

Area: Relationships between Business Partners

Subjects: Abuse of Dominant Position / Loyalty between Business Partners / Reputation Management / Management of Relationship Crisis

Title: Loyalty between Business Partners

Part 1

You are the CEO of a medium sized company active in the construction business. Your company won a bid launched by **Medic**, a multinational pharmaceutical company for constructing an industrial building.

Your company (**the Contractor**) has a good business reputation in the market among all the stakeholders: buyers, subcontractors and competitors.

Part 2

You have already started the construction work, but **Medic** is now asking you to use two specific subcontractors: a **Concrete Supplier** and a **Technology Supplier** specialized in public utilities systems.

Normally the contractor should be able to select its subcontractors. The first one is among your regular suppliers (the CEO is a good friend of yours), but the second one is relatively unknown to you.

1. What do you think of the situation?
2. Would **you** accept this, or would **you** decide not to use one (or both) of the suggested subcontractors and risk to ruin the positive atmosphere that you managed to build with **Medic**?

Part 3

Considering the importance of the project, you decided not to raise any complaints and work with both companies.

After the contract had been signed, **Technology Supplier** suggested using a new technology, which is beneficial for **Medic**, since it is a cheaper option with better quality, especially because it will use a new kind of concrete. You ask the opinion of your technical department, which knows little about this new technology, but tends to be favourable to it.

So being, you give a green light to the matter. You negotiate with the **Technology Supplier** to split the savings (around 20%) between the two on a 50/50 basis and both are happy about it.

Then, you start to negotiate new conditions with the **Concrete Supplier** but experience some resistance from them: their account manager is quite upset, mainly because the new alternative will give him a much lower selling commission. He tries to put pressure on you, but you don't pay attention to him.

Early next morning, you receive a phone call from **Medic** and suddenly realize that the account manager from the **Concrete Supplier** had called them directly, insisting that the new alternative is technically inadequate and suggesting that you were planning to change the materials without giving **Medic** any notice.

You find yourself in a difficult situation: your reputation towards **Medic** is at stake, and your commercial relationship with the **Concrete Supplier**, which is quite old and has been mutually beneficiary up to date, is also at risk.

3. What do you think of the situation?
4. Should you have told **Medic** about the new technical solution?
5. Should you have passed to them part of the savings?
6. What can be done to save the relationship with the **Concrete Supplier**?

Part 4: What happened after (Optional)

The Contractor had to ask the *Technology Supplier* for their assistance to demonstrate to *Medic* the benefits of the new technology.

The Contractor CEO agreed with his fellow CEO from the *Concrete Supplier* on the minimum conditions to continue working with them: immediate replacement of the account manager and payment of any financial damages incurred.

From that day on, *the Contractor* signed a non-disclosure agreement with all its subcontractors, including serious penalties for similar situations.