Ollscoil na hÉireann, Gaillimh

GX 1842 - GD

National University of Ireland, Galway

Semester II Examinations, 2003/2004

Exam Code(s)	3BC1 3CL1 4BC2 4BC3 4BC4 4BC5 4CL2
Exam(s)	3rd Year B.Comm. 4th year B.Comm. International (French) 4th year B.Comm. International (German) 4th year B.Comm. International (Spanish) 4th year B.Comm. International (Italian) 3rd Year B. Corporate Law 4th year B.Corporate Law International
Module Code(s)	MG 309
Module(s)	Business Negotiations
External Examiner(s)	Professor Jonathan Winterton
Internal Examiner(s)	Professor Roy Green Dr. Mary Quinn Mr. Jim Redmond
Instructions:	Answer Question 1 (Obligatory) and one other question Question 1 is worth 50% of the total course marks; the other question is worth 25%; year's work is worth 25%
Duration	2 hrs
Requirements: Exam paper and answer book	
No. of Pages <u>excluding</u> this page	7
Department	Management

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Summer Examinations, 2003/2004

B.COMM. DEGREE
B.COMM. (INTERNATIONAL) DEGREE
B. CORPORATE LAW DEGREE

MG 309 BUSINESS NEGOTIATIONS

Professor Jonathan Winterton
Professor Roy Green
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Time Allowed: Two Hours
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Question 1.

Read the General Brief and Doorco's confidential brief in the *Milk Run* case.

Answer <u>all</u> the following:

a) Write your initial description of this negotiating situation: single issue or multi-issue, simple or complex currency, once-off or ongoing relationship, distributive, integrative or both.

b) What is Doorco's BATNA? How well does it meet their interests, in your view?

c) What do you think is Milkco's BATNA? How well do you estimate it meets their interests?

d) Drawing on your general knowledge of negotiations, do you see any possibilities for creating mutual gain in this case? Explain why or why not.

e) Describe how you would approach this negotiation if acting for Doorco, paying attention to what Thomas identified as your orientation, your strategic objectives and the kind of negotiating tactics you would employ.

Question 2.

Explain three of the following terms and give three examples, one for each of the terms you have selected, preferably original examples, which illustrate how each of the three can effect negotiations: (You may use the same overall negotiating situation or scenario for each of your three examples, but you will need to separately illustrate the three terms you have chosen.)

- Going to the balcony
- A "wise" agreement
- Positions versus interests
- Logrolling
- Zero-sum
- Behaviour labelling

Question 3.

Walton and McKersie's (1965) behavioural theory of labour negotiations identified four sub-processes in the negotiation process. Identify and explain these four sub-processes. Explain how an awareness of these four sub-processes would help a negotiator in preparing for and in the conduct of negotiations.

Milk Run

General brief

Background

Dairy farmers are free to sell raw milk to whomsoever they wish. In addition, they can process and package it themselves (providing, of course, that they comply fully with the European Union regulations in respect of pasteurisation and hygiene etc.) and they may sell their output to wholesalers, bottled milk distributors and directly to consumers via doorstep deliveries. Many dairy farmers continue to sell the bulk of their milk to wholesale distributors. There is a discernible trend, however, of more farmers selling their output direct to, usually, self-employed people who deliver direct to consumers. While these bottled milk deliverers (BMDs) are a minority in volume terms, there is no doubt that this sector is growing.

Independent farmers who produce, process and sell their own bottled milk direct to individual distributors are able to earn a profit on both production and distribution, which is not possible if they sell through wholesalers. Hence it is no surprise that an increasing number of independent farmers are entering the BMD segment of the milk market.

For the milk wholesalers, most of which are also producers and processors of milk in their own right, growth in the BMD segment of the market poses a competitive threat. Some major wholesalers produce and deliver their own milk in an integrated operation from the farm gate to the doorstep, complete with their brand names and defined territories for their own BMDs. They supplement the milk they produce on their own dairy farms with the milk they buy direct from independent dairy farmers on five-year contracts. If the number of independent farmers who opt out of the previous arrangements at the end of their contract continues to grow, the supply of raw milk to the wholesalers will contract and there will be a squeeze on the wholesalers' production profits as raw milk prices rise. Moreover, the wholesalers' distribution profits will also fall as the number of independent BMDs willing to sign five-year contracts with them diminishes, which will cause their delivered volume also to fall. Hit from both ends, the wholesalers are concerned about their future.

The problem

This case concerns one wholesaler, Milkco, which has enjoyed a virtual monopoly market in large parts of the UK, supported by its wholly owned dairy farms, strategically placed high volume milk processing plants across the country, and its own distribution outlets (via its own shopping chains and milk rounds staffed by its own employees).

Milkco also enjoys five-year exclusive supply agreements with many independent farmers, who are under contract to supply all of their raw milk output to Milkco's processing plants. Up to 1994 the price paid for raw milk was set by the Milk Marketing Board. This was terminated when the milk market was deregulated. Milkco also has contracts with scores of self-employed BMDs, who deliver Milkco's branded bottled milk products to consumers located in strictly defined territories. One by-product of this contractual regime is that defined territories have acquired a monetary value – BMDs buy and sell territories to each other, and to newcomers, with the money going to the 'owner' of the territory and the buyer taking on in full the contract with whichever wholesaler supplies that round with bottled milk. It is not possible for a BMD to break out of his purchase arrangements with the wholesaler during the lifetime of the contract (and up to 1994 they had no price incentive to do so). Since price deregulation they now have a price incentive, if they can buy milk cheaper from another supplier. Some wholesalers have successfully sued some BMDs who tried to quit while under contract, but it is inevitable that as contracts are completed, more BMDs will seek to purchase bottled milk from other sources. Interestingly, Milkco, like other wholesalers, in an effort to reduce its labour cost base, has been reducing for some years the number of BMDs it employs by moving them over to self-employed status. As their contracts come up for renewal it can expect a number of them to quit also, thus adding to the defections of BMDs to other suppliers, which will contribute to the downward trend in its delivered volumes.

An independent dairy farmer, Newco Ltd., has taken advantage of deregulation to process and bottle the milk from her own farm and to supply her output to outlets in ever widening circles from the farm, which is situated about 35 miles northwest of a major city, Bretford. Newco's aggressive pricing policy for bottled milk is such that in two large villages between her farm and Bretford, she quickly wiped out the

established wholesale supplier (one of Milkco's rivals) of bottled milk both in the village shops and in the villages' doorstep deliveries.

Recently Newco has been active in promoting her bottled milk to small independent BMDs and corner shops along the northern suburban fringes of Bretford. Newco is now beginning to make minor inroads into Milkco's territory. She has already won over two BMDs with advantageous prices and is actively seeking other BMDs to sign up. If she succeeds she may be able to break into Milkco's heartland in Bretford.

Doorco's confidential brief

You own Doorco and you run two milk rounds in two of the northern suburbs of Bretford, Undersby (333 litres per day) and Greenvale (248 litres per day). Your 5-year purchase contract with Milkco terminated last month. Currently you continue to purchase milk from Milkco on an out-of-contract basis and will do so until either a new contract is signed with them or you take up an offer from Newco, which is lying on the table.

Newco has made an attractive offer on price of 48p per litre if you purchase its milk for one of the rounds and 47p per litre if you purchase milk for both rounds. This compares with 52p per litre which you are charged by Milkco.

One problem with Newco is that it is situated about 35 miles northwest of Bretford. At present you pick up Milkco's milk from their depot only 3 miles away, which opens for pick-ups at 4 a.m. every morning. Milkco's depot is staffed by two employees who are thoroughly familiar with your requirements, and the requirmenet of the other BMDs. They load and handle all the daily milk requirements, saving the need to have helpers on your own vans. Additionally, if there is a specific demand for something which your milk delivery van has either run out of or which you did not load that day, you can swiftly return to Milkco's depot and pick it up – service to your customers is a critical part of your business philosophy and you know that if you cannot deliver what they want they might buy their milk products from local shops. In three years you have not lost a customer on either of your rounds, which is remarkable in your line of work.

Newco has acknowledged the problem and has intimated that when it has signed up at least four other BMDs in Bretford, it will implement an agreement with a local farmer, Overton Farm, based at Overton, 9 miles from your garage, who will provide space for Newco to convert an unused building into a fully refrigerated milk distribution depot. The entire construction, of course, would have to meet and maintain all EU regulations and would have a capital cost of about £70,000. Hence Newco needs to sign up more BMDs before it would be worthwhile undertaking the investment. Even then it would take at least eight months before the new depot is built and commissioned, not allowing for any possible planning delays. In the meantime you would have to travel to its nearest depot in a village 20 miles north of Bretford, which would wipe out most of the gain from its cheaper milk. You would be unable to go back for extra supplies either to the existing depot or to the unmanned

new one at Overton, should the need arise, and this could affect the quality of your doorstep service.

The new Overton depot, Newco says, would be unmanned and would run on the 'cage system'. The supplier loads milk each night into locked cages – one for each BMD – their normal volume milk requirements, plus a small percentage of additional supplies to provide cover for variation in requirements. Because the cages are locked (only Newco and the BMD have the key) there is security of the contents and Doorco would only pay for what it withdraws from its own cage. Overton Farm already supplies several local BMDs with fresh eggs, poultry and pork products. The owner of Newco suggested that there might be scope here for you to offer an extended product range to your doorstep customers, though any arrangements you make to do so would have be negotiated with the owner of Overton Farm (whom you do not know) and would be separate from your five-year contract with Newco.

You recently had an informal lunch with Milkco at which you stated you had been offered a better price from Newco. You did not go into details, except to hint that Newco's offer was about 4p per litre better than Milkco's. You also informed them of Newco's plan for the new refrigerated depot at Overton Farm but did not disclose its condition about requiring more BMDs before starting the project.

Based on your knowledge of production and processing costs in the industry, you calculate Milkco's production profit from supplying bottled milk to Doorco as £30,000 per annum and you estimate that Milkco also makes a distribution margin of £12,000 annually from this contract. Matching Newco's price at anything close to 5p per litre would wipe out their distribution profit and cut into the production profit also.

Of course, if Milkco did decide to match Newco's prices, Milkco could also decide to adopt the 'cage system' to cut back on staffing costs. You felt they were very interested in this when you had lunch with them, and there are very few producers these days giving the level of service they give. If that happened, you could be tied to them for five years, with not much advantage to your own business.

Another meeting to negotiate with Milkco is about to take place.

Source

Negotiate Ltd 1995
Reproduced, with modification, from *Kennedy's Simulations for Negotiation Training*, Gavin Kennedy, Gower, Aldershot, 1996