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

The current contract is $1,176 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 for next year is for 13 trucks. BTI proposes to increase the daily fee to $1,200 per truck.

The proposed fee includes an increase in fuel cost which is based on an average price of $5.467/gallon. Below is a comparison of the breakdowns provided by BTI.

**Cost Breakdown for Trucking Services**

| | USD / day / truck | |
| --- | --- | --- |
| | Current | Proposed |
| **Labor** | | |
| Drivers Wages | 460 | 515 |
| Benefits | 95 | 115 |
| *Subtotal Labor* | **$ 555** | **$ 630** |
| | | |
| **Overhead** | | |
| Fuel | 81 | 126 |
| Repairs | 65 | 65 |
| Tires | 36 | 36 |
| Depreciation | 57 | 57 |
| Misc. Licenses, Fees, Etc. | 30 | 31 |
| Insurance | 34 | 30 |
| *Subtotal Overhead* | **$ 303** | **$ 345** |
| | | |
| **General, Selling & Administration** | **$ 198** | **$ 132** |
| | | |
| **Profit** | **$ 120** | **$ 93** |
| | | |
| **Daily Fee** | **$ 1,176** | **$ 1,200** |
| | | |
| **# of Trucks** | 10 | 13 |
| | | |
| **Annual Contract** | **$ 4,292,400** | **$ 5,694,000** |

**Case # 1c: 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. | | |
| | | |