

Terry Hansen: Sending Hay Around the World

Part One - *Read to the bottom of this page then stop.*

Terry Hansen had a headache. He had a problem with a customer, and now he had to figure out how to solve it.

Terry Hansen was Director of Marketing for A.C.X. Trading. A.C.X. was a processor and exporter of high quality dairy feed products. That meant that A.C.X. bought hay from growers in Washington State and throughout the Western half of the United States as well as in Chile and Mexico, processed the hay into cattle feed, and then shipped it to customers around the world.

Hay was one of Washington State's largest exports, and Terry worked hard to make sure that A.C.X. was a big part of the picture. Because A.C.X. bought hay from growers throughout the North and South American West Coast, the company could always promise its customers fresh, high-quality feed for their dairy cattle. And, because A.C.X. had located its processing facilities near major ports, A.C.X. could quickly ship its hay to customers throughout Asia.

Today, though, Terry had to help an unhappy customer. This customer had a reputation as a very tough negotiator and just a difficult person in general. Terry had been pleased when A.C.X. had finally landed a sale with this customer, and had promptly responded to the sale by shipping five cargo containers full of hay. The customer had received the hay on schedule, but was now complaining that the hay was, "not what I wanted." The customer was insisting on a \$1,500 refund.

Terry thought about what he should do. What were his options in dealing with the customer?

STOP

Part Two - *Read to the bottom of this page then stop.*

Terry talked with the customer, trying to learn what the customer thought was wrong with the hay. But he didn't get a clear answer. He then talked with colleagues about A.C.X.'s policies in situations like this, and decided he had two basic options:

He could just give the customer the \$1,500 refund. But, in that case, the customer might just take the money and never come back. And, even if the customer did order more hay from A.C.X., the company would have set a bad precedent in its dealings with the customer. What would prevent the customer from requesting a refund with every order?

Alternatively, Terry could refuse to refund the customer's money. But then he knew the customer would never come back. And, he didn't want an unhappy customer out there saying bad things about A.C.X.

No, there had to be another option. As he thought, Terry realized he needed to learn some very crucial information.

STOP

Part Three - *Read to the bottom of this page then stop.*

Terry had talked with the customer and with his own colleagues at A.C.X. But he couldn't decide what to do until he knew more about the numbers involved. Was the \$1,500 refund the customer was requesting a large or a small amount of money in the scope of the overall order?

Terry pulled out all the order information.

He learned that the customer had purchased five cargo containers of hay. Each container held 26 tons of hay. And each ton had been priced at \$220.

That meant the customer had purchased _____ tons, for a total price of \$_____.

The \$1,500 refund the customer was requesting was _____ percent of the total order, or \$_____ per ton.

Well, Terry thought. That is a little steep. Is there any way I can make the customer happy by paying the refund but lower the cost of the refund both as a percent of the total order and as the amount of money per ton ordered. Was there any way to do that?

STOP

Part Four - *Read to the bottom of this page then stop.*

Terry spent some time looking at the numbers and then decided to call the customer with a counteroffer. A.C.X. would not only pay the customer's \$1,500 refund, it would DOUBLE the refund to \$3,000. But, A.C.X. would only do this if the customer would agree to purchase 15 more cargo containers of hay from A.C.X.

At 26 tons per container, this new order for 15 cargo containers would work out to _____ additional tons.

Added to the previous order for 5 cargo containers, the customer would now have purchased _____ tons total.

At a price of \$220 per ton, the additional 15 cargo containers would cost the customer \$_____.

Added to the previous order, the customer would now have a total bill of \$_____.

The \$3,000 refund would now constitute _____ percent of the total order.

It would result in a payment of \$_____ per ton.

Terry looked at the numbers. It just might work. Not only was the cost per ton lower, but he would have guaranteed more business with the customer, a second chance to prove A.C.X.'s quality.

Now, he had to convince his boss... and then the customer.

TURN PAGE FOR ASSIGNMENT

Terry decided to write a one-page memo to his boss. In the memo, he would:

- (a) explain the situation with the customer's request for a refund;
- (b) present his counterproposal, showing the numbers he had worked out; and
- (c) explain why he thought his proposal was a good one.

Terry knew his boss wasn't much for numbers, so he decided to make two graphs to accompany his memo.

The first graph would be a bar chart. It would compare (in absolute dollar terms) the \$1,500 refund with the total price of the customer's original order and then would compare the \$3,000 refund with the total price of the full order (the customer's original order plus the additional 15 containers Terry wanted the customer to purchase).

The second graph would be a line chart. It would show the refund in dollars per ton, comparing the \$1,500 refund for the first order and the \$3,000 refund for the new total order of 15 cargo containers worth of hay.