**Case Study Name**: Strategic Supplier Selection and Pricing Optimization

**Case Study By:** Aashish Paudel

***The case problem that I analyzed and addressed in this study is in page number 8.*

1. **Major Facts:**

- Vigard Manufacturing Company produces a unique wound magnet for military and commercial electronics, utilizing a custom winder machine created by its founder.
- After four years of operation, the company chose to sell its winding machines because the founder believes that those produced in-house by various electronics, aircraft, missile, and instrumentation companies are of lesser quality than his design.
- Customers requested a comprehensive, illustrated operation and maintenance manual as a prerequisite for purchase, rendering the development of this manual essential for successfully launching the product and fulfilling financial commitments due to reduced working capital.
- Mr. Krause, the supply manager, was assigned to find a vendor for around 180 technical illustrations, facing a tight deadline for submission to the printer.
- Four firms were recognized as potential contractors: two focused on technical manuals (Webster, Inc., and Hershey Associates); one major commercial art company (The Catalogue Corporation); and a smaller, agile art studio (Bullock Art).
- Initial estimates showed significant variation. Webster, Inc. initially quoted $72,000 (maximum), while Bullock Art provided $21,060 (maximum), with other firms offering prices in between.

- Krause urged Webster to cut out any ‘water’, meaning to trim unnecessary padding/safety margins from their proposals. Webster, Inc. reduced its offer from a massive $72,000 to more than half which is $22,500 after this negotiation.
- Bullock Art submitted the lowest proposal and offered creative production ideas; however, Krause had concerns regarding the company's ability to expand and meet the timeline because of its restricted resources and organizational capabilities.
- Timeliness was crucial; if the manual was not completed by the established deadline, Vigard would forfeit essential contingent sales and face substantial financial difficulties.
- Hershey Associates and The Catalogue Corporation were not given serious consideration for the contract due to significant drawbacks relative to the top competitors, making them less suitable for Vigard’s urgent, high-stakes initiative

**2. Major Problems:**

- The necessity to find a cost-effective, dependable supplier to create the manual artwork by a fixed deadline, while managing risk, quality, and expenses.
- The danger of granting the contract to a smaller, cheaper provider (Bullock Art) that may not have the ability or facilities to execute high-volume, urgent projects.
- The existence of significant “water” in initial quotes made price comparisons and supplier selection more difficult.
- Overseeing financial limitations while ensuring the manual is high-quality, professionally crafted, and completed on schedule to guarantee essential revenue shipments.

3. **Possible Solutions:**

A. Selecting Bullock Art as the Supplier

Assign the contract to Bullock Art, the lowest bidder, whose innovative strategy provided production efficiencies and whose proposal showed minimal "water," leading to direct savings in costs.

Carefully oversee Bullock Art's production and implement regular progress evaluations to mitigate the risks of delays or capacity shortages.

B. Selecting Webster, Inc. as the Supplier

Grant the contract to Webster, Inc., a more prominent and established company with superior infrastructure, despite of the weekly payments and its proposal being slightly above Bullock Art's after eliminating the "water" costs during negotiations.

Counting on Webster, Inc for it's established history and organizational strength, we can ensure prompt and quality delivery where we can possibly embrace a slightly higher cost as an investment in dependability.

4. **Possible Solutions**:

   Advantage A:

   Lowest expense: Bullock Art's efficient processes and creative production methods yield considerable savings which is a strategic pricing approach in line with Nagle and Hogan's value-oriented pricing, as it represents the least solution cost essential for the buyer's value.

Possibility for enhanced technical craftsmanship: Tailored process enhancements from Mr. Bullock who is an exceptional figure in this space could produce brilliant results.

Disadvantage A:

Notable operational risk: As Bullock Art is a small company without extensive infrastructure and specialized workspace, it might face challenges in scaling, which could cause delays thus jeopardizing the value provision and it might also lead to substantial financial consequences for Vigard if sales are declined.

Resource dependency: A significant dependency on freelance workers makes the company more susceptible to unexpected workforce shortages or delays which is a major risk factor working on strict deadlines.

Advantage B:

Dependability and size: Webster's extensive workforce, skilled facilities, and strong organizational framework significantly minimize the likelihood of delays, guaranteeing prompt and quality service which aligns with the willingness to pay and cost of assurance concepts covered in the textbook, where customers are prepared to spend extra for reliability in critical situations.

Reputation and quality assurance: Big experience and proven reputation from a big company in substantial technical projects similar to this ensures adherence to professional standards and regulatory compliance.

Disadvantage B:

Increased complexity and expenses: There could be high transaction and administrative costs because of weekly payments to be made to Webster, Inc.

Possible inflexibility: Bigger organization mostly struggle with responding quickly to last minute adjustments for process enhancements.

5. **Choice and Rationale:**

   I choose solution B which is Webster, Inc because of the following reasons:

- By applying Nagle and Hogan's frameworks for value-based pricing and risk evaluation, the decision corresponds with optimizing Vigard's sustainable value while reducing existential threats.
- Given the risks associated with contingent revenue and working capital, the prompt execution and operational reliability are more significant than the minor cost benefit of Bullock's proposal.
- Webster, Inc. possesses the capability and dependable structure to ensure timely deliveries, along with well-defined quality measures to avoid expensive mistakes or delays.
- The scenario demonstrates (and corresponds with The Strategy and Tactics of Pricing's idea of "price for reliability") that clients are prepared to spend more for reduced risk when failure may jeopardize business continuity (e.g., losing critical sales because of delayed manuals).
- By omitting "water," Webster's updated quote is competitive and presents a more accurate assessment of the necessary work, making it a justifiable investment for Vigard to maintain its growth and credibility.

- Opting for the lowest bid could be short-sighted if Bullock stumbles or does not fulfill its obligations, leading to increased downstream expenses and missed sales opportunities

6. **Recommendations / Implementation:**

I would proceed with the solution by first establishing a contract with Webster, Inc. that includes specific milestone in timely manner in a regular documented way. Then I would also designate a specific internal project manager from Vigard who would serve as the sole contact point, facilitating quick resolution for any inquiries or concerns.Vigard needs to also be ready for any potential delays in the illustration production process by pinpointing alternative freelancers or art agencies who could assist if there is any unexpected problem that could occur anytime closer to the deadline. Finally, upon project completion, a thorough analysis of Webster's performance should be done so that future collaborations can become smoother.

**References**

Nagle, T.T., Hogan, J.E., & Zale, J. (Strat. and Tactics of Pricing).

Vigard Manufacturing Company Case (provided case, see page 8 of this document).

# VIGARD MANUFACTURING COMPANY

Mr. Jesse Krause, supply manager of the Vigard Manufacturing Company, was faced with the problem of selecting a source to prepare a technical manual for a winder that the company was planning to sell nationally.

The Vigard Manufacturing Company was formed four years ago by Edward Vigard, an engineer who had previously been employed by a large electronics manufacturer in the New Jersey area. Mr. Vigard's company concentrated on the production of a special type of wound magnet that had wide application in military and commercial electronics equipment. The company had grown from two employees to a present work force of seventy-five. In addition to Mr. Vigard and Mr. Krause, the management of the company included a sales manager and a production manager. The president, Mr. Vigard, handled design and engineering matters.

The magnets that the company produced were wound on a machine that Mr. Vigard had designed. The machine consisted of a specially designed casting, a high-speed motor, and a small core around which the finely spun copper wire was wound in order to produce the magnet. Mr. Vigard had fabricated a number of these winders for use by his company. Successful production of the magnets required proper operation of the winders and this, in turn, depended on continual servicing to maintain required speeds and accuracy.

Last year Mr. Vigard and his management group decided to manufacture the winders for sale to electronics, aircraft, missile, and instrumentation firms, many of which produced their own magnets on equipment that Mr. Vigard believed was inferior to his own winder. Cost analyses and projections indicated to Mr. Vigard that sales of the winders might constitute a substantial new source of volume and profit. When a decision to produce the winder had been reached, Mr. Vigard invested a substantial portion of the company's funds in the castings and other components needed to manufacture the winders. As production proceeded, the sales manager prepared for marketing the new product. First, he undertook exploratory discussions with potential customers in the immediate area of the Vigard plant. Second, he negotiated an agreement with a sales representative to handle sales in the western part of the United States. Third, he initiated an advertising campaign, by means of direct mail and announcements in trade papers, stating that the winders would be ready for delivery on June 1 that year.

The Vigard Manufacturing Company proceeded satisfactorily with the manufacture of the winders. Although the sales manager found that there was a substantial amount of interest in the new product, he learned that the winders could not be sold unless they were accompanied by an illustrated operation and maintenance manual. For example, the western sales representative informed him that the manual was not only essential to the user but also needed for demonstrating the winder. Moreover, an eastern customer had placed an order for several of the winders contingent on their being delivered with a suitable manual. These contingent orders were of great importance to the Vigard Company because the cost of the manufacturing program had required an additional bank loan and had seriously depleted the company's working capital.

Accordingly, Mr. Vigard and his associates prepared the technical descriptions that the manual would contain. Mr. Krause, the supply manager, was directed to locate a source that could prepare approximately 180 illustrations and technical drawings and have the manual ready for the printer on the first of May so that it would be available for the June 1 deadline.

Although he had never before had occasion to place artwork contracts, Mr. Krause found that he was able to locate a number of potential sources through the use of the "yellow pages and the telephone. The companies that he located were of two general types: (1) commercial art companies that prepared mail order catalogs and (2) art companies that specialized in the preparation of technical manuals. He found that most of the commercial art companies showed little interest in the work because they were busy preparing catalogs and promotional pamphlets for their regular clients. Two large concerns that specialized in the preparation of technical manuals seemed anxious to obtain the work.

In addition to these two broad classes of companies, Bullock Art, a small organization that was attempting to expand, gave promise of being able to handle the work. This company consisted of Mr. Bullock and a group of freelance artists he employed whenever he obtained a contract requiring their help. Mr. Bullock had been employed as a freelance artist by several companies, which, upon telephone inquiries by Mr. Krause, reported favorably on the quality of Mr. Bullock’s work. In addition, he taught commercial art at a well-known trade school and had developed his own production methods, which appeared to be superior to those used by most other art concerns.

Mr. Krause’s preliminary survey indicated that four companies were interested in undertaking the work: Bullock Art; Webster, Inc., and Hershey Associates (the two concerns specializing in the production of technical manuals): and The Catalogue Corporation, a large commercial art concern. Mr. Krause decided to visit each of these companies.

Webster, Inc., the first company visited, was the largest art concern in the city, employing approximately 150 artists and book designers. The company had excellent facilities, including the latest art and layout equipment and its own photographic laboratories. The operations of the company appeared to be efficiently organized and well managed. Although the company was then operating at capacity, Mr. Krause learned that approximately 80 percent of its business had been with one large manufacturer that had recently informed the Webster management that it was shifting its technical manual and work to another firm. The general manager of the company estimated that he could complete Mr. Krause’s work on schedule. He stated further that the company would undertake the work on an hourly basis with a guarantee that the total time would not exceed a specified number of hours. He informed Mr. Krause that he could submit a definite quotation within forty-eight hours.

Hershey Associates was visited next. Although considerably smaller than Webster, Inc., the company had been doing the same general type of work. After examining samples of the company’s previous work, Mr. Krause concluded that Hershey Associates was qualified to prepare the artwork for the manual, and invited the company to submit a quotation.

Mr. Krause then called on The Catalogue Corporation. Although this company was well known as a publisher of mail order catalogs, it had never produced a technical manual. The company representative saw no problem in meeting Mr. Krause’s requirements, however, He said that if any specialized talent was required, he would have no difficulty in obtaining needed personnel inasmuch as several qualified people had called on him that week in search of employment. In view of these assertions and the general reputation of the company, Mr. Krause asked The Catalogue Corporation to submit a quotation.

The pressure of other work prevented Mr. Krause from visiting Bullock Art. However, Mr. Bullock telephoned to ask if he might visit the Vigard Manufacturing Company to analyze the job and submit a quotation. He stated that if he were given an opportunity to study the work, he was confident he could demonstrate his ability to handle the contract within the time limit and at a lower cost than his competitors. Although Mr. Krause did not believe that an additional quotation was necessary, he agreed to let Mr. Bullock analyze the work and submit a quotation.

The following day the general manager of Webster, Inc., called on Mr. Krause to present his quotation. The quotation stipulated a rate of $17.60 per hour with a maximum guarantee of $72,000. The quotation was contingent, however, on weekly progress payments based on the number of hours spent on the contract. In submitting the quotation, the general manager stated that the hourly rate should be considered as the significant figure, since the maximum guarantee provided a margin of safety for contingencies. Mr. Krause took exception to this statement, pointing out that a company employing more highly skilled personnel might complete the job in fewer hours and at a lower total cost, even though it had a higher hourly rate. He concluded, therefore, that the maximum guarantee was the more important figure. In addition, Mr. Krause stated that although the artwork would not necessarily be awarded to the lowest bidder, it was going to be placed on a competitive basis, and he advised the Webster general manager to eliminate any 'water' that might be in his bid. After making a few computations on a scratch pad, the general manager stated that he could reduce the maximum guarantee to $48,000. Thereupon Mr. Krause told him to prepare a new quotation and to submit it as soon as possible. The following morning, the general manager returned with a new quotation containing the same hourly rate but with a new maximum guarantee of only $22,500. When Mr. Krause remarked, "There must have been enough 'water' in the previous quotation to float the manual," the general manager replied that he expected to lose money if he received the contract. He said that in view of this, he was unwilling to assume the burden of financing the work. Mr. Krause explained that this was an important issue to him and that his award of the contract might well hinge on this provision. The general manager pointed out that his company typically received weekly progress payments and that without them he was not willing to accept the contract. Mr. Krause then stated that he would make his decision and place the contract within forty-eight hours.

In the meantime, Mr. Bullock had visited the Vigard Company and had spent several hours analyzing the work and preparing his quotation. In the course of analysis, Mr. Bullock made a number of suggestions that not only improved the style of the manual but simplified the production of the artwork. For example, Mr. Bullock suggested that certain expensive airbrush operations could be replaced by relatively inexpensive screening techniques. He also demonstrated that through more careful "eye control" many of the sketches could be improved: This would result from a rearrangement of details so that they were placed at a point in the illustration where the eye naturally fell first. He stated that if he were given the contract, he would improve the layout and general appearance of the manual and eliminate difficult production problems. Mr. Bullock examined the rough sketches for the manual and discussed them briefly with Mr. Vigard and the sales manager. When Mr. Krause discussed Mr. Bullock's qualifications with these two officers of the company, they both expressed the opinion that he possessed an unusual ability and seemed to be well qualified to undertake the work.

Bullock Art's quotation specified an hourly rate of $18 and a maximum guarantee of $21,060. Mr. Bullock explained in detail how he had prepared the quotation and how the production shortcuts he had developed would enable him to make a fair profit on the contract. Although Mr. Krause was convinced that Mr. Bullock had a better understanding of the job to be done than any other bidder, he questioned his ability to acquire an organization and get it in operation in time to meet the required production schedule. Mr. Bullock countered by saying that this was the normal manner in which he worked and that he was confident that he could get the personnel and equipment needed on a moment's notice. He stated further that if he needed additional funds to finance the work, he could borrow the money from his brother-in-law. In the event that he fell behind schedule, he could work nights and weekends.

During the day, the quotations of the other two companies were received. The Catalogue Corporation offered to take the contract at an hourly rate of $21.00 and a maximum guarantee of $32,130. The quotation of Hershey Associates stipulated an hourly rate of $18.90 and a maximum guarantee of $33,750.

Although Bullock Art submitted the low quotation, Mr. Krause was somewhat reluctant to place the contract with the company. He did not question Mr. Bullock's personal ability, but he doubted that Mr. Bullock could expand his organization fast enough to meet the desired production schedule. On March 22, because of this doubt, Mr. Krause decided to visit Bullock Art. His visit disclosed that Bullock Art did not possess adequate space in which to do the work. However, Mr. Bullock showed him an unoccupied basement in a building down the street that could be rented, cleaned up, and put to use if needed.

After his visit to Bullock Art, Mr. Krause wondered if the potential savings of an award to Bullock justified the risks that were involved. He needed to place the contract immediately in order to allow sufficient time for the completion of the artwork and delivery of the manual to the printer by May 1. Unless the manual reached the printer by this date, it would not be available on the first of June, the day on which the winders had been promised for delivery.