

CASE STUDY # 2

Co-operation Agreement between a Public Ltd. Company and a SME

A Public Limited Company well diversified in the business of material handling products has a PAN India presence and very intense Dealer network. They started with a turnkey Solutions in material handling using their own products and had established a centralised Design team to cater to such Turnkey solutions.

A small SME in Pune had well established material handling business, who was catering to some local customers in designing, manufacturing and Commissioning of Material handling solutions. He had a small but very loyal customer's base. His Customers always appreciated his solutions due to his cost effective and robust nature of solutions.

Both these companies were competing with each other. Soon the PAN India Company found that they are not able to compete with this SME in terms of robustness of design and cost effectiveness (after discounting the higher overhead).

The management of company decided that instead of competing with this SME manufacturer, to join hands with him and make him their manufacturing partner for Material Handling Solutions.

With this arrangement, the SME manufacturer will get continuous business, his volume will increase without any marketing efforts and the PAN India Company will able to offer a cost effective solution and robust solution to the market at the same time they are able to remove their toughest competitor in the local market. Looks like a Win- Win situation for both the companies.

The SME manufacturer had sleepless nights after he received this proposal on account of following:

- 1) The PAN India Company having muscle and financial power may acquire his existing Customers.
- 2) With his company not making Sales/ marketing efforts will not be visible and may soon be forgotten by market
- 3) PAN India Company can hire good lawyers and put few favourable in the Agreement which may be difficult to understand and defend.
- 4) How can he protect his interest in this arrangement?

The cooperation agreement was drafted to include the clause which shall protect the interest of a smaller SME. Agreement was prepared and Negotiated, which included that:

- 1) The PAN India material Handling Company shall not approach the existing Customers of SME
- 2) It was agreed that SME shall be involved in the project from the Proposal and Design stage.
- 3) SME will provide its detailed proposal with its best price and the same will used for quoting final price to customer.
- 4) A special pricing for using the Company's products in the final solution offered to Customer
- 5) The minimum margin for SME will be protected in the final order.
- 6) The terms and Conditions between SME and PAN India Material Handling Company are independent of Terms of Final Customer Terms. (Including payment Terms and Credit period)

During this Co-operation agreement the interest of SME, which is much smaller in Size and does not have muscle power and financial power of giant company to compete, was protected. And the agreement was made to have the relation for a longer time period and which is fair to both the parties.

Today, the SME manufacturer is along with executing Orders from PAN India Company, still serving his own old Customers and enjoying a continuous and good business flow. Recently he was thinking of augmenting his manufacturing facility by taking one more shed nearby.

At the same time, the PAN India Company has experienced happy customer base in their material handling division which they can use as reference for their other divisions.

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