TOPIC; LAW NEGOTIATION ACTIVITY

Description

General Instructions Brattlebury Corporation makes a wide range of pharmaceutical, nutritional, and medical products. The Viatex Corporation makes plastic bottles in which Brattlebury packages some of its pharmaceutical pills and vitamins for distribution. Viatex has been a supplier to Brattlebury for ten years, and the relationship has been advantageous for both companies. The value of the contract for the last five years has averaged $30 million annually. In recent years, Brattlebury has faced pressure to cut costs, as sales have remained flatter than expected. Last year, in response to a survey of its suppliers, Brattlebury realized that its RFP process was often onerous, and that this inefficiency ended up costing both parties because of the significant time required to complete a proposal every two years. This year, Brattlebury is implementing a method for developing strategic relationships with suppliers that are important to Brattlebury, either because of the size of the contract or because of the importance of the goods they supply. Brattlebury has identified Viatex, its principal supplier of bottles, as a strategic relationship. Brattlebury is willing to make the following grand bargain with its strategic partners: longer contracts (meaning no need to complete new proposals every two years) in return for reducing Brattlebury’s costs by 5% annually. In addition, Brattlebury management has agreed to look creatively and collaboratively at ways that it can change Brattlebury’s specifications and requirements to help strategic suppliers drive down costs. Last year, Brattlebury represented half of Viatex’s business. Viatex has four other clients, and Viatex’s annual revenues are approximately $60 million, with $5 million in profit. Both sides stand to gain significantly by completing or evaluating RFPs every five years instead of every other year. Over the last few months, both parties have identified things that could be done to drive down costs. They have assembled a list of improvements, and each has agreed that the steps identified are feasible in theory. Meanwhile, each side has assessed the actual costs and savings involved with making each change that has been proposed. The changes are: 1. Viatex could use a cheaper plastic made from Resin 242. This new resin is considerably less expensive for Viatex to source than the resin it now uses, but it carries a slightly higher instance of cracks and blemishes in finished bottles. 2. Brattlebury could change bottle specifications so that all bottles ordered from Viatex would come in one of two sizes rather than in one of the five sizes currently produced. 3. Brattlebury could take a regular minimum shipment each month. Viatex stores Brattlebury’s inventory when Brattlebury doesn’t need as many bottles. Brattlebury has better storage options and rates than Viatex, which is smaller and located in a state with higher storage costs. 4. Brattlebury could agree to minimum and maximum quantities for delivery each quarter, which would prevent Viatex from having to lay people off during slow periods and hire and train people during peaks (which is expensive for Viatex). 5. Brattlebury could assume responsibility for shipping, as it has very good shipping rates with a private transport company. 6. Viatex could do fewer quality-control checks at its plant, saving money, if Brattlebury assumed more liability for product defects once bottles were shipped to pharmacists. In principle, these all seem like good possibilities for saving money and adding value. Both sides have danced around one final issue: How should joint savings be distributed? Brattlebury has made clear that is must have 5% savings per year. This means that for this year, based on a $30- million contract, Brattlebury and Viatex must find $1.5 million for Brattlebury, in order to protect the strategic relationship status that Viatex now enjoys. Today, Brattlebury representative J. Williams and Viatex representative T. Burton are meeting to seek agreement about what steps to take and how savings will be allocated. Your goal, as one of these parties, is to reach agreement with your counterpart on: 1) Which initiatives to formalize in the new contract, and 2) How savings will be distributed. Confidential Instructions for Brattlebury Background To get strategic supplier status, Viatex must agree to save you 5% annually. If it can’t do that, Viatex cannot be one of your strategic suppliers. You have enjoyed working with Viatex over the years. Their products are high quality and their work is delivered on time. You hope they are ready to agree to these changes. You know that Viatex made $5 million in profit last year, an 8% profit margin, though the industry standard is 5%. You think Viatex is doing well, and that it is in a position to share some of those profits with you. Beyond this, your boss has suggested that if you can get significantly higher than 5% savings guaranteed, you could be next up for a promotion. This has motivated you to try to get high profit margins, but it isn’t something you want to share with T. Burton at Viatex, since it is a personal, rather than an organizational, interest. You estimate that if Brattlebury’s RFP process occurred every five years instead of every two years, Brattlebury would save $300K per year. You know that Viatex has struggled when Brattlebury’s order sizes fluctuate, and you are hoping that a few adjustments in how you do business could result in the significant savings you are seeking. Issues You can make as many or as few of the following changes as you want to make. Your thinking is as follows about the given options: 1. Viatex could use Resin 242, a new resin that is considerably cheaper for Viatex to source but which carries a slightly higher instance of cracks and blemishes in finished bottles. • This seems like a very promising idea to you, and your market analysis suggests that it would save Viatex $800K annually. Your quality-control team will be very concerned unless there are terms in this deal that address issues of quality. • 2. Brattlebury could change the specifications so that all bottles ordered from Viatex would come in one of two sizes (there are now five sizes). • You think that two sizes are plenty, but you expect your vice president for marketing and sales will be furious with you and accuse you of damaging the brand and possibly costing the company sales. Furthermore, this VP is very good friends with your boss, and you fear what s/he could do to you if you cause him/her much difficulty. Years ago, Brattlebury moved from seven to five bottle sizes without a change in revenue. You might be willing to agree to this option if it makes sense for Viatex, but it will be a headache for you. 3. Brattlebury could agree to maintain surplus inventory during months when demand lags, instead of Viatex storing bottles (at considerable cost) during those down times.. Brattlebury has better storage options and rates than Viatex, which is smaller and located in a state with higher storage costs. • It is hard for you to argue with Viatex’s logic (that it is bearing the cost of inconsistent demand for your product). But the fact is, your vice president for manufacturing wants to maintain the current level of flexibility. So before you make the argument for this option, you would need to be sure it carries demonstrable savings. This would cost Brattlebury $50,000 a year, and you think it would mean substantial savings for Viatex, but you aren’t sure how much. 4. Brattlebury could agree to minimum and maximum quantities for delivery each quarter, so Viatex could avoid laying people off during slow periods and hiring and training people during peaks (which is expensive for Viatex). • This option would give your vice president of manufacturing more flexibility. Looking over data for the last several years, it is apparent that each quarter, your orders are all about the same size. You estimate that this option could save Viatex $600,000, but it leaves you with some risk. On the one hand, if demand spikes, you could be caught short of product; on the other hand, if demand lags, you might incur storage costs. You estimate that these risks could cost Brattlebury $200,000 annually. 5. Brattlebury could assume responsibility for shipping (it has very good shipping rates with a private transport company). • This option would be relatively painless for you, since you already have a big shipping department, and your shipping costs are significantly lower than Viatex’s. You have been reimbursing Viatex $600,000 to cover annual shipping costs. If you took responsibility for bottle shipments, you would only have to pay $300,000 a year – an annual savings of $300,000. 6. Viatex could do fewer quality-control checks at its plant, which would save money, if Brattlebury assumes more liability for product defects once bottles are shipped to pharmacists. • This option guarantees some upfront savings while the risks of damage are further out. Your increased insurance to cover this liability would cost $100,000 a year. Instructions You must come up with a plan that you think will guarantee you $1.5 million in savings this year. If you cannot, Viatex may not be able to maintain strategic supplier status. Even if it takes a bit of effort, you are interested in any action that will get you the savings, because it could lead a promotion. Remember that just by saving $1.5 million, you also save $300,000 a year in costs associated with evaluating the RFPs. This number should be included in overall savings calculations.