EMGT 5320/SYSE 5105 Seller: \_\_\_\_\_JhansiMala Silla\_\_\_\_

Negotiation Exercise Your Counterpart: Ravi Teja Reddy Kollu

***THIS PAGE IS TO BE COMPLETED, SCANNED & EMAILED TO ME BY 7:00 PM on due date***

You are a Project Manager for BestSwitchs,Inc, that manufactures small switches for cell phones, keyboards and remote controls. It costs you $3.15 per switch to manufacture a switch, ***excluding*** profit, but including all overheads and other costs in your standard contract terms. You have just received a phone call from Bell Telephone Company that has requested that you supply 116,000 switches on a sole-source basis. They have asked for you to meet with them within two weeks to negotiate a deal. With the world-wide demand for cell phones growing, there is an ever-increasing demand for switches. BestSwitches can ship the 116,000 switches for delivery to Bell 16 days from execution of the contract, but not one day sooner. If you can delay shipping, you can save $0.02 per switch per day of cost. Since they are sole-sourcing your switches, you plan to make a great profit on this deal.

You plan to use your company’s standard agreement as the basis for this deal. You will do what you can to make sure that Bell Telephone uses your standard agreement as the base agreement to start your negotiations. Your company’s standard agreement stipulates:

* standard waiver of consequential damages
* limitation of liability equal to two times the order amount
* 6 months guarantee on defective switches

You can accept a contract without a waiver of consequential damages by purchasing insurance to cover that risk at an additional cost of $0.10 per switch. If the buyer does not give you any limitation of liability, you will buy insurance to cover that risk for a total premium cost of $0.25 per switch. Increasing the time of the guarantee period increases your risk. You can buy insurance to cover that risk at the cost of $0.10 per switch for every month over 6 months that the guarantee is in effect. The “cost of money” is 5% per year.

**YOUR INSTRUCTIONS**: You are to strategize your deal by preparing a worksheet on the Preparation Worksheet form previously emailed to you. **That worksheet is to be completed, scanned and sent to me so that I receive it by the due date given in class.** Use it to do your deal. You are to meet with your assigned counterpart at any mutually agreeable time(s) and place(s) and do the deal before **7:00 PM, on the due date**. **The deal must be agreed to by both parties, scanned and emailed to Dr. Berry by that time**. If the deal is emailed later than that, it will be assumed that there was no deal. **Be sure to put BOTH of your names above.**

There are no rules for this deal. Anything goes. Except, it must be agreed-to by both parties and emailed to Dr. Berry by the deadline. **A no deal or a late deal is a grade of 0**. Buyers will be graded based on total cost to buy the switches, including risk factors. Sellers will be graded based on the most percent profit that they make.

Establish a time to meet with Bell Telephone Company and do your deal by mutually completing below:

Final Total Price you get paid for 116,000 switches:(*excluding* warranties, delays, etc.) \_\_116,000 \* $3.75 = $435,000\_\_

Agreed to Delivery period, in days, from execution of contract: \_\_\_\_\_\_\_21 days\_\_\_\_\_\_

Agreed to warranty period in months: \_\_\_\_7 months\_\_\_\_\_

Does the contract have a standard waiver of consequential damages? (yes or no) \_\_\_\_\_\_No\_\_\_\_

Does the contract have a limitation of liability? (yes or no) \_\_\_\_\_\_Yes\_\_\_\_\_\_

For Extra Credit, what is your calculated percent profit on this deal including your costs for risk, insurance, etc. ***after*** it has been agreed to?

**Manufacturing Cost:** $3.15

**Additional insurance cost (because no waiver of consequential damages):** $0.10 per switch

**Extra warranty Cost:**

* **Normal warranty** = 6 months
* **Agreed warranty** = 7 months (1 month extra)
* **Extra insurance** = $0.10 per switch for extra month

**Total cost per switch** = $3.15+$0.10+$0.10 = $3.35

**Profit per switch** = Selling Price – Total Cost => $3.75 - $3.35 => 0.40

**Profit percentage** = (0.40/3.35) \*100

**Profit Percentage** = 11.94%

You are selling your switches to Bell on a sole-source basis. What percent profit would you expect to make on this deal and why? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The vendor can expect about 11%–13% profit on this single-source purchase due to strong market demand for switches, potential to transfer part of risks (buyer assumption of liability), and minimal costs with efficient production and risk handling. This gives a safe but moderate profitability with buyer specifications met.

Digitally Co-signed by Bell Telephone: K Ravitejareddy