

See "Comments" at the end of this file.

June 27<sup>th</sup>, 2008

Mr. Henry Goodwyn, Vice President  
Bananja Boutiques Inc.  
8229 Santa Monica Blvd Ste 102  
West Hollywood, CA 90046  
U.S.A

SUBJECT: Result of the raincoat transaction with Korean sellers and recommendations for future transactions

Dear Mr. Goodwyn:

In response to your request in our conversation last week about the raincoat transaction with Korean sellers, I'm writing this letter to inform you of the result of the transaction and valuable lessons for better performance in the future transactions that we learned in this experience. I hope that you find that the following report meets your needs.

I am somewhat excited to announce that though we met a lot of unexpected difficulties during the negotiations, the result was quite positive, making a \$21,000 profit, and we came to learn several purchasing techniques through our experience. In this letter, we also include our assessments of this transaction and recommendations on communication methods and strategy-planning that may benefit our future transactions for the sake of Bananja Boutiques Inc..

### **Background of the transaction(1)**

Some background information on the transaction will help you to have a better understanding of this report. As Korean-brand raincoats have strongly attracted parents in US recently, where the number of children's traffic accident on their way home has been constantly increasing due to the umbrella's sight blocking, because of Korean raincoats' durability and reasonable price, their good quality also brought other international buyers into our negotiation tables with Korean sellers and created heated competition among buyers. There were two sessions of sales meetings where total of five Korean sellers and six buyers (including our company) from various countries pursued their own profits.

### **Our initial goal and strategy**

The general goal of our raincoat transaction was that we would purchase as many raincoats as possible and resell them to American retailers at a higher price. The specific strategy that we planned to achieve this goal is as follows:

1. Quantity: We would buy the maximum of 20,000 raincoats since the more raincoats we resell, the more profits we can produce.
2. Delivery date: We want(2) to get the raincoats as early as possible, at least by Sep. 16th afternoon because in this way, we can resell the maximum number of raincoats at the highest price. (Please refer to Table 1, below.)
3. Price: Of course, we would contract with sellers that provide the lowest price.
4. C.I.F. or F.O.B. / Special packaging or Standard packaging: We would purchase raincoats on a C.I.F. basis with special packaging so that we can save our budget on freight, insurance and pressing costs, which will be our responsibility if we choose a F.O.B. basis with standard packaging.

5. Communication method: Our team members will communicate by text messaging when a member has to ask other's opinions in the middle of negotiation with sellers. We chose this method since every member has a cell phone, which is portable.
6. Delegation of authority: No decision can be made without thorough discussion with all members, and when there is a clash of views, the leader has the authority to make the final decision. In this way, we would be able to make the best decision whose every aspect has been taken into account by all members.

(3)

Therefore, our initial strategy was focused on finding Korean sellers who would deliver 20,000 raincoats by Sep. 16<sup>th</sup> with an acceptable price on a C.I.F. basis with special packaging. We will(2) also communicate by text messaging, and only the leader can(2) make the final decision.

**Table 1. Availability and Price**

QUANTITY	DATE	PRICE
20,000	9/16	\$47.00
17,000	9/27	\$42.00
15,000	10/15	\$37.00

### Steps to the goal & results of the transaction

During the negotiations with Korean raincoat sellers we faced obstacles in fulfilling our initial goal and had to adjust our strategy on quantity, delivery date, price and conditions of delivery due to the unexpected high competition among buyers and insufficient supplies of raincoats from Korean sellers as well as lack of understanding of delivery conditions.

Concerning the quantity of raincoats and delivery schedule, we had to give up our best profit-producing quantity and date, which were 20,000 and Sep. 16<sup>th</sup>, and to change our position to purchase 15,000 raincoats and get them by Oct. 14<sup>th</sup> because of the heated competition among buyers and insufficient supplies of raincoats from Korean sellers. Since there was one more buyer company than the number of seller companies, securing certain quantity of raincoats was almost a matter of seconds and, moreover, seller's capability of providing only 6000 raincoats by Sep. 16<sup>th</sup> left us no other choice but to change our goal to get 15,000 raincoats by Oct. 14<sup>th</sup>. In addition to the quantity of raincoats and delivery schedule, we also needed to set up an upper limit of the price for more productive negotiations with sellers. Because we did not do this in the first strategy meeting, we had no idea what price was the limit that produces the least profits and, therefore, could not suggest or negotiate on the price with the sellers in the first session with them. Luckily, we at least found it out before the final meeting with sellers and the following is the table showing the upper limit of the price based on the conditions that are given to buyers.

**Table 2. Maximum purchase price according to the delivery dates (4)**

DELIVERY (weeks)	UPPER LIMIT(Unit: US \$1 F.O.B)
10	31.18
11	27.61
14	24.04

Lastly, we also changed our position from preferring a C.I.F. basis to a F.O.B. basis; we realized that a F.O.B. basis can possibly give us more profits by having closer look at the conditions that were given on the guideline sheet. We found out that if we pay for the freight and insurance, our shipper will charge us only \$1.30 per piece for shipment and insurance, while on a C.I.F. basis, the sellers are raising the price way too much by putting far more than \$1.30 for shipment and insurance on the price. For instance, Dunn Company was suggesting \$29 on a C.I.F. basis and \$24 on a F.O.B. basis.

In short, in the second strategy meeting we revised our strategy to find sellers who would deliver 15,000 by Oct. 14<sup>th</sup> with a maximum price of \$24 on a F.O.B. basis with special packaging.

Fortunately, we were able to find and contract with a company that perfectly meets our conditions, which was Dunn trading company, and to buy 15,000 raincoats at \$23.45 per piece, making a \$21,000 profit. This deal has been accepted on condition that our company continues to work with Dunn Company for 5 years and each year the price of rain coats is negotiable. As for the brief summary of contract's result and details, please refer to Table 3.(5)

**Table 3. Profit calculation of contracts on purchasing raincoats (Unit: US \$1)**

< 15,000 units in 10 weeks (by Sep. 16<sup>th</sup>) >

ITEM	PRICE	PER PIECE	TOTAL
Contracted cost		23.45	351,750
Shipping cost		1.10	16,500
Insurance cost		0.20	3,000
Sub-total		24.75	371,250
Weight duty		0.40	6,000
Price duty + other expenses		9.9	148,500
Special Packaging		0.55	8,250
Total cost		35.6	534,000
Proceeds		37.00	555,000
<b>PROFIT</b>		1.4	<b>21,000</b>

### **Overall assessment (6)**

Our assessment of the result of the transaction with Dunn trading company is quite positive and we firmly believe that this experience will be a valuable lesson for future transactions; although we failed to fulfill and perform our somewhat unrealistic and unclear initial goal and strategy, by promptly adjusting our initial strategy to reality in the second strategy meeting and successfully performing it, we were able to make a healthy profit. Our initial goal and strategy was just to buy the maximum total of 20,000 raincoats at a low price and bear a great profit by reselling them at \$47 per piece (highest resale price available) to American retailers. However, luckily enough, right after getting a firsthand account of heated competition among other buyers and insufficient supplies by sellers in the first meeting with sellers, we changed and specified our ambiguous initial goal and strategy in the second strategy meeting and finally produced a healthy profit. In the second strategy meeting, we set up a specific goal of \$17,700 in profit in case we bought 15,000 (maximal quantity available) raincoats at the price of \$24.00 and resold them at the price of \$37 per piece, and, in the end, we were able to make even better profit of \$21,000 from the transaction with Dunn Company. Overall, our swift response to the problematic initial goal and strategy by revising them in a way suits the reality made it possible for us to lead a successful contract and I am sure that this transaction can be a good basic model for better transactions in the future.

### **Problems identified in the negotiations(7)**

Although we quite successfully finalized the transaction, we had two main problems throughout the process that should be avoided in the future transactions for more effective

negotiations; ineffective communication method and no alternative strategy for the case that none of the sellers' conditions meets our initial goal at all.

Concerning the ineffective communication method, communication by text messaging was distracting, and took a long time. Every time a representative wanted to communicate with the leader or other members, a member had to ask the seller to hold on for a moment to text message and then wait for the answer at least 1 minute. It not only obstructed the effective and smooth negotiations with sellers but also resulted in taking much more time on negotiating.

In addition to the ineffective communication method, we also did not prepare any alternative strategy for the case that none of the sellers' conditions meets our initial goal at all. During the first meeting with sellers, every member of our team got perplexed while collecting information from the sellers since no company's conditions satisfied our goal at all and we were all not ready for this situation with any other optional strategy. Our team's initial and only goal was to purchase 20,000 raincoats and get them no later than Sep.16<sup>th</sup>, but every seller was able to deliver only 6000 raincoats by Sep. 16<sup>th</sup>. As a result, it turned out that we, who got lost in the fact of unexpected situation, totally wasted our golden chance of gathering useful information from sellers in the first meeting with sellers.

### **Recommendations for future transactions**

Based on the analysis of problems in the previous section, our team reached some recommendations as well that may solve the problems and benefit our future transactions. There are two recommendations; introducing a communication method by wireless internet and employing experts on trade strategy.

Firstly, we recommend that our company introduce wireless internet devices for more effective communication in negotiations. Thanks to the advanced Internet technology, wireless internet devices are available at the reasonable price. Small portable laptops will help representatives stay in touch simultaneously and keep informed effectively during negotiations without distracting the process of negotiations and taking so much time on communicating. There are many good programs for communicating on the web such as MSN messenger.

In addition to using laptops for internet communication, we suggest employing experts(8) on trade strategy for better performance. Professional performance in trade has become essential in the competitive international trade environment; thorough preparation like anticipating and analyzing our conditions and other buyers' strategies, and planning "Plan B" for unexpected situations as well as "Plan A" decide the success or fail of the transactions. One of the international companies, IBM assigns about 3.5% of their budget on securing best experts on making up trade strategy and they even headhunt them. Although the efforts to secure strategy-planning experts are money-consuming, it is worthwhile to do since we can be more ensured of the success of the future transactions, being able to be equipped with the best strategy for any transactions.

(9)

To sum up, we can say that our transaction with Dunn trading company on raincoats was quite successful. Our team was able to bear a healthy profit with the properly revised strategy; our team bought total of 15,000 raincoats in a \$21,000 profit. We also have learned valuable lessons which will benefit our future transactions. Lastly, we would like to remind you of our recommendations on the use of wireless internet for communication and employing strategy-planning experts.

Everyone on the team hopes that you are doing well, and that business is not keeping you as

busy as you were last time we met. And we want to express our appreciation for your very helpful guidance throughout this transaction. I will be glad to discuss our transaction result and recommendations with you during our Tuesday lunch and follow through on any decisions you make.

Sincerely,

*Chang Hak-saeng*

Chang Hak-saeng  
Team member  
Bananja, Inc. Purchasing Team

LES/jhj

Enclosures:

1. Copy of the contract
2. Copy of profit calculation with Dunn Trading Company

#### **COMMENTS**

1. Most of this is unnecessary. Except for the content in the last sentence, the reader probably knows the contents of this section already, and it's not directly relevant to your negotiations. Another problem here and in the following section: This section and "Initial goal and strategy" both present background information and should therefore be under one heading. Giving both section headings the same formatting misled me into thinking that they were different types of information.
2. This grammar problem appeared in every letter this year. We learned in English 1 about the verb tenses used in "future/present in the past," but everybody seems to have forgotten the grammar. Review "Future in the Past..." at E>G, Grammar. You'll certainly have to be able to use this time and time again in the future.
3. No "Plan B"? Nothing about ensuring validity of info from the teams that you contact?
4. Indent the table's title; it looks like a sub-heading and damages cohesion.
5. No mention of communication or delegation of authority (points 5 and 6 in your planning).
6. This reads more like a summary than an assessment. I can't see any clear points of assessment until the very end.
7. Because you gave this subheading the same formatting that you gave "Overall Assessment," I thought the content was going to be something other than evaluation. This is the same kind of problem that I pointed out in the second half of comment 1. If it's the same general type of content (assessment), put it all under one heading. Just make sure to use a good bridge at the very beginning of the section, and provide helpful general cohesion devices to introduce these two major parts of the section.
8. If the company follows your advice to hire "experts," you'll lose your job. What you're saying here is "Hire somebody better than me." Actually, you're supposed to be an expert in this area—that's why you have the job, that's what the company is paying you for. Another problem here is that the recommendation should be a direct solution to this type of problem, not just a cover-all panacea like "hire somebody to fix all these problems."
9. You need a sub-heading here. Something like "Useful lessons" or "On to more successes" would be good.