies were included and the possible tooling cost increases ignored ($4.68 + $ 0.70). A profit percentage of 10% was added ($0.54). Brad and his controller decided to quote $5.90 per unit plus $40,000 for tooling. Brad felt this bid to be competitive with other firms.

The manufacturing manager informed Brad he would make additional effort to develop statistical process control methods to highlight quality problems. Brad realized that the use of statistical methods could help reduce direct costs over time if Technotronics was successful in identifying and eliminating the sources of variability within the process. In addition, there were learning curve considerations for New Prod. However, Brad did not include any estimation of learning effects in the bid. Typically, items such as New Prod have a 90% learning curve.

Brad's task was to develop his negotiation strategy and plan. He knew the contract was important to Technotronics, but they could not sustain a loss. He also knew that Porto did not possess the manufacturing capabilities for the part. The company had no option but to subcontract the component. Brad also knew that other suppliers were anxious for this business.

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: F.O.B. Sellers Plant; Freight Collect (Buyer pays freight)
Using Location: Detroit, Michigan

Exhibit 2S
Sellers Estimated Cost
(For 200,000 Units)

		Total Cost	Unit Cost
Raw Material: (0.4405 lbs./unit x $5.648/lb.)		$497,000	$2.488
Direct Engineering Labor:			
Electrical Engineer $17.50/hr. x 80 hrs.	$ 1,400		
Micro Associate Engineer $11.25/hr x 1200 hrs.	$13,500		
Micro Technician $10.50/hr. X 600 hrs.	$ 6,300	$21,200	$0.1060
Engineering Overhead: $21,000 x 125%		$26,500	$0.1325
Direct Manufacturing Labor:			
Machine Shop $10.65/hr. x 1080 hrs.	$11,502		
Mechanical Assembly $6.00/hr. x 2940 hrs.	$17,640		
Assembly Supervisor $11.55/hr. x 500 hours	$5,775		
Production Manager $14.50/hr. x 500 hours	$7,250	$42,167	$0.2108
Manufacturing Overhead: $42,167 x 250%		$105,418	$0.5271
SUBTOTAL		$692,885	
General and Administrative Costs: $692,885 x 35%		$242,510	$1.2126
TOTAL		$935,395	$4.678

Please answer the following questions from a seller's perspective.

1. Prepare to negotiate a contract with Porto. 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 buyer?

    If you are working with another on-line student or business partner, go ahead and conduct the negotiation with the buyer. 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 buyer's information and answer the questions at the end of the buyer's information, as if you were a buyer and were not knowledgeable about the seller's information. Then ask yourself what did you learn.

Conduct the negotiation with the buyer. You may share as little or as much information with the seller during the negotiation as you desire.