

**CASE # 1a:****Coating the Price****Commodity Type: Product – Plastic Parts, USA**

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In January 2022, you entered an indefinite quantity contract for coated plastic housings made to your specification for a cell phone cover. The product is doing well in the market and is expected to have a life of three more years at least. However, customers are applying pressure on Sales to reduce the market price of the finished product by at least 20%. Thus, the pressure is on Procurement to find ways to reduce the cost of raw materials, including the plastic housing

**Specs**

Monthly Requirement:	4 Million Plastic Housing Units
Part Weight:	0.025 lbs.
Plastic Type:	Blend: Polycarbonate/ Acrylonitrile Butadiene Styrene

Now that there is a better estimate of the demand each month, you requested the current supplier (located in Oakland, California) to provide a quote (including supporting cost data) for the next 12 months commencing February 1, 2023 based on a 3-year agreement. The initial cost breakdown and data for the extension is shown below. The sales rep has pointed out that due to increasing material and labor costs, the supplier has proposed a price increase of ~8.7% to \$10.87 per hundred units.

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**Cost Breakdown for Coated Plastic**

	<b>\$ per hundred units</b>	
	<b><u>Current</u></b>	<b><u>Proposed</u></b>
<b>Raw Materials</b>		
Polycarbonate/ABS Blend: 90% Yield	5.47	6.72
<b>Total Material Cost</b>	<b>\$ 5.47</b>	<b>\$ 6.72</b>
<b>Conversion Costs</b>		
Direct Labor at \$29/hr. (proposed labor \$33/hr.)	0.50	0.58
Manufacturing Overhead	0.84	0.84
Engineering	0.98	1.00
Packaging	0.08	0.08
<b>Total Conversion Costs</b>	<b>\$ 2.40</b>	<b>\$ 2.50</b>
<b>General, Selling &amp; Administration</b>		
General and Administrative	0.44	0.33
Selling	0.35	0.35
<b>Total GS&amp;A</b>	<b>\$ 0.79</b>	<b>\$ 0.68</b>
<b>Profit</b>	<b>\$ 1.34</b>	<b>\$ 0.97</b>
<b>Selling Price (Total Material + Conversion + GS&amp;A + Profit)</b>	<b>\$ 10.00</b>	<b>\$ 10.87</b>

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**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.		