

The Partnering Proposal

Bill Jones, president and founder of Lyfann, Inc., a printed circuit board manufacturer on the East Coast, received a partnering proposal from the purchasing department of the Southwest Division of Marko Electronics.

Casey Williams, purchasing manager of the Southwest Division of Marko Electronics, had telephoned Bill Jones to discuss the proposal. Casey said, "Bill, we are changing a lot of things here at the Southwest Division. As you know, our division manager has a strong purchasing background and wants us to become more strategic. We have identified Lyfann as one of our key suppliers with whom we would like to initiate a partnership. Please think it over. We would like to sit down with you three weeks from now to discuss what makes sense for both of us."

Lyfann competed on the basis of high quality, quick delivery, and attractive prices and experienced an annual growth rate of about 20 percent. Current sales amounted to about \$40 million, of which the Southwest Division of Marko Electronics amounted to about \$7 million and other divisions of Marko Electronics accounted for about \$6 million.

Bill Jones and his staff were unfamiliar with the idea of partnering and were not sure how to respond. The Southwest Division wanted to source all its printed circuit board requirements for the next five years with Lyfann, an estimated five-year volume exceeding \$90 million. Lyfann had supplied the Southwest Division with printed circuit boards for the last seven years and Southwest had been the first western customer of Lyfann.

Bill Jones knew he would have to build a new plant to meet the kind of increase in volume that the Southwest Division requested. Moreover, he was concerned that supplying all of the Southwest Division's requirements would mean getting into a lot of small-run and unique board requirements. Lyfann was currently set up to handle medium to large runs. Bill also wondered whether he might lose any of his existing or future business with the Southwest Division or any of the other Marko Electronics divisions if he refused the offer.

On the other hand, if he accepted the offer, what kinds of risks would he incur? What kind of contract might he request and what would be the partnering implications for his company?

Source: Leenders, Michiel R. and Harold E. Fearon (1997) "Purchasing and Supply Management" (11th edition), Irwin Publishing, Boston, MA.

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Teaching Note

Immediate Issue

How can Bill Jones respond to the partnering proposal?

Basic Issues

Partnering with suppliers.
Difference between partnerships and long term contracts.
The suppliers' perspective on partnerships.
The implications of refusing a proposal to partner.

Suggested Student Assignment

As Bill Jones, how would you feel about the partnering proposal from Southwest Division?
What kind of partnering agreement would you like to see if you decided to accept?
How would you reply if you decided to refuse?
Any other comments?

Possible Discussion Questions

How does it feel to look at this from a suppliers' perspective?
Why might Southwest Division want to partner with Lyfann?
Why might Southwest Division want to approach Lyfann without involving corporate purchasing at Marko Electronics?
What are the risks for Lyfann?
What are the risks for Southwest Division?
If you were Bill Jones, what would you do for the next three weeks to get ready for your meeting with Casey Williams?
What happens to suppliers who refuse partnering proposals?

ANALYSIS

Let's push some numbers first. Lyfann's current sales run about \$40 million/yr. With growth rate of 20% per year, forecasted sales for the next five years for Lyfann would be (in millions of US dollars): \$48, \$57, \$69, \$83 and \$99 for 1, 2, 3, 4, and 5 years out, respectively.

Now Southwest Division has \$7 million of purchases per year or about 17.5% of Lyfann's total volume and other Marko divisions at \$6 million account for another 15% for a total of about 1/3 of Lyfann's total current sales.

If Southwest Division's forecasted sales were evenly distributed over the next five years at \$18 million per year, this would result in next year's sales exceeding about \$57 million if all other business continues to grow as normal. Eventually, at \$99 million annual sales the Southwest Division would be close to the current 17% after having a peak of about 32% next year.

Of course, such an even volume would be most unusual, and Bill Jones should have a much better handle on what volumes are really forecast annually and for what kinds of boards, before committing himself to any long term contract, partnership or not.

There are lots of interesting dimensions to this proposal that give rise to questions and the need for additional information.

The most disagreeable part of the proposal on the basis of the information provided may well be the short order business. Why would the southwest Division want to include this as part of the contract when it must know that this is not Lyfann's core business strength? Is it simply an attempt by a lazy buyer to get rid of a nuisance-buying problem by combining some undesirable business with some attractive volume? Or is there something else afoot?

Lyfann is located a long distance from Southwest Division. A cross-country partnership is hard on the personal communications side. Is Southwest trying to get Lyfann to build a new plant close to them?

Why would Southwest bypass corporate purchasing at Marko Electronics and want to make a deal direct with Lyfann?

If Southwest has been satisfied with Lyfann so far - and if they had not been, this action would not make any sense at all - why would they want to change to a partnership from the current arrangement?

Southwest has not at all spelled out the nature of its partnering concept and Bill Jones has no familiarity with it. How should he proceed?

No information is given in the case about Bill Jones, or Lyfann to be able to determine whether the proposal makes any sense at all this time. That is not the focus of the case.

This case tries to put the student in the recipient role. Most purchasers believe they carry a rare gift to a supplier when they propose a partnership. They are often surprised by the cautious reaction from the supplier's side. As some purchasing executive in California put it, "When we talk partnership these days, suppliers cover their pockets"

Clearly, the proposal is a feather in the cap for Bill Jones in that Southwest Division is satisfied with his progress as a supplier over the past seven years and is confident enough of his future potential to make him a single source. Whether that is in Lyfann's or Bill Jones' best interest cannot be established from the few case facts supplied.

Analysis (continued)

Aside from the 5 issues already raised, additional issues may be:

- The potential exclusion of Southwest Division competitors as clients for Lyfann.
- The availability of capital to finance the expansion.
- The need for a plant distant from current operations.
- The availability of management expertise to rush expansion.
- Bill Jones' motivation to grow beyond 20 percent per year.

The question of refusal is a particularly interesting one. If Bill Jones refuses partnership, can he still propose continuing the relationship as is? Or, will Southwest Division seek another single source? Will other Marko business be affected positively or negatively by a refusal to partner?

That Southwest has not yet spelled out the details of partnering gives Bill Jones a chance to determine what he wants to see in a partnership himself. For example, he might want to refuse the small order business. He may put limits on growth. He may ask for volume guarantees or financial backing. He may ask for a certain communication frequency and pattern between himself and Southwest.

CONCLUSION

Bill Jones first hired an outside expert to help him and his team understand what a partnership might entail. Then he and Ws team decided that building another plant near Southwest was out of the question, given Bill's personal style of managing by wandering around - MBWA as Tom Peters calls it. They also had very serious misgivings about small orders. Finally, they were worried about Southwest's senior management, given Marko's propensity to move senior managers around. Given that Southwest's current divisional manager was the instigator behind this idea, would this be canceled if another took over?

The perspective from Southwest had some interesting twists. Southwest had been losing money for years, but had finally latched onto a hot new product with great sales potential. Southwest recognized Lyfann's superiority and was worried that other Marko Electronics divisions might tie up Lyfann before them. That was also why they wanted to avoid going through corporate purchasing at Marko headquarters. For Southwest also this was their first attempt at partnering.

The end result of their negotiation was that Lyfann agreed to build another plant near their current facilities to handle the increased demand. They also set up a small volume shop within Southwest premises run by Lyfann to handle only small orders with quick turnaround time and an opportunity to talk directly to designers, manufacturing, engineers, etc. And, as it turned out Southwest's forecasts were terrible. They underestimated demand by almost 100%!