

CASE # 1b:**Driving Price Down****Commodity Type: Service – Trucking, Australia**

Last year, you entered a multi-year contract with Bulk Transport, Inc. (BTI) for the delivery of retail goods every day of the year from warehouses to a network of retail outlets in the greater Sydney area. The contract stipulates that prices will be negotiated in February every year to reflect changes in market conditions over the past year.

The current contract is A\$ 1,215 per truck for ten (10) 18-wheeler trucks per day. This includes a driver who works from 9am to 5pm. Each driver works 220 days per year. The contract is now coming up for its annual review.

BTI's performance during the first year of the contract has been excellent including a perfect safety record. Your demand next year is for 13 trucks. BTI proposes to increase the daily fee by 5.4% to A\$1,281 per truck.

The proposed fee includes an increase in fuel cost which they have based on a current price of A\$ 1.74/litre. They additionally cited the rising cost of drivers as reason for the increase but pledged to offset as much of the cost as possible. Below is a comparison of the breakdowns provided by BTI.

Cost Breakdown for Trucking Services

	A\$ / day / truck	
	<u>Current</u>	<u>Proposed</u>
Labour		
Drivers Wages	440	480
Benefits	44	48
Subtotal Labor	A\$ 484	A\$ 528
Overhead		
Fuel	110	140
Repairs	100	95
Tires	40	40
Depreciation	85	85
Misc. Licenses, Fees, Etc.	40	37
Insurance	40	36
Subtotal Overhead	A\$ 415	A \$ 433
General, Selling & Administration	A\$ 195	A\$ 195
Profit	A\$ 121	A\$ 125
Daily Fee	A\$ 1,215	A\$ 1,281
# of Trucks	10	13
Annual Contract	A\$ 4,434,750	A\$ 6,078,345

Case # 1b: Driving Price Down

Team Activity: Step - 1: Develop a list of the key issues you would bring up in your next meeting with this supplier (e.g., Do you need to have the same selling expenses for the next period?)

	ISSUES RAISED
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	

Team Activity: Step - 2: Nominate 2 members in your group to prepare for a short negotiation with the “supplier” (represented by 2 members from another group). Observe the simulated negotiations and note your comments regarding the performance of the “customer” players. List what they did well and what you would do differently.

	POSITIVE OBSERVATIONS	SUGGESTIONS FOR IMPROVEMENT
1.		
2.		
3.		
4.		
5.		