healthy imitation is less apparent, and then companies may inadvertently adopt strategies that make them more vulnerable. We give two examples. In the first, we were asked to disguise the identities of the players, so the names are fictional.

Outboxed Andy had a breakthrough day. For years, his plant had been supplying Polymatic, a key customer, with specialty cartons for its consumer products. But it was a crazy way of doing business. Polymatic had four divisions: each had its own different set of specifications, and each handled its own purchasing. As a result, Andy had to develop separate products and respond to many separate orders, which led to high set-up costs and short runs.

Andy realized he could save some money by doing things differently. He could do a better job adapting to Polymatic's quirks. Using longer runs and holding more inventory himself might save perhaps 2 cents a square foot. That was the small news. The big news was that even greater savings could be realized if Polymatic also agreed to do things a little differently.

There was really no need for all the variety. If some of the different divisions at Polymatic would go along with the specifications used by the others, there would essentially be no loss at all in quality. As things stood, each division ordered material as and when its inventories fell to a certain level. It was all done by a computer program designed to minimize Polymatic's costs, not Andy's. The program design didn't take into account the possibility that if Polymatic placed larger orders and held more inventory, Andy could offer a lower price.

If Polymatic would standardize its specifications, coordinate its ordering, and hold more inventory itself, Andy could do significantly longer runs on fewer cartons. He judged the combined savings, net of Polymatic's extra inventory cost, to be 10 cents a square foot. That would add up to several hundred thousand dollars.

Of course, that led to a bit of a dilemma. He could save 2 cents on his own in ways that would be invisible to Polymatic. But to create the 10-cent savings, he'd need to get the different groups at Polymatic to standardize, coordinate, and change inventory policy. That would require sharing his analysis with Polymatic, and some of the cost savings, too.

Andy decided to go for the big savings. He went to Polymatic, explained the new approach, and offered to split the savings. He figured that was ample incentive for Polymatic to change its way of doing business. Polymatic would appreciate the windfall, which in turn would lead to friendlier negotiation of next year's contract. It would create goodwill and prove his "partnership" orientation.

Polymatic appreciated Andy's initiative. Six months remained on the existing contract, and Polymatic was happy to save a nickel. Everything looked like a win-win.

The first indication of trouble came at the contract renewal. Polymatic sent out a request for bids and got four new bidders. In the past, there had never been more than one other bidder. Andy's company was uniquely qualified to provide all of the specialty cartons and small production runs at a reasonable cost. Although this niche production was inherently inefficient, Andy was a very efficient niche producer.

What had changed? According to Polymatic's purchasing agent, now that the specs were standardized and production runs were longer, the big players in the container market were, for the first time, showing interest in the account. Andy was floored when Polymatic came back and said that one of the larger producers had come in with a bid that was 20 cents a square foot below last year's price. The purchasing agent said that he appreciated Andy's help in making the cost savings possible, and if Andy was willing to meet the new price, he could keep the business.

Andy had no alternative. He took the hit. The profit margins were large enough, just, to make it worthwhile. Still, Andy wondered how he could come up with a way to cut costs by 10 cents a square foot and end up giving a 20-cents-a-square-foot price cut.

Andy had inadvertently lowered his own added value. It's true that he cut the cost of supplying Polymatic, but the new approach was completely imitable. For companies that were not set up for niche production, Andy had managed to cut the costs of serving Polymatic by so much that they now found it profitable to enter the game. The result was a terrific win for Polymatic—and not so great for Andy.

What should Andy have done? Perhaps he could have used a long-term contract. But, ultimately, this was not going to be a long-run win for him. The real issue is that Andy had added value as a