1003

Ollscoil na hÉireann, Gaillimh

National University of Ireland, Galway

Summer Examinations, 2004/2005

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

MG 309 BUSINESS NEGOTIATIONS

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Time Allowed: Two Hours
Answer Question 1 (obligatory) and One other question
Question 1 is worth 50% of total marks; the other question is worth 25%; year's work is worth 25%

Question 1.

Read the General Brief and Fulcrum's confidential brief in the *Stockout* case.

Answer **all** 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 Fulcrum's BATNA? How well does it meet their interests, in your view?

c) What do you think is Sellwell'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 Fulcrum, paying attention to what Thomas identified as your orientation, your strategic objectives and the kind of negotiating tactics you would employ.

Question 2.

Prepare a short presentation for an inexperienced negotiator which draws on Rackham's (1993) research on the behaviour of more successful and less successful negotiators. You should discuss at least four of the behaviours identified by Rackham which you have found particularly relevant in your study and practice of negotiation.

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.

Stockout

General Brief

1. Recently, Sellwell, a retail chain, suffered a partial stockout of Easiwash, a branded wash-up liquid, much in demand in its shops and part of a key product line. The interruptions to normal supplies were occasioned by a strike at the plant that supplies the plastic containers and caps to Fulcrum, the producers of Easiwash.

2. Unable to supply its full orders to the retail market, Fulcrum initially attempted to ration supplies across the board to all retailers. Sellwell, a retailer, grew suspicious that Fulcrum's rationing was neither fair nor consistent. In fact, some Sellwell local managers complained that while they were often out of stock themselves, rival shops appeared to have Easiwash in stock, and that some of them were even advertising Easiwash in local promotions.

3. Last year, Sellwell bought 170,000 cases of Easiwash (16 x 1 litre bottles per case) and has been experiencing about 3 per cent annual growth in its total purchase of Easiwash and a similar amount of growth in other branded and own label detergent products.

4. The strike lasted 24 weeks from March to August, with supplies returning to normal during the third week of August. After the supplies had returned to normal, Sellwell sought compensation from Fulcrum for loss of sales. Such requests for compensation in these circumstances have not been a feature of the retail trade in the past, but major retailers have recently been vocal in the trade press about the justice of compensation for stockouts and they see compensation as an appropriate means of discouraging failures to supply.

5. In considering the compensation issue, Fulcrum must bear in mind what precedents, with Sellwell and other retailers, this could imply, now and in the future. Would a compensation arrangement drain profitability away to no good purpose if Fulcrum concedes compensation for stockouts, many of which it has no control over? Is there some other way, for example, exclusive advertising and promotions (and if so, who pays?) or higher incentives and discounts (and if so how much and for how long?) of maintaining Fulcrum's relationship with Sellwell that does not involve it in any direct acknowledgement of compensation, yet might assist Fulcrum to boost sales of Easiwash now that supplies are assured again? Does this present Fulcrum with an opportunity to boost its sales with Sellwell?

Fulcrum's confidential brief

1. The strike at your container supplier's plant concerned an internal grading dispute in their manufacturing plant. Your supplier claimed it was outside its control and there was nothing it could do about it. While this strike hit your supplies of containers to your Easiwash lines, you managed to maintain some supplies by expanding orders to your other suppliers of containers. However, this was constrained by the inability of these other suppliers to expand their output significantly because they were already working close to capacity.

2. The resulting inability to supply all the demands of your retail customers was unfortunate, as was your inability to cancel all the marketing campaigns in support of Easiwash in the national and local media. To have dropped all of your advertisements, many already committed and liable to penalty charges for cancellation, would have risked the future of Easiwash in what is a highly competitive business. Most retail shops had some stock of Easiwash most of the time and nobody would have been happier to have met all the demand generated by the marketing campaigns than your brand managers.

3. Last year's figures for Easiwash showed an average sale by Sellwell of 3,269 cases per week, or nearly 170,000 for the year. Up to the end of the strike, due to the partial non-availability of Easiwash during weeks 10 to 34, you delivered 70,346 cases. This was equivalent to an overall average of 2,069 per week (or 1,569 cases on average during the strike weeks). On the basis of last year's figures you would have expected to supply Sellwell with 111,153 cases in the first 34 weeks, or as much as 114,487 cases if growth in sales had continued at 3 per cent per annum.

4. Sellwell sells Easiwash at 99c per bottle (€15.84 a case, excluding tax) and you sell it to them at 79c per bottle (£12.64 a case, excluding tax). This provides them with a 25 per cent gross margin (€3.20 per case, or 20c a bottle). You have not agreed with the principle of compensation. However, your estimate of their loss of profit, calculated on their actual sales to week 34, compared with last year's expectations is:
   a) if growth 3 per cent:

      114,487 – 70,346 = 44,141 x €3.20 = €141,251

   b) if no growth

      111,146 – 70,346 = 40,800 x €3.20 = €130,560

5. Although the strike lasted 24 weeks, it took you some time to return to normal. Some of the smaller retail chains were worse off than Sellwell, while many independents received no supplies at all.

6. Fulcrum's Sales Director is about to meet with Sellwell's Chief Purchasing Executive (Household products) to attempt to resolve the outstanding issues between them.

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