

AMD Construction Company: Negotiating the Old-Fashioned Way¹

In June, AMD Construction Company was awarded a \$120 million contract for building a section of I-65 near Birmingham. The contract called for clearing, tunneling, paving, bridge building, blasting, and landscaping 85 miles of roadway, two lanes in each direction. The contract also required a 10 percent DBE (disadvantaged business enterprise) goal.

Over a period of six months prior to the bid opening, Jane Axle, salesperson for Allen Manufacturing Company, had been calling on AMD to sell it the CAT-1 horizontal boring machine. Ms. Axle joined Allen about eight months ago. She had been the sales manager at a well-known fashion house in New York for the past 10 years. Although AMD had used the older labor-intensive models of horizontal boring machines, the company had no experience with the newer, fully automated boring machines. In September, Jane convinced Tom Reed, president of AMD, to witness a demonstration of the CAT-1. Because Mr. Reed's time was limited, the demonstration's sole purpose was to acquaint him with the general operating procedures for the boring machine.

Prior to the initial sales interview, Jane had searched the Internet to familiarize herself with the highway market. In her research, she compared Allen's equipment prices with other distributors in the industry. If successful, this would be her first sale in the highway market. In addition, she had familiarized herself thoroughly with the industry jargon.

The following interview occurred the day after the product demonstration. Jane had learned on the same morning that the contract in question had been awarded to AMD.

Jane: Good morning, Mr. Reed.

Reed: Good morning, Jane.

Jane: I understand you have received the I-65 contract.

Reed: That's right. All we have to do now is finish it under budget.

Jane: This appears to be the biggest project since 9-11.

Reed: Yes. However, we did have a similar project three years ago in Montgomery. We had major design problems on that job, and we missed our estimate by \$344,000.

Jane: Doesn't the state pay for any errors or mistakes they make in their design work?

Reed: Yes, they pay for their mistakes. However, that mistake was ours and we didn't get paid for it! You know, Jane, the highway business is unforgiving and you make a large enough mistake on one job, you will go belly up.

Jane: That's exactly why I'm here this morning, Mr. Reed, and that is why I gave you the demonstration yesterday. I am here to show you how to make money by saving on construction costs right down the line. We realize that you have been in business many years and have the

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