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BENBO (C): A BRAND OWNer with outsourced production

Gang Chen and Jingxuan Wang wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In the negotiation meeting between Guangdong Benbo Garments Company Limited (Benbo) and Guangdong Cont Garments Manufacturing Company (Cont), Benbo requested that Cont compensate Benbo for a loss due to delayed delivery of product. However, Cont argued that the delay was due to Benbo’s adjustment to the order quantity and to delays in receiving fabrics from Benbo’s designated fabric suppliers. Cont did not want to compensate Benbo for the delay. Benbo expected to obtain at least CN¥1.2 million[[1]](#footnote-1) in compensation from Cont, which meant that the performance of the procurement department would not be affected. Cont was willing to compensate Benbo for ¥0.75 million at most, so as not to overly influence its profits. As a result, the two sides were not able to reach a consensus in the negotiation meeting.

Although the contract noted that Cont would take full responsibility if there were any problems with product quality or delayed delivery of products, it did not mention how responsibility would be assigned if the delay was caused by a large difference between expected order size and actual order size from Benbo. This was the second negotiation meeting this year to solve a compensation dispute over delayed order delivery between Benbo and Cont. How could this situation be changed?

In a Starbucks near the company, Eva Liu, the manager of Benbo’s procurement department, was thinking about the problem between Benbo and Cont. She thought Benbo’s co-operation with outsourcing manufacturers should be long term. It was a waste of time and energy to negotiate whenever there was a conflict of interest. So, was there any good contract model that could facilitate a winning situation for both companies? She drew Benbo’s supply chain on a piece of paper (see Exhibit 1).

Benbo was Cont’s main client, and Cont was also an original equipment manufacturer of casual pants for another brand owner company. Cont arranged production for every season according to orders from the two brand owner companies. Cont would also adjust production plans after Benbo’s order placement meetings based on different order quantities and requirements from the two companies. Cont had to allocate labour between the two companies, purchase fabrics and accessories, plan the production of each production line, manage quantities, and allocate resources.

Benbo outsourced the production of casual pants to Cont, whereas its own production lines could deal with portions of emergency orders. Benbo improved its production capability temporarily when there were problems with Cont’s equipment or when Cont’s capacity could not meet Benbo’s requirements. A quick response depended on the capacity settings of Benbo’s production lines, the order quantity, the level of urgency, and the quantity of the urgent orders.

Supply chain contracts might be a good choice, but what kind of supply chain contracts could Liu design to solve the problems discussed in this case? It was not easy to design a supply chain contract that would normalize the relationship between Benbo and its outsourcing manufacturers and avoid similar issues.

Exhibit 1: BENBO’s Supply Chain

Cont

Benbo’s own production line

Another brand owner company

Benbo

Market

demand

Stockout

Unsalable

Franchised and direct-sale stores

The order size could change.

Source: Created by the case authors.

1. CN¥ = Chinese yuan renminbi; all yuan amounts are in CN¥ unless otherwise specified; CN¥1.000 = USD$0.164 on December 31, 2013; all dollar amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)