



Negotiation—Porto

Due to competitive pressures, firms in the computer industry are constantly looking to reduce costs. Computer manufacturers compete fiercely for contracts based on meeting the technology, quality, and price requirements of customers. Profit margins and return-on-investment targets are almost always under pressure. Dell Computer recently saw its operating margins slip to a slim 7%.

Most computer manufacturers have programs designed to improve quality and reduce the costs associated with their products. One strategy that many producers use is to contract only with high-quality suppliers and develop longer-term buyer-seller relationships. One major computer company, Porto, also initiated a program requesting suppliers to continually improve productivity, which should lead to cost reductions.

The objective of the program was to reduce purchase costs over the foreseeable future. Porto also expects its suppliers to contribute cost-saving ideas whenever possible.

The high-technology industry features high fixed costs due to large investments in plant and equipment. These companies also commit large expenditures to research and development.

Porto currently has a requirement for an electronic component termed “New Prod,” which is part of a recently designed product. The estimated volume requirement of New Prod is 200,000 units with additional follow-on orders likely. For the New Prod component, Porto felt there were five to eight highly competitive suppliers capable of producing the item. These suppliers are located primarily along the East and West Coasts of the United States. After a request for quote and preliminary analysis, the buyer for Porto decided to pursue further discussions with Technotronics.

Negotiation Session Requirements

Each negotiator must plan and prepare before conducting the negotiation. The group leader has information packets for the buyer and the seller that provide additional information and assignments required for conducting the negotiation. Buyers and sellers can share as little or as much of the information with each other as they desire during the actual negotiation.

Your negotiation strategy should be developed prior to the negotiation session. If working in groups, all group members should participate in the research planning as well as the actual negotiation. Remember, price is not the only variable subject to negotiation. In highly volatile industries like the computer industry, for example, capacity guarantees from suppliers are often critical. Be creative when crafting your purchase agreement.