

This report addresses
the issues related to
the contract offered



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Contracting with the department store chain will have several negative effects on the nature of the business. The core competency that has been established since the beginning will now change. The buyers will no longer use their knowledge and expertise to find genuine artifacts. Instead they must develop negotiation skills to deal with mass merchandising of replicas. Delivery, pricing, and quality will all have to be confronted. Tripling replica production means increasing the search for artisans with quality recreations. This will change the scope of the business from procurement of artifacts to manufacturing of replicas. Because employees will not be able to use their area of expertise, quitting will become an issue. The distinctive competency will not be used in the replica business and therefore the contract should not be pursued.

Collectors of artifacts take pride in their knowledge and interest of authentic creations. If the contract were pursued, it is possible that a collector may accidentally buy an artifact and feel "duped" and embarrassed around other collectors. Furthermore, replicas are bought as gifts and for decoration. There is a large demand for these items. This changes the market from a niche group made up of collectors and traders to a mass market of gift buyers. If artifacts and replicas are sold next to each other, the market will be affected. In the eyes of the collector, the idea of an artifact will be "cheapened." If the market is affected, then Sorzal is indirectly affected. The reputation of authenticity has now diminished. The product, company, and market no longer line up, which is why the contract should not be accepted.

Current retailers may react negatively to this change. The department store chain is only offering 90% of the amount that current distributors are paying. Distributors may not understand this price cut, which may damage the existing relationship. Also, the retailers will be upset because the artifact market has been "cheapened." Because it is best to buy from a dealer that can be trusted, the distributors may look elsewhere for a supplier. The contract will break the trust of current distributors and the relationship that has been created.

\$750,000 will be guaranteed for the initial purchase by the department chain. It is also possible to make \$4 million dollars in sales with this contract. However, an initial \$1 million dollars is needed in inventory by the end of the month. With the change of the business scope, it may be difficult for the buyers to come up with quality replicas in this amount of time. Current gross sales are \$25 million and with the 20% annual growth will be \$30 million next year. \$4 million is a small amount of this total and is only possible if the maximum sales potential at the department store chain are reached. Extra money may even be needed to train employees to negotiate delivery, price, quality, and other aspects of the replica business.

Replicas are also subject to fads and "fancy" which change over night. Items must be in style at all times, and customer preferences would need to be constantly monitored. Buyers would continuously be looking for up to date items to import. There would be no control over replica demand, which puts profits at risk. Because it is only a possibility that sales of \$4 million dollars will be made, and demand of replicas are uncontrollable, the contract is not advised.

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