Muller & Sons

Muller & Sons, a mid-sized publishing concern, contracted with Positron Computers, a world-wide technology company, to install and maintain a new digital publishing system. The new system was capable of producing up to 2.6 million sheets of material per week. Muller and Sons expected the new system to lower costs, allowing the company to lower prices and, they hoped, to substantially increase volume. The deal called for Muller to remunerate Positron for the equipment upfront, and subsequently pay a monthly maintenance fee together with a "click charge," a fee for each sheet produced.

As the rather lengthily installation process dragged on, Muller requested and received a series of additions and modifications to the system. Each time Positron adjusted the terms of the deal to reflect the new set-up. After several of these revisions, Muller became alarmed with the adjusted terms, and actually threatened to cancel the deal unless Positron made concessions. In response, Positron cut the charge for equipment to a number Muller quickly agreed to. Positron also offered Muller new maintenance terms. The existing terms called for $30,000 a month fee plus a click charge of $0.00577 per sheet. The new proposal eliminated the maintenance fee altogether in favor of an increased click charge of $0.027 per sheet. In exchange for this concession, Positron asked that Muller guarantee production of at least 1,000,000 sheets per month. Here is how Positron explained the new offer to Muller:

> To compare the two plans you need to compare *total* click charges. Muller is presently producing about 1,000,000 sheets per month, so the total click charge under the existing plan is 0.00577 + (30,000/1M) or $0.03577 per sheet. Under the new proposal, the maintenance fee is zero, so the total click charge is just $0.027 per sheet, a substantial savings. Positron is willing to commit to the reduced total click charge so long as Muller will guarantee at least 1,000,000 sheets per month.

Management at Muller felt happy with the new numbers, but was concerned about the sheet guarantee. At this point, they turned to a consultant.

What's your analysis?

This note was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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