

# Dealing with a Monopolistic Vendor

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**Abstract.** Procurement teams play a key role in the acquisition of materials for a given project in an infrastructure company. Through regular negotiations and supplier relationship management initiatives, the procurement team strives to get the best possible deal for the company. But this power can shift from the buyer to the seller when dealing with a monopolistic vendor. This case is based on a real-life situation where an Indian company, TechBean Systems Private Limited, had to deal with an uncooperative Italian vendor. The case offers insights into the nuances of dealing with such vendors and suggests how a company may protect itself while ensuring that the project does not get delayed. The issue for the automation company, in dealing with a monopolistic vendor, are deliberated upon to understand the situation better, and practical solutions offered.

**Keywords:** currency fluctuation, procurement strategy, supply chain management, material management, currency risk.

## 1. Introduction

It was August 2019, and Mr. Vikas Gandhi, Director at TechBean Systems Private Limited was glad to win the contract to install Extra Low Voltage Systems (ELVs) at XYZ Ltd. Techbean was based in Pune, India, which provides solutions related to home and building automation systems. His happiness, however, was short-lived as Mr. Gandhi soon realised that this project involved a lot of challenges. The contract required TechBean to procure one of the components named “Structured Cables”, from a company-mandated vendor from Italy named A&R. This product, which comprised 40% of the total value of the contract, had to be procured from the Italian monopolistic foreign vendor, which complicated the timely execution of the project within the budgeted costs

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## 2. XYZ Ltd.

XYZ Ltd. was setting up a plant to manufacture fighter plane assemblies at Indore – a city in the state of Madhya Pradesh, India. The company was approaching vendors to sub-contract different jobs. Under Mechanical Engineering and Plumbing (MEP), the company intended to sub-contract the ELV systems (extra low voltage systems). It had appointed a consultant for MEP, who prepared the tender document, which included the specifications of the work and the Bill of Quantity of each line item. The consultant also specified approved makes/brands for every system/component. While three to four options were given for most of the systems and components, only one make/brand – A&R (an Italian brand) – was specified for one of the systems named, “Structured Cables”. XYZ floated a tender. The first round was a technical specification round. Qualifying vendors were eligible for price comparison. The lowest bidder was assigned the project.

## 3. TechBean Systems Private Limited

TechBean was an expert provider of solutions related to Home and Building Automation Systems and offered solutions connected with Building Management Systems, CCTV Cameras, Fire Alarm Systems, Parking Management Systems, Lighting, Access Control Systems, and Automated Boom Barriers. TechBean approached XYZ Ltd. and expressed interest in bidding for the ELV systems.

**Background of the context:** Usually, when a company decides to construct a new manufacturing plant, the various jobs are divided and sub-contracted out to different vendors, for example, Mechanical Engineering and Plumbing (MEP), Civil, Heating, Ventilation and Air conditioning (HVAC), Parking Management Systems, Building Automation, and other systems. The company normally hires consultant/s, who guide the company on the specifications of each of these systems and help in preparing the bill of materials. For critical systems, they very often specify one or a couple of make(s)/brand(s) for the material/component. Once the technical specifications are agreed upon, appropriate vendors are contacted. The vendors then bid for the contract. If the technical specifications are met by all the bidders, then the price is compared, and the order is given to the lowest bidder.

## 4. The Challenges Faced by TechBean

X&Y was planning to expand its business, by putting up plants in various other locations in India. TechBean was interested in building a long-term relationship with this company with the expectation of getting future business. But this

journey would not be straightforward as this project involved the purchase of “Structured Cables”, which comprised 40% of the total cost of the ELV project from a foreign vendor on three months’ advance payment. The project cost could overshoot the budgeted figures making the project unprofitable for a combination of reasons e.g., if the project got delayed, or the rupee depreciated at the time of releasing the purchase order, or the foreign vendor did not supply the material on time and any other such reasons. These factors would have a significant impact on the profitability of the contract and hence meant that the project had to be planned well, after anticipating all the possible costs and likely profitability under uncertainty.

Apart from TechBean, five other companies bid for the ELV system tender. All the bidders had to necessarily approach A&R for procuring the “Structured Cables”. A&R was one of the most reputed brands in its category. The company did not have any presence in India, though they had supplied material to one select client in India. TechBean’s team contacted A&R for the requirement. A&R shared that they had a big pipeline of orders to fulfill and would require 3 months to deliver the product post receipt of the purchase order. They were not keen on any price negotiation as they knew that their brand had been specified as the only brand for the product in the tender document. The price that they quoted was substantially higher than local brands.

TechBean undertook detailed cost planning and budgeting to ascertain the price at which to bid, ensuring that all possible costs related to the project were included considering an optimistic and pessimistic situation. The margins for the optimistic scenario were 17 percent and the margins for the pessimistic scenario were 10 percent. The bid price, as calculated by TechBean turned out to be higher, as compared to the competitors based on market information. However, TechBean took a forward call and advised the contract team to match the price by bidding at a 12 percent profit margin (optimistic scenario) and 6 percent profit margin (pessimistic scenario). As a standard operating procedure, TechBean picked up business at margins equal to or higher than 15 percent for orders greater than INR 10 million. This order was an exception, purely in order to build a long-term relationship with the client.

TechBean finally won the contract, but the dilemma remained. Would the company be able to execute the project successfully without incurring losses? Would the project kick-off on time? Would A&R deliver the “Structured Cables” on time?

TechBean had undertaken a detailed investigation and charted out steps to ensure tight control over the project, to ensure its timely and satisfactory completion. While planning the bill of material for the project, it was evident that the procurement team had to especially plan for the “Structured Cables”, as other products were regular items for which the vendor/s, delivery schedules, and pricing were known. A meeting was scheduled, which was attended by the procurement team, finance team, and the execution team to ascertain the concerns

and the actions to be taken regarding the procurement of the “Structured Cables”, which were given as follows:

1. The delivery lead time to procure “Structured Cables”, from A&R was 3 months after the release of purchase order. 10 additional days had to be planned for the material to reach the site of the project from Italy, as the payment terms were Free on Board (FOB) – Italy (closest port). So, the total time required to procure the material was 3 months 10 days, assuming no delay.
2. The product was a made-to-order item, with a long delivery schedule. Therefore, it was critical to estimate the required quantity of the cable with as much precision as possible. Any additional units required would delay the project by approximately 3.5 Months. It was decided that a team of engineers would be sent to the project site to conduct a detailed analysis of the requirement of the cable, based on the drawings and site survey. 10 percent additional units would be procured to take care of additional units required in case of emergency.
3. The payment terms of the contract were 100% advance payment along with the purchase order. The payments would have to be made in US dollars. Import costs would go up if the Indian Rupee depreciated by the time the purchase order was released. The cable would be required towards the end of the project phase, which was estimated to be 8 months from the kick-off date.
4. There was a possibility of delay in delivery of the cables. In such a situation, the complete project would get stalled.
5. If the project itself got delayed – which very often happens with large projects – then the cable delivery could take over a year. In such a situation, the price established in the contract or the purchase order would no longer remain valid and fresh negotiations would need to be undertaken, which in turn would significantly increase the possibility of increased prices and business risk.
6. While executing the project, there could be requirement for extra cable. A&R would probably not give priority to TechBean in terms of providing prompt delivery for the additional requirement as it already had a big pipeline of pending orders to manage.