

CASE - Company Accepting a Contract

A computer company was negotiating a very large order with a large size corporation. They had a very good track record with this client. In this corporation, five different departments had pooled their requirements and budgets. A committee was formed which had representation from all the departments. The corporation wanted the equipment on a long lease and not outright purchase. Further, they wanted the entire hardware and software from one supplier. This meant that there should be bought – out items from many suppliers since no one supplier could meet all the requirements of supply from its range of products. The corporation provided an exhaustive list of very difficult terms and conditions and pressurized the vendors to accept. The computer company who was finally awarded the contract had agreed to overall terms that were fine as far as their own products were concerned but had also accepted the same terms for the brought – out items. In this case, the bought – out items were to be imported through letter of credit. The percentage of the bought – out items versus their own manufacture was also very high. One of the terms accepted was that the “system” would be accepted over a period of 10 days after all the hardware had been linked up and software loaded. The computer company started facing trouble immediately on supply. There were over 100 computers over a distance connected with one another with software on it. For the acceptance tests, it had been agreed that the computer company would demonstrate as a prerequisite the features they had claimed during technical discussions. Now, as you are aware, if a Hero Honda motorcycle claims 80 km to a litre of petrol, it is under ideal test conditions and if a motorcycle from the showroom were to be tried for this test before being accepted, it would never pass the test. In corporation’s case, due to internal politics, the corporation persons from one department – who insisted on going exactly by the contract – did not sign acceptance since the “system” could not meet the ideal test conditions. Further, in a classic case of, “for want of a horse – shoe, payment for the horse was held up”, the computer company tried to get the system accepted and payment released. The system was so large that at any point of time over a period of 10 days something small or the other always gave problems. But the corporation took the stand that as far as they were concerned the contracts clearly were concerned the contract clearly mentioned that the “system” had to be tested as a whole and not module by module.

Questions:

- Q.1. Comment on the terms and conditions placed by the corporation**
- Q.2. What factors influenced the computer company’s decision to accept the contract?**
- Q.3. Was it a win – win agreement? Discuss?**

SUGGESTED SOLUTION:

Let the corporation be ABC Corporation
Let the computer company be QST Computer Company.

INDIAN INSTITUTE OF BUSINESS MANAGEMENT & STUDIES

Question 1:

Consider the corporation's point of view:

Take a look into a couple T&C individually,

Where ABC wanted the hardware and software ordered from a single supplier, and wanted the equipment on a long lease and not outright purchase

Comment:

The committee formed by ABC didn't want to take the responsibility of the each and every item that was being purchased because in that case they would have had to run behind 100 vendors for the warranty and related problems usually surfacing in a contract of such scale. Also, this would lead to a hassle filled atmosphere in successive months, on part of ABC involving at the very least set-up of a dedicated communications channel/team to listen to grievances of and respond to inter-departmental queries, communicating various unique requirements of ABC departments to all vendors, maintaining their contact details which would run into several pages. Compare this to having a single phone book entry for an individual vendor. In a typical 'system crash' situation encountered once in a couple of months, ABC employees will become overwhelmed by the enormity of a painfully slow process of system recovery to be supervised by a neat co-ordination of service engineers from various suppliers.

Money spent on a system is a primary concern, because of which ABC wanted equipment on lease. Equipment leased out will be serviced properly by QST's staff, since still it will be legally a property of QST. Ergo, the responsibility lies with QST and not ABC technical team which won't have to bother with maintenance issues with regularity.

QUESTION THREE:

No, it wasn't win-win if we take into account the way things turned out.

A lot of efforts need to be taken to simply make things work for both parties. Each company has taken considerable efforts in the whole exercise of implementing the trial period of this contract.

On the computer company's part it will have to try convincing the one department not ready to sign acceptance on the grounds that the system as a whole will still meet requirements of the company, without much deviation from contract and explain alternative situation-a roll back on contract will lead to:

- a) Unbearable losses to QST.
- b) Man hour loss for ABC Corporation, which will have to initiate new tender process, look out for new computer companies, which will never accept a contract as rigid as present one.

EXERCISE FOR STUDENT:

Present a counter view on solution proposed to Question 3.

Propose a solution to question 2.