

Astroware negotiation, logrolling, contingency and ethics

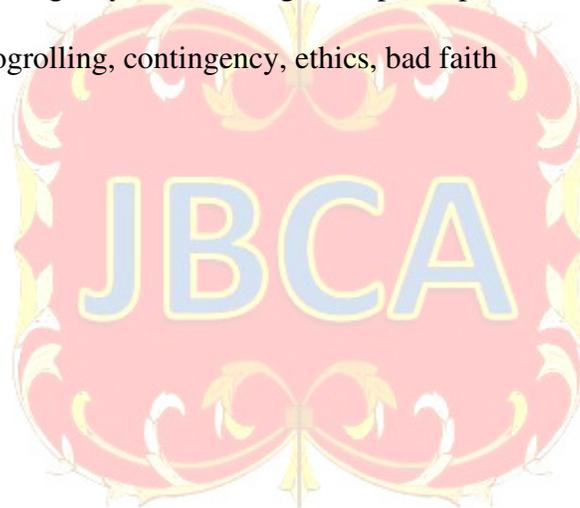
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ABSTRACT

This negotiation simulation focuses on the dynamics between Astroware, a seasoned housewares company, and Package-You, a startup package design firm. The learning outcomes emphasize understanding logrolling, differentiating distributive and integrative negotiations, and recognizing the importance of evaluating and potentially walking away from seemingly advantageous deals. The exercise involves negotiating the price per job and the total number of designs, with a critical contingency that challenges the participants' decision-making.

Keywords: negotiation, logrolling, contingency, ethics, bad faith



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LEARNING OUTCOMES

The learning goal is to understand the concept of logrolling, the difference between distributive and integrative negotiations and contingency, but more importantly, that there are some seemingly sweet deals that must be abandoned and that it is perfectly ok to walk away from bad contingencies. In fact, the optimal outcome of the negotiation, is that no agreement will be reached.

INTRODUCTION

Conflicts often arise with a start-up enterprise and its first clients. This is a dyad-based negotiation that debriefs simply. Number of designs and price per job is what is being negotiated; however, a contingency belies the negotiation. There should be NO AGREEMENT in this exercise unless (1) Astroware's representative lies about the mandatory supplier contribution to her boss; or (2) Astroware's representative lies to the Package-You representative; or (3) the Package-You representative misunderstands the size of its mandatory supplier contribution.

INSTRUCTIONS

Before handing out each side's confidential instructions, explain to the class that they shouldn't share them with their counterparts before, during or after the negotiation. Pre-brief should be about 20 minutes, followed by a 20-30-minute negotiation. The negotiation is over when a signed agreement is submitted by each dyad. One side of the dyad is Blaine Young and represents Package-You, the other side of the dyad is Hayden Torrent and represents Astroware.

CONFIDENTIAL INSTRUCTIONS FOR BLAINE YOUNG

Overview

The negotiation is between the purchasing agent of a well-known housewares business, Astroware, and the co-founder of an entrepreneurial package design firm, Package-You.

Astroware is a 50-year-old, midmarket-priced, quality housewares products company located in Bronklyn City. Astroware enjoys a great reputation in the housewares retail industry: quality made goods and reasonable prices.

However, recent feedback from customers – especially feedback coming from the Chicago Housewares Show this past week – is that Astroware's packaging, specifically its food photography and graphic design on its pots and pans lines, has been declining in quality and actually been becoming boring. "It no longer jumps off the shelves," one customer remarked at the trade show. Also, the packaging of the different lines of pots and pans, e.g., the "Classic" line, the "Millennium" line, etc., don't look like they come from the same company. There is no consistency of format within the lines, probably the result of too many different design groups working on a per package basis. Sales have been largely reported to be flat, lately; perhaps design flaws have been at the root of the cause.

However, one ray of sunshine from the same show-feedback was that the design and photography of the "Classic" line 10 qt. saucepan was particularly fresh, and well done. The

photography was crisp and the staging particularly sexy with its frying peppers, and the design work, including the new logo for the “Classic Series” line, was exceptional. This was the work of a brand-new vendor, Package-You, from the Philadelphia area.

Package-You is a start-up package design company located in the suburbs of Philadelphia. Though its portfolio has a number of very high-quality designs, including professionally food-styled photography, most of their clients at this stage are small mom-and-pop or gourmet food product companies. However, recently Package-You has made two prominent sales: one to Astroware, the other to a less well-known candy company, Choco Co. in Philadelphia.

Negotiation

You are Blaine Young, a second year purchasing agent at Astroware. You will negotiate with Hayden Torrent, co-founder of Package-You. The negotiation is about a price per job and a total number of designs contracted between your companies pursuant to the following upper management rules.

Upper Management Rules

- Astroware’s present graphic design suppliers, the ones whose designs are losing favor at the tradeshow, charge \$7000 per design job. That includes food photography, styling, graphics, everything.
- Upper management has put pressure to update as many line designs as possible before the next housewares show in 6 months, preferably with ONE design firm. Your budget is set at no more than \$7000 total per design which includes food photography, styling, and graphics. The stated goal is to purchase 12 designs in 6 months with an additional 12 jobs possible in the following 6 months.
- Astroware has just purchased the positive-feedback-winning package design from Package-You for \$5000.
- A second design firm, Drinker & Hedges, has been working with Astroware for years at \$7,000 per job and has offered to cut its rate to \$6,000 per design if they can secure a 12-design deal. While their designs are in the mix of those remarked as boring, the rep, Bob Grassmeter, has been working with you for all two of your years at Astroware and is extremely receptive to your design input. Also, his cousin is on “the board” and has some considerable sway with upper management.
- On another note, in addition to design directives, upper management via “the board” have made a new deal with the mayor’s office of Bronklyn called the “Green the Bronklyn Initiative”. Astroware has agreed to donate to the initiative by way of its suppliers to keep rent controlled for the plant and offices. It has been decided, in order to remain on the current supplier list, all suppliers must contribute to the new “Green the Bronklyn initiative” directly at \$5000 per supplier. This new initiative will save Astroware and its shareholders millions of dollars; it is, therefore, non-negotiable.

CONFIDENTIAL INSTRUCTIONS FOR HAYDEN TORRENT

Overview

The negotiation is between the purchasing agent of a well-known housewares business, Astroware, and the co-founder of an entrepreneurial package design firm, Package-You.

Package-You is a start-up package design company located in the suburbs of Philadelphia. Though its portfolio has a number of very high-quality designs, including professionally food-styled photography, most of your clients at this stage are small, mom-and-pop or gourmet food product companies, which tend to be either small-job or feast-or-famine clients. However, recently Package-You has made two enormous sales, comparatively, one to a major housewares manufacturing company, Astroware for their 10 qt saucepan, the other, a chocolate bunny package to a candy manufacturer in Philadelphia, Choco Co.

Astroware is a 50-year-old, midmarket-priced, quality housewares products company located in Bronklyn City. Astroware enjoys great name-recognition as well as a great reputation in the housewares retail industry: quality made goods and reasonable prices.

Astroware's packaging, specifically its food photography and graphic design on its pots and pans lines, has been declining in quality and been becoming boring. "It no longer jumps off the shelves," one could say. Also, the packaging of its different lines of pots and pans, e.g., their "Classic" line, their "Millennium" line, etc., don't look like they come from the same company. There is no consistency of format within the lines, probably the result of too many different design groups working on a per package basis.

Negotiation

You are Hayden Torrent, co-founder of Package-You. You will negotiate with Blaine Young, a second year purchasing agent at Astroware. The negotiation is about a price per job and a total number of designs contracted between your companies pursuant to the following rules.

Rules

- Astroware has been willing to pay you \$5000 per job so far. Choco Co has only paid \$3000 per job.
- Astroware has 36 SKUs of which at least 12 need updates right away.
- Package-You is a small, young company with limited resources: only one full-time designer and two art directors, and a tight network of four local freelance designers who are always willing to provide designs and photography at a reasonable price, but at a 20% higher cost than using your in-house, full-time designer. 12 updates would FULLY UTILIZE the Package-You network to capacity. Capacity is always at issue. Realistically, Package-You can only take on two jobs per month.
- Although locking into a multi-job, multi-month contract with Astroware at capacity sounds (at first) exciting, it would mean that you couldn't also take on any more Choco Co designs. Keeping some diversity in your portfolio seems prudent. You would prefer to keep at least a few Choco Co designs in the annual portfolio as well as some new business to round out your repertoire.

- Also, \$5000 per design is extremely low-margin work. You discounted your normal 35% margin that you charged Choco Co and others to only 20% for Astroware's work because of their great name recognition and the concomitant "bragging" rights. In actual dollars, this means 12 designs of Astroware designs would earn you only \$5,000 total net profit, whereas 12 designs of Choco Co would net at least \$6500.
- You would like to gradually increase your Astroware margin to be paid \$7000 per design at a minimum.

CONTRACT

Price per Design	
Number of Designs	
Hayden Torrent (Package-You)	
Blaine Young (Astroware)	

TEACHING NOTES

Debriefing

After the negotiation, begin a debrief with a question about why they came to an agreement and whether they are happy. Individual negotiation strategies and tactics can then be discussed. Concepts like bargaining-range, aspiration-level, reservation-price, ZOPA, BATNA, winner's curse, risk of first offer and dance of concessions can be discussed. Persuasion in negotiation should be discussed briefly here. Psychological anchors, perhaps.

Teachers can ask students

- How they think they did. And after some discussion:
- Why did people do better/worse in this negotiation?
- What drove the final settlement?
- What would you do differently?
- One focus could be on some of the ambiguity in the situation – as an entrepreneur (this is an early sale), you really aren't sure how long it is going to take to design the packages, and any guess on time is just that – a guess - a learning objective that, although not unique to an entrepreneurial context, is critical for any entrepreneurial course.