



Edgewood Electric: General Information and Confidential Instructions for E. Diamond

This case consists of two parts. The information in Part I is identical for all parties while the information in Part II is confidential to *your role* only.

Part I: General Information for All Interested Parties

Edgewood Electric, Inc. is a mid-sized electronics firm that manufactures a variety of high-tech and basic equipment. It originally produced motors, radios and televisions, but many years ago gave up those markets to Asian firms and now focuses on niches that require engineering ingenuity. Its Medical Products division produces a successful device called the DX4 that is designed for certain specialized biomedical applications. The Medical Products Division is located just outside of Boston.

Stirling-Loden, a large European pharmaceutical company with a growing biotechnology group located in New Jersey, has begun a group that will sequence DNA for its in-house use as well as for commercial and university labs around the world. This group will use a device like the DX4 and has been negotiating with Edgewood's Vice President of its Medical Products Division, G. Evans, for the purchase of 100 DX4s. This new use and new market for the DX4 clearly excites Evans. In its negotiations, Stirling-Loden has asked that Edgewood deliver the DX4s as quickly as possible.

Edgewood does not have the DX4s in stock, but it could assemble them in ample time if it had all the parts in inventory. Unfortunately, Edgewood does not have any additional units of a particular component, a highly specialized molecular probe for sampling information. Each DX4 uses one probe. Edgewood purchases the probes from Sampling Devices Inc., a family-owned firm located in Boston that is run by a hard-driving biomedical engineer named O. Dmitri.

The actual responsibility for negotiating with Sampling Devices falls to a mid-level manager, E. Diamond, the procurement officer for Edgewood's Medical Products Division. In Edgewood's matrix structure, Diamond reports to both Evans and W. Olsen, Edgewood's Vice President for Procurement.

Under a long-term contract to deliver 30 probes a month, Sampling Devices has been charging Edgewood \$50,000 per probe. Each DX4 uses one probe. For a rush order of 100 probes, both price and delivery time are subject to negotiation.

Professor James Sebenius prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 1994 by James K. Sebenius. Written by James K. Sebenius and David Lax. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

The 100 probes Edgewood needs are *in addition to* the 30 probes it will already be receiving from Sampling Devices in the month it would receive the new order. The existing order of 30 probes cannot be deferred until later.

It is well-known that Sampling Devices has a booming business because its state-of-the-art manufacturing facility makes it among the best suppliers in the industry. Although it may be difficult for Sampling Devices to respond quickly to such a large order, a higher price would help offset the extra production costs that might be associated with a rush order.

The negotiations between Edgewood and Dmitri may take several rounds. At the outset, Dmitri will personally negotiate with Diamond. Prior to each round, the Edgewood team may meet to determine its strategy and instructions to Diamond. A series of time limits for different meetings is included to keep the process moving—and to reflect the fact that time is money. These time limits are explained below and then summarized in the chart on the following page.

1. In general, Olsen and Evans prefer to avoid getting involved personally in vendor dealings. Given the heavy demands on their time elsewhere and their management styles that avoid getting into the “details” of negotiations, they normally delegate direct negotiating responsibility to Diamond. Diamond will negotiate alone in the first meeting with Dmitri. However, Olsen and/or Evans may choose to participate personally in subsequent rounds of this negotiation because of the importance of the potential order from Stirling-Loden.
2. The Edgewood team must meet at least once as a group prior to contacting Sampling Devices to prepare its strategy. This preliminary meeting should take no longer than a *total of ten* minutes. Private conversations between any pair of Edgewood employees are also permissible during this period. These private conversations should take no longer than *two* minutes. *The excluded party is responsible for ensuring that the smaller meeting is concluded on time.* Time taken for any such private meetings “counts against” the *ten* minute limit.
3. Diamond (of Edgewood) should then contact Dmitri (of Sampling Devices) to begin the negotiations. This two-way meeting should take at most *eight* minutes.
4. The Edgewood team should then meet again to discuss what happened and determine their response. Edgewood’s three-way meeting should take no more than *eight* minutes. *Dmitri should approach the Edgewood group after this eight minute period to ensure that it does not run over.*
5. Edgewood and Dmitri continue to negotiate. If Diamond negotiates alone, the meetings between Diamond and Dmitri should be limited to no more than *five* minutes each. Any meetings between Dmitri and any other subgroup of the Edgewood team are also limited to *five* minutes.
6. If all four parties decide to meet together, the meeting has no time limit (since there is no excluded party).
7. *All four parties must agree for a contract to be signed.*

Time Limits for Meetings

Event	Time Limit
Initial meeting of Edgewood team	10 minutes
Two-way Edgewood meetings during initial meeting	2 minutes
Initial Diamond-Dmitri meeting	8 minutes
Edgewood team meeting	8 minutes
Diamond-Dmitri meetings (if without Olsen & Evans)	5 minutes
Meetings of Dmitri and any Edgewood subgroup	5 minutes
Any four-way meetings	no time limit
Subsequent three-way Edgewood meetings	5 minutes

Part II: Confidential Instructions to E. Diamond

As manager of procurement for the Edgewood's Medical Products Division, you negotiate with vendors on a nearly continuous basis for a variety of products. In this case, you are interested in getting the probes from Dmitri as quickly and cheaply as possible.

As you understand it, Stirling's strategy for becoming the first commercial entrant into the DNA sequencing business is quite clear. They want to make a preemptive move that deters any competitors. They've brought in a Nobel Prize winner as the group's chief scientist to add scientific credibility. And, rather than making a small entry into the market that might leave an opening for their potential competitors, they want to announce a major capital investment that signals their ability to handle substantially more than the projected market demand for the services for some years down the road. Thus, the remarkable potential order of 100 units. Although Stirling is still negotiating with other vendors, they have made it clear that they want the units as fast as possible.

While they are willing to pay a little more for quick delivery, by all indications they are not willing to pay much more. Thus, Edgewood will have to bear any cost increase associated with quick delivery of the molecular probes. But, if Stirling succeeds in its preemptive move, it will be a major player in the area and will be a major purchaser of devices like the DX4. Subject to reasonably speedy delivery, they are willing to pay \$1.2 million per unit, which is substantially lower than the \$1.595 million that you have been charging the small firms and university labs that buy individual units. Edgewood's unit cost not including the molecular probes, is \$950,000.

In working out the right deal with Stirling, the key issue is how quickly you can deliver the 100 DX4s. If you had the probes in stock, you could easily satisfy them because speedy delivery would be trivial and Edgewood could still retain a decent margin. But, every day that it takes Sampling Devices to deliver the probe lengthens the delivery time and makes Stirling less happy. And, while they have given you strong indications that you will receive the contract, they have not signed a contract with you and are still talking with your competitors. Thus, although Olsen discounts the possibility, inability to deliver quickly might lead to a loss of the contract.

Edgewood has an alternative to Sampling Devices, a firm in California called Signex. Although you believe that Sampling Devices is best situated to deliver quickly, you have talked to Signex and could obtain molecular probes from them in 80 days. The price per probe from this source would be \$80,000. The quality would be comparable. If you got the probes in 80 days, you would still have a very good shot at winning the contract. Still, you are confident that you can do better in the negotiation with Sampling Devices. They have a highly flexible, highly automated production process and thus the actual production of 100 probes should not take a long time. There is a significant setup period in which some difficult biochemical processes have to be initiated, but then the whole batch could be manufactured within a few days. The problem is that if they are busy, as they frequently are, they will have to defer other business to produce the probes quickly. Sampling Devices has been a low cost supplier of various devices including the \$50,000 probe under the long-term contract, but the price for the 100 additional probes will have to be negotiated. When they quoted the \$50,000 price, they anticipated a long lead time to plan their production. You expect that for a rush order of that size you will have to pay more. The problem will be keeping the increment reasonable. Note that this order of 100 probes will be in addition to the normal 30 that Sampling Devices delivers each month; the 30 monthly are for DX4s already committed for other customers.

To keep things on an even keel with Olsen, Evans, and Dmitri, KEEP THE AGREEMENT SIMPLE: just a fixed price per unit in dollars to be delivered in a certain number of days. Do not make an agreement concerning orders other than the 100 probes in question.

In addition, you want to maintain good relations with both Evans and Olsen. Both are highly regarded within the company. You are concerned with what may be a difference in interest between the two. Evans, of course, is primarily concerned with increasing sales while Olsen is primarily concerned with controlling costs. You sympathize with both, since each is important. Moreover, as you report to both under Edgewood's matrix organization, you know that both could strongly influence your future with the company.

Because you share interests with both Olsen and Evans, the score measuring your negotiating effectiveness is simply the average of Olsen's score and Evans' score. While they may suspect that you care about how satisfied they are with the results of the negotiation, neither knows how precisely you are scored.

You typically handle negotiations with vendors alone. In this case, while you will handle the first round of negotiations with Dmitri on your own to maintain protocol, you may be able to speed up the negotiations and avoid conflicts with Evans and Olsen if they participate directly in the negotiations. Of course, this may pull them away from other pressing matters.

Report Form for Diamond

Your Name: _____

Group (Team) No. _____

Names of the other players in your Group:

G. Evans _____

W. Olsen _____

O. Dmitri _____

1. Did you reach an agreement with Sampling Devices? Yes _____ No _____
2. If so, what were its terms?
 - a: Days _____
 - b: Price per probe (in \$ thousands) _____
3. What are two of the most important lessons to you personally from this experience?
