Negotiation

You as J Franklin have decided to visit Margerine SA with the sales manager D Grayson. This company is one of the largest potential clients in France for the new motorised valve. You were reviewing with D Grayson the information that was available on the company and its senior buyer, R Noyons, who you are to meet.

You are also interested in whether the company would be a potential client for the new 'smart' valve. Two companies in Northern France are already testing the new products for Burke. Now that the dispute between the separate departments has been resolved by a re-organisation of the company, it is likely that full scale introduction of the range can commence in 3 or 4 months.

The continuing drive into the highly sophisticated end of the market was creating strains within the organisation as the company had originally been organised to service a single customer type requiring standard traditional engineering. Recently, Burke had been serving an increasingly sophisticated clientele as well as the old customer base. The division of the company along customer lines, with the formation of a high technology service department, is seen by you as a logical step to provide the support that the new customers require. The creation of such a new structure had been further supported by the interest that the US and Pacific Rim markets had continued to show in the 'smart' valve.

With the promotion of J Porter to the board of directors, the creation of a sales subsidiary to service those markets was also becoming necessary. With the separation of the company into customer based divisions, there was a need to re-organise the existing sales and marketing department, and their staff into standard engineering and high technology divisions. D Grayson seems an ideal candidate for the high technology division, as the appraisal in Appendix B indicates.

Margerine SA

Margerine Industrie is one of the largest manufacturers of additives and flavours for the European food industry. Additives and fats were complex chemical products and required sophisticated control systems, including valves, throughout the large manufacturing areas. Margerine SA turnover had steadily grown over the years and it now employed over 5,000 staff on three sites. Turnover was now approximately €250 million and profitability in the last year had reached €18 million pre tax. Both sales and profitability were on a growth trend.

In its core market, the company was well protected by the structure of French industry, which encouraged the major home market manufacturers to buy from French suppliers. With the steady removal of barriers due to the unified European market, the company was facing increased competition from other European companies, especially Dutch and German. It was predicted that the erosion of market share would tend to be slower than most forecasts anticipated. During the past 3 years, the company had moved from high volume but low profit fats and animal feeds, into an increasingly sophisticated area of manufacturing flavours, fragrances, and additives, which were much more profitable than the traditional fats or animal feed additives.

Fragrances now accounted for nearly a quarter of the profit from around 10 per cent of turnover, with additives and flavours accounting for an additional 30 per cent profit from the same percentage of turnover. The company was also becoming more international. It

had established successful sales subsidiaries in Germany and Italy and was starting to develop in the United States. Here, the strengthening of the dollar against the European currencies had meant that the company had suffered losses during the past 2 years. Regardless of this increasing international outlook, the company was still dominated by French speaking engineers with a background in volume rather than specialist manufacture. Many individuals employed by the company were having difficulties with the demands of the new products.

As the company moved away from fats into fragrances and flavours, quality control became more important. Sophisticated products were also made in much smaller quantities, creating further production problems. A contributory factor had been the failure of some of the new, mainly French production control equipment and the effects of the limited maintenance programme. The shortage of skilled manpower meant that Margerine were unlikely to be able to fully meet the demands of the new equipment within the next 18 months.

The company had been spending heavily on the re-organisation and re-equipping of the three factories, to meet the demands of the new strategy, and this appeared to be having a severe impact on the cash flow of the entire group. The best estimates of the investment and the current age of the equipment, had been gained from the study of the companies annual report. Capital spending was now running at €18 million a year, and was likely to remain this high for the next 2 years.

In comparison to other competitive manufacturers, much of the production plant was still very outdated, and the company was obviously under pressure to introduce new plant to improve the effectiveness of the production process. For example, the main competitors in Germany had an average age of plant of only 8 years; Swiss manufacturers 6.8, compared with an average of 11 for Margerine. The current suppliers of equipment were mainly from mainland Europe. It appeared that around 57 per cent of the production control equipment was supplied by two French firms, one of which had caused substantial problems. Other contractors have also been involved two German, one Italian, with one Japanese and one American firm providing some of the more sophisticated equipment.

Burke had provided a variety of valves to the company for comparative test purposes, and had passed this initial quality threshold because of its keen pricing policy. Burke, as a result of the sophisticated manufacturing systems that had been introduced was able to offer these products at slightly below the market average price, even though the company was considerably smaller than the majority of suppliers to Margerine. It had not yet been formally informed of the technical acceptability of its product and this was doubtless one issue that would be used as a bargaining lever by Margerine.

Competitive suppliers of valve products to Margerine SA

ACG. Major German manufacturer of precision valve and control equipment. Has provided specialised high pressure valves for the control of potentially dangerous reactions. It was one of the European manufacturers that was pioneering the development of 'smart' valves for sophisticated manufacturers of small batches of high added value chemicals. It had one of the leading reputations in providing rapid delivery and complete after sales service. The company's products, though excellent in quality, had become very expensive over the past 3 years and were approximately 50 per cent above the market average. It supplied around 10 per cent of Margerines requirements in control equipment. Its annual turnover was in excess of €700 million. ACG was known to have very strict rules about providing

extended credit, though all their price lists were provided in the local currency of the country in which they operated. The sales literature that the company provided was highly technical and was translated into all the major European languages.

Arkansas. This was the subsidiary of a manufacturer of machine tools that specialised in the production of computer controlled manufacturing systems. It had some experience in valve manufacture, but this made up only a small proportion of its total business. Its valve products were extremely expensive being double the market average, and suffered from having poor European installation and servicing arrangements. Margerine had placed an order 6 months ago which still had not been entirely delivered or installed. The result was that the company was unlikely to gain any further orders. As one of the larger industrial groups in the United States, with a turnover over €4 billion, the company would be able to resource improved service and delivery, but appeared at present to have other priorities. The company provided very limited credit and always quoted prices in American dollars. Sales and installation literature was designed for the US market and only a small percentage was translated into the appropriate European language.

Isutsu. Isutsu was one of the new breed of Japanese suppliers of production control equipment, which had been making major inroads into the European market. It was another manufacturer of sophisticated valves, including 'smart' valves. The company was able to meet very tight production schedules and this, combined with the high quality work, had led to their increasing penetration of the European market. Its products were competitively priced at around 20 per cent above the market average, though it suffered from problems in providing fully effective installation and after sales service. However, it had delivered three orders on time and specification to Margerine, and was providing around 20 per cent of its control requirements. Isutsu had initially provided lengthy credit to all its European customers though recently this policy had been significantly tightened. The company always quoted its prices in the local currency. The technical leaflets provided varied enormously in quality. Some were very good while others were extremely poor.

Salice. Salice was French, fairly newly established, and based on a management buy out of a much larger broadly based engineering concern, which had been Margerine's main previous supplier. The new company continued to have problems with delivery dates and meeting quality standards especially in motorised valves. It did not as yet produce 'smart' valves and mainly relied on the sale of traditional valves for the bulk of its turnover. The company priced around 20 per cent below the market average, and had in the past supplied over 65 per cent of Margerine's requirements though this was falling. The company offered the longest credit terms available in Europe at 120 days. The literature that the company had so far produced, though in French, was poorly designed and presented.

Corrente. Corrente, the main French competitor to Burke, was one of the oldest established European valve manufacturers, with a record of supplying French industry that went back over 100 years. It had a sound reputation for producing basic valves of high quality, and was involved in supplying the majority of major French manufacturers. It was a long term Margerine supplier. It offered credit to its long standing customers of around 30 days. The literature that it provided was old and outdated.

R Noyons - the buyer

R Noyons the Margerine buyer, a senior production engineer, was one of the senior members of the company. R was 52, had a degree in process engineering from one of the

leading French universities, and had worked for Margerine Industrie for the last fifteen years after being with Maxilink, the Anglo Dutch group, in their margarine businesses. R had authority to place orders of up to €250,000 for process engineering equipment without referral to the main board. Typically orders for valves were placed in batches of €30,000; once a satisfactory relation had been established, repeat orders would be forthcoming. R was well conversant with all the recent advances in valve design. R had spent a considerable amount of time in the Midlands with Maxilink and had a daughter currently studying social studies at the University of Brent.

R Noyons had studied the literature from Burke Engineering with interest. The Margerine buyer pointed out that it would be difficult to recommend the purchase of equipment which was so expensive. Having considered the Burke price list, Noyons felt that the prices quoted were far too high, and would need to be reduced by at least 30 per cent before they could be seriously considered. Margerine was a major company and would be placing significant orders if Burke could pass the stringent technical requirements.

Burke Engineering product range

The Burke motorised valve came in three basic sizes, though there was substantial variation depending on customer specifications. The three sizes were priced around 10 per cent below the market price delivered and installed. The company could offer delivery within 3 weeks from receipt of order and could arrange for training and other technical support depending on customer requirements. Burke would also be able to provide a full maintenance programme should the customer require it.

Credit had always been allowed to vary according to the volume of business and the ability of the sales representative, and though the very lengthy credit periods that had been offered to governments for submersible contracts were no longer permitted, credit of over 60 days was common.

Burke Engineering leaflets had been produced with simple graphics and detailed illustrations of operating methods and tolerances. They had all been translated into the main European languages.

Action

How do you as J Franklin assess the chances of achieving a sale to Margerine? What do you think are the important factors that are likely to motivate the buyer? What plan do you and the sales representative need to adopt?