

TalkShop Mobile Services¹

Three months ago, TalkShop, a mobile phone service provider based in Singapore, started selling two new models of mobile phones from an emerging Korean manufacturer, Twintel. The phones come in two price ranges:

- S\$348 for the Y200, a smart phone with multi window, allowing greater convenience while multitasking between two apps
- S\$788 for the Y300, a smart phone which is said to rival Apple's latest iPhone

The very affordable price and the multi window feature have enticed many young people to get the Y200. In addition, the 6.3-inch HD super clear LCD screen offers great viewing of movies and videos. Sales for this model have been brisk. The more expensive Y300 has also been well received, particularly by professionals who see it as more affordable but just as functionally capable as the iPhone.

All Twintel phones come with a two-year warranty, which has been important in persuading customers to try a relatively unknown brand. The warranty period allows for repairs of any phones that are faulty, if the fault is not due to negligent handling. The generous warranty period is provided by Twintel to differentiate itself from other more established brands in the international market.

Since Twintel has not yet established a solid presence in the Singapore market, it has not seen a need to set up operations in Singapore. Instead, Twintel trains its distributors, such as TalkShop, to go through a checking procedure. Phones are checked for faults and documented, and any faulty phones are then sent to a subcontractor in Singapore, Super Electronics, for repairs.

To date, TalkShop has received two consignments of the Y200 phones from Twintel. The first consignment arrived 3 months ago, and the second one a month later. With the first consignment, TalkShop has seen an alarming increase in customers complaining of various problems with the phone. Thus far, 30% of the Y200 phones sold from the first consignment have been returned. The average return rate for all other brands is less than 5%.

The common complaint is that Twintel's Y200 phones tend to shut off suddenly. This problem causes significant inconvenience to customers, who have to make a trip back to the store, explain what has happened, and find out what the steps are for replacing the phone. Customers are, understandably, frustrated and angry. For customers who like to have the latest high-tech gadget in order to impress their colleagues and friends, the phone malfunction has been a source of much embarrassment.

As a gesture of goodwill, TalkShop has been issuing replacement phones to customers from the second consignment of Y200 phones, while their faulty phones are being repaired by the subcontractor. So far, the phones from this second consignment seem to be working fine.

However, some customers do not wish to have their faulty phone replaced with another Y200. Instead, they want to change to a phone from a better known and more reliable brand, which TalkShop finds too costly to allow. As a compromise, TalkShop offers such customers an upgrade to the Y300, the more expensive model of Twintel's phones, at a special top-up fee of \$280. This offer has been taken up by some, but there are still many irate customers whom the TalkShop sales team has to deal with.

¹ The task is adapted from a case originally created by Constance Wee and Ulrike Murfett.

Unhappy customers associate their negative experience with the Twintel phone with TalkShop and, through word of mouth and social media sites, have been spreading word that the Twintel phones bought from TalkShop are a bad deal.

Naturally, this situation worries TalkShop greatly – costs have increased because of repairs and replacements, and TalkShop's reputation has been tarnished. John Lai, Head of Sales, has to act swiftly. As a first measure, John has halted all further sales of Y200 phones. He then confers with Judy Ng, TalkShop's Purchasing Manager, to find a way out of this situation.

Judy tells John that she had agreed to Twintel's terms of distributorship as she found the supplier genuine and knew that Twintel's phones were very well received in Korea. Since the problems with the first consignment of Y200 phones became apparent, she has had several interactions with Mr Kim Song, Twintel's Sales Manager, to discuss these problems. Despite repeated requests, however, there has so far been no action on Twintel's part.

Judy feels that Twintel's senior management is playing down the situation. They seem to think that the faulty phones are not a big deal and that the situation can be dealt with on a case-by-case basis. They do not seem to take seriously the implications that the faulty phones have for TalkShop.

John and Judy agree that the Y200 is a great liability and want to distance TalkShop from this particular phone. They decide that they want to keep just enough phones from the second consignment to replace any Y200s that were sold from the first consignment and send the remaining Y200 phones back to Twintel. Also, TalkShop would not be purchasing any further consignments of the Y200 phones.

However, the agreement TalkShop signed for the Y300 phones would not be affected. In fact, sales for the Y300 phones have been increasing, and TalkShop is keen to continue its exclusive distribution rights for the Y300 in Singapore, partly because the profit margin is attractive. Two reasons could possibly account for the increase in demand for the Y300:

- Sales staff promoting the Y300 more aggressively
- The Y300 increasingly being perceived as a comparable and lower-priced option to the far pricier iPhone

TalkShop has been absorbing the losses in the upgrade from the Y200 to Y300, which have been somewhat offset by the higher profit margins gained from promoting and selling the Y300 as a more affordable smart phone compared to Apple's latest iPhone. John and Judy are looking at possibly asking for more consignments of Y300 phones in the near future.

Judy will write to inform Twintel that TalkShop **intends to return all Y200 phones**, apart from some phones from the second consignment to replace any Y200s returned by customers. She is worried about how she can get Twintel to accept the return of the perfectly functioning Y200 phones from the second consignment. Under the current terms of purchase, returns are allowed, but phones need to be proven to be faulty.

TalkShop has not yet paid for either consignment because of the generous credit terms extended by Twintel. The cost of both consignments of Y200 phones is USD180,000, but now TalkShop intends to pay only USD75,000, which is the cost of Y200 phones already sold to customers.

Although John and Judy feel they have good reasons to return all the Y200 phones and pay just USD75,000, they are concerned over three issues:

- They need to get Twintel to accept the return of all remaining Y200 phones from both consignments, even though the second consignment does not have the same problems as the first.
- They do not want to lose Twintel as a business partner. Twintel has a very good reputation in Korea and is still one of the best suppliers from a financial point of view.
- They want to continue as the sole distributor for the profitable Y300 phones.

The message from TalkShop would have to take these issues into account. As Judy has several other pressing projects to handle, she decides to get her assistant to draft a message to Mr Kim to convey their decision.

Task

Assume the role of Judy Ng's assistant. Draft the message to Mr Kim Song, and email it to Judy for her approval. She will send it to Mr Kim under her signature.