BNC Case

The Supplier Paradox

Case Goal

To develop students' Whole Mindset by helping them recognize how Thinker, Dreamer, Challenger, and Lover perspectives shape business decisions, move beyond their dominant Intelligence Mindset, manage the paradoxes among Logic, Politic, Ethics, and Mystic, and make contextual decisions that integrate what the business needs today with what it could become tomorrow.

For more than fifteen years, Nusantara Foods had grown from a small regional snack producer into a national consumer-goods company. Its products were sold through supermarkets, convenience stores, and increasingly through digital channels across Indonesia. Growth had been strong, but the market was becoming less forgiving. International competitors were entering several categories, retailers were demanding lower prices, and Nusantara's operating margin had declined for three consecutive years.

At the annual strategy meeting, the Board gave management a straightforward target: reduce production costs by at least 10 percent during the following year without compromising product quality. Every major cost category was reviewed, and packaging quickly attracted attention. It represented a significant proportion of production cost and had changed relatively little despite the company's rapid growth.

For twelve years, approximately 60 percent of Nusantara's packaging had been supplied by Surya Pack, a medium-sized manufacturer located less than thirty kilometres from one of Nusantara's largest factories. The relationship had started when Nusantara was still small. Its orders were irregular, quantities were often too small for large suppliers, specifications changed frequently, and cash flow occasionally forced the company to request longer payment terms. Several established packaging companies had shown little interest. Surya Pack had accepted the business.

The relationship developed as both companies grew. When Nusantara's sales increased, Surya Pack purchased additional machines and expanded its factory. When Nusantara experienced unexpected demand, Surya Pack adjusted production schedules. When materials became difficult to obtain, Nusantara was often given priority. Engineers from both companies knew one another well enough that technical problems could sometimes be resolved through a telephone call rather than a formal process. Surya Pack now employed approximately 180 people, and Nusantara represented around 55 percent of its annual revenue.

For years, nobody had seriously questioned the relationship. Then GlobalPack approached Nusantara with a proposal.

GlobalPack was one of Asia's largest packaging manufacturers. Its factories were highly automated, its quality-control systems were more sophisticated than Surya Pack's, and its production network could support Nusantara if the company expanded into other Asian markets. More importantly, GlobalPack offered to produce Nusantara's existing packaging at a price 14 percent below Surya Pack's current price.

The Finance team calculated the impact. Moving all existing volume to GlobalPack could save approximately Rp18 billion every year.

At the next executive meeting, the Finance Director presented a single slide containing the comparison. The difference was difficult to ignore: lower price, comparable quality, larger capacity, stronger technology, and greater scalability.

“This is exactly the kind of opportunity the Board asked us to find,” she said. “We can save Rp18 billion without reducing product quality. If our competitors have access to this level of efficiency and we deliberately choose not to use it, eventually our customers or our shareholders will pay for that decision.”

The Operations Director agreed. Nusantara expected production volume to increase substantially during the next five years, and Surya Pack had already struggled with several large orders. GlobalPack offered capacity that Nusantara would not need to worry about for years.

For a moment, the decision seemed surprisingly easy.

The Procurement Director then asked the team to look beyond the price comparison. Surya Pack had repeatedly prioritized Nusantara during supply shortages. More importantly, the relationship extended beyond purchasing. Three years earlier, when Nusantara’s factory expansion had encountered resistance from surrounding communities, Surya Pack’s owner had helped management establish communication with several local leaders. He also had longstanding relationships with local logistics companies and regional government officials.

Those relationships had become particularly relevant because the regional government was encouraging large manufacturers to strengthen local supply chains. Nusantara had been publicly praised several times for growing together with smaller businesses in the region.

There was no regulation requiring Nusantara to continue buying from Surya Pack, and no government official had asked the company to do so. Nevertheless, the Procurement Director wondered whether replacing a major local supplier immediately after being publicly recognized for developing local businesses might change the way important stakeholders viewed Nusantara.

The Finance Director understood the concern but remained unconvinced. “Relationships matter,” she said, “but Rp18 billion also matters. We should be careful not to use relationships as an excuse for inefficiency.”

Before the discussion moved further, the Sustainability Director raised another issue. Surya Pack had estimated that losing Nusantara completely would force it to reduce production substantially. Between 60 and 90 jobs could eventually disappear, with additional effects on smaller businesses surrounding the factory.

The Finance Director responded carefully. She did not dispute the consequences.

“But Nusantara employs more than 3,000 people,” she said. “We also have a responsibility to them. If we knowingly accept unnecessary costs year after year, are we protecting employment—or simply moving the risk from one company to another?”

The question changed the discussion.

The Sustainability Director acknowledged that Nusantara could not be expected to protect Surya Pack forever. At the same time, Surya Pack had expanded partly because

Nusantara had repeatedly encouraged it to prepare for future growth. Machines had been purchased, capacity had been added, and people had been recruited in anticipation of Nusantara's increasing orders.

"No contract says we owe them permanent business," she said. "But I am not sure that the absence of a contractual obligation means the relationship creates no responsibility at all."

The CEO decided that Surya Pack should be given an opportunity to respond.

A week later, Surya Pack's owner entered the same meeting room. He did not attempt to convince management that his company was currently as efficient as GlobalPack. He openly acknowledged that his machines were older, his financing costs were higher, and his scale was much smaller.

Instead, he proposed a three-year modernization programme.

If Nusantara guaranteed a minimum purchasing volume, Surya Pack would borrow money to install more automated equipment and redesign several production processes. Its management believed the 14 percent price difference could fall to approximately 5 percent during the first year and perhaps 2–3 percent within three years.

The Finance Director asked whether those improvements were guaranteed.

They were not.

The new machines required substantial investment, and Surya Pack had never implemented automation at that scale. If productivity improvements were slower than expected, Nusantara could spend three years paying above-market prices while Surya Pack accumulated additional debt.

Without a purchasing commitment from Nusantara, however, Surya Pack could not obtain the financing required to modernize.

The CEO noticed the difficulty immediately. Nusantara could wait for Surya Pack to become competitive before committing more business to it, but Surya Pack needed Nusantara's commitment before it could become competitive.

The meeting might have ended there if the Product Development Director had not asked for twenty additional minutes.

For almost a year, his team had been working with Surya Pack on a new packaging concept. The objective was not simply to make the existing package cheaper. They were experimenting with different materials, shapes, opening mechanisms, and product-packaging combinations that might change how customers stored, shared, or consumed several Nusantara products.

Most experiments had failed.

Some materials could not survive Indonesia's humidity. One design looked attractive but was too expensive to manufacture. Another worked technically but performed poorly in consumer testing. Several prototypes never progressed beyond the laboratory.

Surya Pack nevertheless continued working with the team. Because its factory was nearby and its production system remained relatively flexible, one of its smaller machines could be modified to produce experimental batches. Nusantara could test a concept, identify a problem, change the specification, and sometimes receive another prototype within days.

More than twenty variations had already been produced.

Six months earlier, the same concept had been shown to GlobalPack. Its engineers considered the project interesting, but its highly automated system was designed for standardization and volume. GlobalPack suggested that Nusantara return once the specifications had stabilized and potential market demand had become clearer. If the concept eventually required millions of units, GlobalPack believed it could manufacture them efficiently.

The Product Development Director placed several prototypes on the table.

“Surya Pack is not as efficient at producing what we already know how to sell,” he said. “But right now they are helping us discover what we might sell next.”

The Operations Director picked up one of the prototypes and examined it.

“If this succeeds,” he asked, “can Surya Pack produce it at national scale?”

The Product Development Director hesitated.

“Not with its current equipment.”

“So we may need GlobalPack anyway?”

“Possibly.”

The Finance Director smiled slightly. “Then why pay more now?”

The Product Development Director looked at the prototypes again.

“Because GlobalPack is ready to scale the answer once we know it. Surya Pack is willing to help us find the answer while we still don’t.”

Nobody spoke for several seconds.

The CEO asked the team to explore whether both suppliers could be used. Finance proposed transferring most high-volume standardized packaging to GlobalPack while leaving a smaller portion with Surya Pack. The arrangement would create immediate savings while preserving the relationship.

Surya Pack’s financial projections, however, revealed another problem. If its volume fell too far, the company would not generate enough cash flow to support the proposed modernization. The compromise that reduced Nusantara’s immediate risk could therefore make Surya Pack less capable of becoming competitive in the future.

Procurement proposed guaranteeing Surya Pack a larger volume for three years. Finance calculated that doing so would sacrifice a substantial part of the savings offered by GlobalPack.

Product Development suggested treating Surya Pack as a development partner rather than primarily as a conventional supplier. Operations questioned whether Nusantara should maintain an inefficient production relationship simply to gain flexibility in experimentation.

Then the CEO asked a question that made the room quiet.

“What happens if the innovation succeeds?”

The Product Development Director answered first. Nusantara might create a new packaging experience that competitors did not yet offer. If consumers responded strongly, the concept could potentially be used across several product categories.

“And if it fails?”

“We may have spent several years developing something the market doesn’t want.”

The CEO turned to Finance.

“What happens if we choose GlobalPack?”

“We save approximately Rp18 billion a year and improve our ability to scale.”

“And what might we lose?”

This time the Finance Director did not answer immediately.

By the end of the meeting, every available option seemed to solve one problem while making another more difficult.

Moving completely to GlobalPack would improve cost efficiency and scalability immediately, but Nusantara would weaken a supplier relationship that provided flexibility, local support, and experimentation. Remaining with Surya Pack would preserve those advantages but require Nusantara to accept a significant cost disadvantage with no guarantee that modernization or product development would succeed.

Dividing the business seemed safer, but even that solution contained a contradiction. Give Surya Pack too little volume and it might never become strong enough to modernize. Give it too much and Nusantara would surrender much of the economic benefit offered by GlobalPack.

The consequences for people were equally difficult. Protecting Surya Pack could preserve dozens of jobs in the local community, but permanently accepting unnecessary costs could weaken Nusantara’s competitiveness and eventually threaten its own employees. Ending the relationship might be economically defensible, yet management could not ignore that Surya Pack had invested and grown alongside Nusantara for more than a decade.

Even the future created a contradiction. GlobalPack appeared better prepared for the scale Nusantara hoped to reach. Surya Pack appeared better suited to the experimentation through which Nusantara might discover something worth scaling.

Late that afternoon, the CEO looked at the financial projections, the stakeholder analysis, Surya Pack’s investment proposal, and the experimental packages still lying on the table.

The Board would meet the following morning.

It expected one recommendation.

Nusantara could choose certainty and efficiency, but potentially lose flexibility and future possibilities. It could preserve flexibility and relationships, but accept costs and risks that might never produce sufficient value. It could attempt to preserve both suppliers, but doing so would still require choices about which supplier received enough volume, investment, information, and commitment to matter.

There was no solution in which Nusantara could maximize everything.

The CEO closed his laptop.

"Tomorrow," he said, "the Board will not ask us to explain why this decision is difficult. They will ask us what we are going to do."

The meeting ended without a decision.

Your Assignment

You are part of the **Nusantara Foods Management Team**. Tomorrow morning, you must present one recommendation to the Board.

Your challenge is not simply to solve the supplier problem, but to demonstrate a **Whole Mindset** in making the decision. Examine the same situation through **Business is Logic, Business is Politic, Business is Ethics, and Business is Mystic**. For each perspective, identify what becomes visible, what may remain invisible, and what could happen if management relies too heavily on that perspective alone.

Then identify the **paradoxes** created by the four perspectives. Do not eliminate one side simply because another appears more attractive. Determine which tensions Nusantara must manage simultaneously and which trade-offs cannot be avoided.

Using a **Whole Mindset**, develop one recommendation for the Board. You may choose GlobalPack, Surya Pack, combine both suppliers, or create a different solution. Your recommendation should not give equal weight to all four perspectives. Instead, decide **contextually** which perspective should lead, when another perspective should become more important, and how the four perspectives can complement one another in creating a stronger decision.

Finally, reflect on your own decision-making. Identify which of the four perspectives came most naturally to you when you first read the case and which perspective you initially tended to overlook. Explain how moving beyond your dominant perspective changed—or strengthened—your final recommendation.

Be prepared to defend your decision to the Board:

How does your recommendation demonstrate a Whole Mindset—protecting what makes Nusantara successful today while remaining open to what could make Nusantara successful tomorrow?