

Mudge Paper Company

Lauren Becall is the top salesperson for Mudge Paper Company. She also leads the sales team that supports Mudge's largest client, Bart's Office Supplies. Bart's is an international office supply chain that is growing rapidly. During the month of May, Lauren and her team members, Andy Griffith and Ronnie Howard, underwent intense negotiations with Bart's purchasing agent, Jack Black and Bart's CEO, Cary Grant, to restructure the current sales contracts.

The new contract spelled out Bart's yearly paper requirements (contracted sales amounts) as well as payment and credit terms. The negotiations had been particularly hard for several reasons:

1. Bart's sales had increased internationally causing shipping and custom duties to increase the cost to Mudge, resulting in an increase in sales price to Bart's.
2. The volume of sales directed to Bart's required Mudge to offer a volume sales discount to remain competitive with other paper companies.
3. Bart's wanted a longer time to pay on the purchases. Bart's wanted 60 days to pay on orders invoiced rather than the current 30 days.
4. Bart's also wanted Mudge to extend its current credit line from \$850,000 to \$1,250,000.
5. Mudge's CEO (Jimmy Cricket) was reluctant to tie so much of the company's cash flow to the success of Bart's. The concern was raised because in the last six months, Bart's was paying down the credit line every 60 days rather than in the 30 days that had been agreed to in the current contract. Bart's did not appear to have credit issues, but Mudge was not able to give interest free loans for 60 days.

This week, in time for the Memorial Day holiday vacation, the final agreement was reached between Mudge and Bart's. Bart's would contract to purchase \$1,750,000 of paper products from Mudge. Invoice payment terms were 45 days, with a 3% interest on invoices paid later than 45 days. The credit limit was extended to \$1,000,000. Lauren Becall was not completely happy with the contract, as she felt Mudge was not protected from cash flow damage should Bart's not pay on time, not to mention the larger line of credit. Still, the parties agreed, including her boss who was skeptical for the same reason as Lauren. The parties were due to sign the contract on Tuesday after the Memorial Day holiday.

On Friday evening, Lauren was packing her belongings readying to leave the office for the Memorial Day holiday, when her cell phone pinged. The caller was Jack Black, the Purchasing Agent for Bart's. It appeared that a recent deal on Bart's end with UMGC tripled its need for copy paper from Mudge. This deal would raise the total contract sales to \$2.5 million. Jack Black made it clear that he wanted to change the credit limit from \$1 million to \$1.5 million and to extend the payment terms from 45 days to 50 days. Bart's would not pay interest on late invoices until after 60 days. Black also made it clear to Lauren that if the new terms were not agreed on by the end of that Friday evening, he would be prepared to look at an offer supplied to him by Bart's biggest competitor, King Paper. Black further stated that, while Bart's is pleased with Mudge's work, money is always the most important factor in purchasing. Bart's president wanted an immediate answer so he could go on vacation with a clear mind. Lauren was aware that most of Jack's talk was a negotiating technique but did not doubt that there is

competition waiting in the background. Images of last month's teamwork ran through Lauren's mind as she listened to Black talk.

Lauren winced at the memory of her teammate Griffith's constant posturing in front of Black and the Bart's CEO. She had hoped to be able to pick her own team when she was promoted to leader but that was not to be. Andy Griffith is a problem on this team. All month long, he had challenged her ideas in front of Bart's CEO. Lauren knows that she was promoted over Griffith because her sales record was 20% higher than his was and she could close a deal better than he could. Griffith resents her promotion and reminds Lauren, as often as possible, that he brought in the Bart's account and that he and Bart's CEO have a great relationship. They play golf together and often go to dinner together with their wives. Lauren thinks Griffith is a good salesperson but believes he should not be on this team. The tension is at times very thick especially during the negotiations this month. Griffith seemed to want to give away the store.

Unfortunately, Ronnie Howard seemed to be sitting on the fence when it came to the negotiations. Lauren had expected that Ronnie would support her negotiation position with the client rather than Griffith's because it protected Mudge. Since Ronnie was the niece of Mudge's owner and CEO, Lauren believed she should be supportive of protecting the company's money. Still, Ronnie was the one who came up with the idea of paying interest on the late invoices. It just seemed to Lauren that one day Ronnie was agreeing with Griffith and on another day with her. Lauren supposed that it was Ronnie's new position at the company that made her want to please everyone, including Griffith. Lauren believed that pleasing people is a nice gesture but does not add to the efficiency of the team's decision-making. Lauren believed that Ronnie would be looking for the general thoughts of the group, so she could appear to agree with the group.

Overall, the month's negotiation process had been long and difficult. The thought of going over it all again to make the changes seemed mind-numbing to Lauren. Yet, making the decision on her own would mean obligating the company to an even greater cash flow commitment. Her boss would not be happy with this obligation because he specifically warned her when they started that there was nothing to prevent Bart's from continuing to pay its bills every 60 days despite the new contract agreement. Lauren rationalized and thought to herself, "Bart's knows we are not likely to cut them off easily. They are too big a customer to us. However, the extra sales volume should offset the lost interest due for ten days on late invoices."

Lauren told Black that he could tell the CEO that she would agree to the terms. When Lauren hung up the phone, she said aloud to nobody in particular, "I supposed I should have consulted the group, but it was worth the risk of not having to make another team decision."