

**OPTION 3 ACTIVITY****Teachers' Notes**

Learning outcomes	
1	Investigate the nature of contracts between supplier and supplied.
2	Consider reasons why businesses enter such contracts.
3	Explore the pressures on such businesses when the economic climate changes.

Key skills	
PS3.1/2	Practice opportunity.

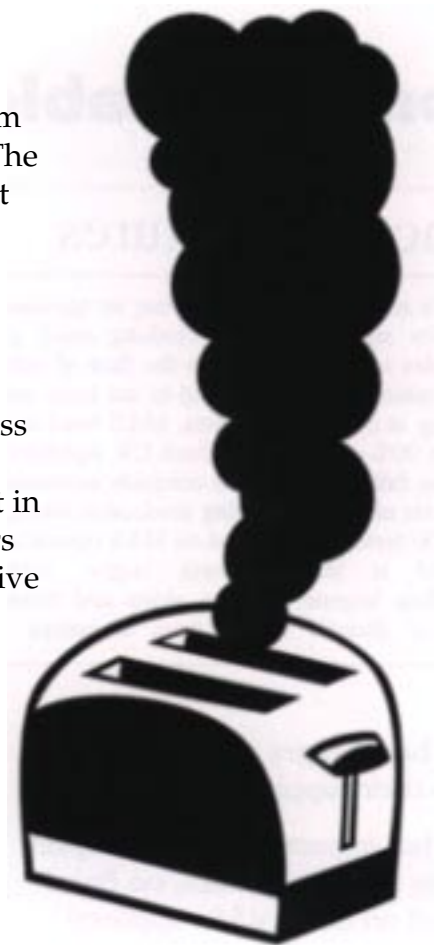
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Time	1 hour plus homework.
Running the activity	<p>Negotiation - 30 minutes.</p> <p>Students work in twos or fours to negotiate the contract.</p> <p>Debriefing - 20 minutes, to discuss where problems arose and what solutions were achieved in the negotiation.</p> <p>The article can be worked on by the group or individually.</p>

Select Electrics is a small electronics business with twelve employees. The firm has been repairing faulty electric equipment returned by Kaywood's mail order customers for ten years. Kaywood have agreed a payment per electrical item which has allowed Select to pay 20% above average wages. The large mail order company has also organised all the transport and insurance of the electrical goods to and from Select.

Kaywood expect Select to return the goods in excellent working order and to provide customers with a year's guarantee. If Select are late with repairs, they are paid 30% less per item. This hasn't been a problem because Select work exclusively for Kaywood and the twelve employees have put in extra hours at busy times. The contract has been for two years and has provided Select with good job security in a competitive industry.

In the last two years, the economic climate has worsened. Kaywood are finding customers unwilling to spend as much money; interest rates are high and overdrafts and loans from the bank are expensive. The outlook is not good.



## Negotiable?

- 1 Read the briefing notes. Work in pairs or as a group of four. One half reviews the contract from Select Electric's perspective, the other half from Kaywood's perspective.
- 2 Identify the pros and cons of the current contract.
- 3 Decide what changes you want to make to the contract given the difficult economic climate.
- 4 Negotiate with the other side. Try and draw up a contract which suits both sides.
- 5 When you have finished, note down the agreed contract or the reasons why you have disagreement. Find out how others have succeeded or failed with their negotiations.

# Non-negotiable?

## Uncertain futures

Marks and Spencer is reviewing its agreements with its suppliers as the clothing retail giant struggles to make profits. In the face of intense competition, M&S is seeking to cut costs and is looking at overseas suppliers. M&S used to buy almost 90% of its clothing from UK suppliers but this has fallen to 55%. The company accounts for a quarter of all UK clothing production and up to 100,000 textile jobs depend on M&S contracts. Baird is M&S's fourth largest supplier providing lingerie, blouses, skirts and trousers. 40% of

Baird's output from seventeen UK factories goes to M&S but as it is not the largest supplier of any single item, it is vulnerable and 4,300 jobs are at stake. Baird has no formal contract but the two may agree compensation. Share prices have been falling in the retail industry for some time. In the last six months, Baird clothing made a loss of £4m on sales of £80m. Baird's managers feel that they survived the Eighties recession largely because of M&S but deny that the industry has been slow to react to overseas competition.

- 1 What changes would you make to their supply agreement?
- 2 What impact would you expect this to have on M&S, on Baird and on other M&S suppliers?
- 3 How might the views of M&S and of Baird change if the economy showed signs of improvement?

