Negotiating for Mutual Benefit

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Seven tried-and-true strategies can help your organization — and your suppliers — get more of what you both want from procurement negotiations.

Studies recently conducted by MarketWatch and the Copenhagen Business School in Scandinavia show that, despite best efforts in the areas of project management and attempts to make the process more professional, more than 60 percent of all corporate negotiations conclude with a result that is less than what was originally expected from the transaction.

The research also indicates that the true potential of these types of transactions is rarely reached. Moreover, these same projections show that in the U.S., an estimated US$80 billion is untapped because negotiators are unskilled in leveraging the nonvisible value in the transaction. This value lays dormant in hidden and unexploited variables.

What's Going On Here?

Analysis of the research results has identified seven strategies that contribute to success (or, in their absence, failure) during the procurement negotiation process:

1) Do your homework on the RFP. An RFP is not just a list of requirements and wishes; it is also a synopsis of values and costs for both purchase and supply. If you want quality and sustainability in your supplier agreements, you must produce an exhaustive RFP. The RFP is the starting point in the negotiation process. It generates analysis of the potential added value and defines the areas where negotiation can take place.

To a great extent, the completeness of the offers you receive is a reflection of the content of your RFP. Without a professional RFP, there is a great risk that your purchasing process will be unstructured, decisions will be insufficiently analyzed and too much time will be spent on objective evaluation and muddled thinking.

2) Survey the landscape and share the wealth. An amazing number of companies make the majority of their purchases within a few hundred miles of their corporate headquarters. You should also consider that alternate suppliers outside these boundaries might bring new variables into contention.
Thoroughly survey the market segment in which the purchase will be made. Know the main suppliers, and gain insight into those who are up-and-coming competitors. If you work in a polarized market with one large player and a number of smaller ones, it might be wise to spread orders around to the smaller suppliers. This can help to ensure their survival and, consequently, a competitive market segment.

3) Assemble a great negotiation team. You cannot negotiate alone. As such, one of your first goals should be to assemble the best possible team — one in which everyone complements each other.
Be sure to include a negotiation leader, a lawyer and a finance expert who knows how to work the numbers. Make sure the necessary technical backup is in place, and let the best, most disciplined negotiator do most of the talking.
Clarify the role each participant will play during the preparation phase of the negotiation: Who will do the calculations? Who will investigate the market? Who will ask particular questions? Who will summarize the proceedings at the break points?

4) Negotiate for cooperation using the rules of "smartnership™." Many negotiators focus on win/lose tactics, in which winning comes at the expense of the opposing party. This confrontational strategy complicates productive discussion and collaboration. An adversarial approach makes it almost impossible to build trust and to establish relationships that allow for cooperation between the parties. As such, it is essential that you focus on the collaborative process to maximize what you gain from negotiation. If you work in "smartnership" with the other party, you can increase what you come away from the table with. Instead of achieving only 60 percent of your expected result, you will often be able to capture 100 percent.

5) Insist that your supplier make a decent profit. Some supply managers believe that if their suppliers earn money in the negotiation process, they haven't done their job. In reality, truly effective and efficient negotiators *insist* their suppliers make a profit. Failing to allow for profitability among the smaller players will cause these businesses to fail or, at a minimum, they will withdraw from the bidding process, and eventually only the strongest one or two players will remain in the game. Over time, this strategy will result in a monopolistic market situation, and any cost savings realized in the short term will be wiped out through the absence of a competitive market situation.

6) Minimize assumptions and guesswork to eliminate risk. During a negotiation, supply managers sometimes believe they know what their suppliers want, what they are focusing on and where their interests lie. Most often, they are incorrect.

Until a supplier has explicitly stated its position, do not rush to conclusions; base your negotiation on what you know *today,* not what you expect in the future. The negotiation team should direct its focus to the point of departure. A sure recipe for disaster is to proceed on the basis of assumptions, ignore the point of departure and fail to allow the supplier to contribute its recommendations to the project.

7) Negotiate across all variables for the benefit of the entire organization. For the supplier, silo thinking and suboptimization are highly destructive elements to added-value thinking and optimization of the true potential in the transaction.

People behave according to the benchmarks by which their performance is measured. If senior management wants to see reports indicating a departmental improvement in purchase price, it will receive a report that shows an improvement in purchase price — even though the total result might be less for the organization as a whole. This outcome is triggered by a negotiation strategy in which individual components are negotiated instead of the whole value of the transaction.

A typical illustration of this situation can be found in terms of payment wherein the purchaser blindly demands longer credit time despite the strain on the supplier, which would rather give a reduction in price for faster payment. By not negotiating across all possible variables, supply managers fail to gain access to the value which represents the greatest gains in the transaction.

A Sure Payoff

If you want to get closer to (and eventually uncover) the nonvisible value of the transaction you are pursuing, consider using these seven strategies in a procurement negotiation. They will enable you to build robust, long-term relationships based on honesty and fairness.

Working from a position of trust exposes the added value in the transaction. It also lays the foundation for both parties to leave the table with more of what they wanted.

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