

Negotiation X's & O's

A Game Plan For Procurement Bargaining Success

By Charles Dominick, SPSM, SPSM2, SPSM3

SPSM CERTIFICATION
WWW.NEXTLEVELPURCHASING.COM

nlpa

Negotiation X's & O's:
A Game Plan For Procurement Bargaining Success

Table of Contents

Section	Page
Who Do You Negotiate With?	1
Psychological Negotiation Techniques Used By Sellers	2
The Importance of Confidence in Negotiation	2
Suppliers' Negotiation Questions	3
What Suppliers Are Thinking	4
Interests Are Important In Negotiations	5
To Share or Not To Share Information	6
Choosing Among Different Negotiation Approaches	7
Win-Lose Negotiations & Their Consequences	8
How A Skilled Negotiator Prepares	9
Structuring the Ultimate Contract	13
Assumptions Are the Enemy of the Ultimate Contract	14
Structuring a Deal for Sustained Good Service	15
Negotiation Tactics	15
Negotiation Tactics That Can Backfire	16
Using The Reverse Differentiation Tactic	17
"Use Today Tactics"	18
Choose Your Words Carefully	19
Responding to Suppliers' Requests for Concessions	19
Interpersonal Skills in Win-Win Negotiation	20
Closing a Negotiation With Results	21
Improving Negotiation Skills	21
About The Author	22
About The Publisher	23

Negotiation X's & O's:

A Game Plan For Procurement Bargaining Success

What is the most exciting part of a horse race?

Right – the final moments when the horses are jockeying for position. Usually, there are a small number of horses that separate themselves from the pack and are striving to be ahead crossing the finish line.

This is very much like procurement. After issuing your RFP and qualifying potential suppliers, you usually have a short list of suppliers from which to choose who are all eager to be the "winner." At this point, perhaps the most exciting part of procurement begins – the negotiation process!

Who Do You Negotiate With?

The first decision to make at this point is with which suppliers to negotiate. I often get questions about the ethics of negotiating with one or just a select number of bidders after receiving proposals. Should all bidders be given the opportunity to negotiate?

Well, here's my rule of thumb.

I create and continuously maintain a ranking of best bidders at the post-proposal stage of the sourcing process. Whether that ranking is based on price alone or a combination of criteria, I always have it. And my personal rule is to not give a negotiating opportunity to a supplier without giving the same opportunity to all HIGHER ranked bidders.

So, if you have seven bidders and want to negotiate with the bidder that has the third best rank, the bidders ranked #1 and #2 should also be given the opportunity to "sharpen their pencils." I wouldn't worry about the lower-ranked bidders unless I think that they also have a legitimate shot at actually earning the business. Usually, at that point, I've already ruled them out.

Now, if I negotiated with the third-best bidder and, as a result, got "the best deal" and never gave bidders 1 and 2 an equal opportunity to revise their proposals, that would reek of poor ethical judgment.

One thing about this approach is how it might be abused by the suppliers that you frequently engage in sourcing processes. If they know from experience that they don't have to put their best proposal forward because they will have the opportunity to negotiate later, you may find your sourcing process becoming more complex and less efficient than it needs to be.

You also have to do a self-evaluation and ask yourself "Why am I negotiating with someone other than the top two bidders?" In some cases, it may be due to internal political pressure to keep the incumbent.

Using the competitive bidding process to simply lower the incumbent's price without any realistic

chance of actually switching suppliers is unethical. So you need to employ some change management to shape the culture of your organization while also keeping the process fair.

When you've identified who you are going to negotiate with, then you should closely evaluate the balance of power between your organization and each supplier. The next several pages will give you guidance on exactly how to do that. First, let's look at how suppliers may try to shift the power balance in their favor through some psychological techniques.

Psychological Negotiation Techniques Used By Sellers

Sellers use psychology-based negotiation techniques to dissuade you from asking for a better price. If you are aware of these techniques, you can resist being influenced by them and you'll always remember to ask for that discount you are seeking. Those techniques include:

The Pre-Emptive Strike - Sensing an imminent price discussion, a seller may say something like "We don't play games with our pricing. We give a price and, if you like it, we'll do business. If not, we'll wish you luck with someone else."

The Self-Proclaimed Good Deal - The "power of suggestion" is a real phenomenon in psychology. By telling you that you are getting a good deal, the seller hopes that you agree and don't challenge the pricing. Of course, just because a seller says a price is a good deal doesn't make it one.

The Final Detail - Sellers often refrain from talking price until they have covered all the details that you or your internal customers will be "sold" on doing business with them before considering price.

The Red-Tape-Wrapped Price - Salespeople are rarely the final decision-makers for price improvements. Usually, prices are decided upon by their management. When salespeople sense that you're rushed, they'll make getting price approvals seem like a time-consuming, bureaucratic task.

These sales techniques can disarm an amateur procurement negotiator by diminishing one thing that can give you incredible negotiating power: your confidence.

The Importance of Confidence in Negotiation

Power persuades. And confidence translates into power.

Can you learn to be confident? Yes.

Here are four specific things to do to be more confident in negotiations.

Visualize – Early in your preparations for negotiations, take some time to visualize a successful end result. Picture yourself shaking hands with your supplier and smiling. Imagine the feelings you'll feel when you've secured a great deal for your organization. Most tangible results start with a thought that

is later brought to reality. If you can't think it, you will have a harder time achieving it. So visualize and feel the power!

Affirm – Say this out loud to yourself throughout your preparations: "I am a confident negotiator." The last time you are by yourself prior to commencing a negotiation, say it to yourself again. The negotiation power that your supplier will sense about you stems from outward evidence that you believe in yourself. Affirmations strengthen your belief in yourself.

Use Confident Language – Suppliers who are trained in negotiation look for signs of weakness in you through your behavior and the words that you use. So never appear subservient or in doubt. For example, saying "Your brochure said that technical support is included with every purchase, but your proposal said that support is available for an extra charge. So I guess that you can't include support for free, right?" is weak. Don't expect to change a supplier's mind about the deal with words like that. Saying "Your brochure said that technical support is included with every purchase, but your proposal said that support is available for an extra charge. Let's fix that." sends the signal that you are confident and in control and that you have power.

Self-Assess – During a negotiation break, always ask yourself "Was I confident? Did not appearing confident hurt me? What can I do to appear more confident?"

Even if you go into a negotiation confident, your confidence can be shaken by being surprised by suppliers' negotiation questions.

Suppliers' Negotiation Questions

Prepare for these supplier questions to avoid threats to your confidence.

Question #1: *"Are you going to negotiate or just accept the lowest bid?"*

Suppliers ask this prior to sending proposals so they know whether to offer their true best deal or a "padded" price to be negotiated lower later. Question #1 is tricky: you naturally want suppliers to offer their best deal, yet stating the intent to negotiate will keep you from getting the best deal right away. But saying you won't negotiate and later negotiating is dishonest and unethical. So respond with something like: "It depends. We reserve the right to negotiate. But if it's clear that we've been offered the best possible deal, we may accept that proposal without negotiating. I encourage you to submit your most competitive offer to maximize your chances of being considered."

Question #2: *"Are you the decision-maker?"*

Suppliers hate negotiating with someone who doesn't make the final decision. They fear that their selling points will be lost, their work wasted. So they often circumvent the procurement process, avoiding the buyer and contacting an executive directly. This sales practice is unfair to the buyer, unfair to other suppliers, and can result in not-fully-informed decisions. As such, you should pre-empt this sales behavior and definitely not reward it. A good response to Question #2 is something like: "We make decisions as a team. However, I'm your point of contact. All discussions about this project must be coordinated through me."

Questions #3 & 4: *"How does my proposal look?"* and *"So if I improve this aspect of my proposal, do we have a deal?"*

Suppliers often ask Question #3 before you select the successful bidder. A buyer's usual response cites one unacceptable aspect of the supplier's proposal such as "Your price is too high," which invites Question #4. If you answer Question #4 before completing your proposal review, it can put you in an uncomfortable position. Saying "no" creates several negative impressions: that you aren't the decision-maker, that you've unethically pre-selected the successful bidder, and that you're bluffing about an acceptable proposal aspect. Such impressions can diminish the supplier's respect that you need to be persuasive. So don't provide feedback on a supplier's proposal and allow Question #4 to be asked until you're ready to negotiate. Simply answer Question #3 with something like "Our proposal review process is not yet complete, so I can't fairly answer your question."

What Suppliers Are Thinking

I had the opportunity to interviewe Ken Knudsen, the CEO of sales coaching firm Eagle Rock Enterprises, about suppliers' thoughts when negotiating with procurement managers. Through the course of this conversation, we identified several negotiating principles for procurement managers.

From the supplier's side, "the key to negotiation is that you have to start with a pretty wide spread," Knudsen shares. "If my goal is to sell something for $20 a case and I open at $20, we don't have negotiation room. Most sales professionals have something in their 'back pocket'."

So what can compel a salesperson to offer the better deal in her "back pocket?" The goal of many salespeople is to earn more and work less. That goal is best accomplished by working with customers with long-term relationship potential.

But that doesn't mean that your only necessary negotiating tactic is to promise a long-term relationship. Salespeople are trained to identify whether a procurement negotiator is serious or bluffing.

Before negotiating, they consider the states of the procurement professional's company and the industry. While negotiating, they evaluate the body language of the procurement professional. Certain actions may signal a dishonest representation, such as:

- Keeping the hand over the mouth
- Scratching the nose
- Failing to make eye contact

There are really two lessons to be learned with regard to body language:

1. You must be aware of your mannerisms, as they may be being interpreted by the salesperson; *and*
2. You should also observe the salesperson's body language

"One of the things that I coach clients on is that you should always take someone into the sales call with you because they're observing while you're trying to present," explains Knudsen. "Most

purchasing managers try to (negotiate) one-on-one or one-on-two" and, therefore, fail to be as effective at observing the supplier's body language.

To Knudsen, an indicator that the procurement professional is interested in a long-term relationship is the manner in which the procurement professional communicates. I pointed out that procurement professionals often open a sales call or a negotiating session with a phrase like "You have five minutes, what do you got?" Knudsen identified that as one of many "red flags" that positions the procurement professional as a "short timer" and compels the salesperson to withhold better deals.

Knudsen acknowledges that one of the salesperson's objectives is to get her procurement counterpart to talk, but also says "Most purchasing managers should try to get the salesperson to talk more." By learning about a salesperson's interests, you can uncover opportunities for good deals that the supplier is withholding for potential long-term relationships or "reference accounts." Sometimes, salespeople are sent into a meeting with the instructions: "Price is not an issue. Get the account." But you may risk never discovering that if you don't foster an open dialogue.

Interests Are Important In Negotiations

Speaking of underlying interests, in the Summer of 2008, the sports world had an example of how strong someone's interests are in terms of shaping their decisions in negotiations. Hockey fans in Pittsburgh were shocked to hear that a recent star in the Pittsburgh Penguins' playoff run, Marian Hossa, signed with the Detroit Red Wings.

What's the shocking part? It was a ONE-YEAR deal!

Most players in their prime, as Hossa is, try to get the longest term deal possible in addition to the most money. And, according to an article in the Pittsburgh Tribune Review, the Penguins offered Hossa a 5-year deal...then a 6-year deal...then a 7-year deal, all for similar money, all to no avail.

This is a classic case of a negotiation failing because one party's true interests weren't addressed. Hossa's interests are best summed up by his quote in the aforementioned article: "I want to have a best chance to win the Stanley Cup. I feel like Detroit is the team."

We're not saying that the Penguins failed to address these interests verbally...we don't know. Perhaps Hossa had his mind made up about Detroit and didn't feel bullish on the Pens' immediate future. But we wonder if the Penguins stressed in the negotiation their commitment to winning by having Sidney Crosby and Evgeni Malkin - arguably 2 of the 3 best players in the league, and not yet in their primes - signed to long-term deals as a way of persuading Hossa to stay.

Detroit knew Hossa's interests. So they got him for a lower price and terms more favorable to them.

Hossa's agent probably pushed for a longer term deal and more money. But I bet Detroit knew they had what Hossa wanted, held their ground, and ended up with a pretty good deal. So uncovering and appealing to your counterpart's interests in procurement, sports, or life is important.

The ironic ending to this story is that the Penguins defeated the Hossa and the Red Wings in a rematch in 2009. Hossa subsequently left Detroit as a free agent and signed with the Chicago Blackhawks.

To Share or Not To Share Information

After reading this ebook so far, there is a chance that you might be thinking that disclosing information to your supplier could put you in a disadvantage in a negotiation. In some cases, it might. But there are many cases where open communication can pay big dividends, too.

Procurement professionals are often reluctant to share information, and Knudsen sees that as a barrier to their success in negotiating. He says that the sharing of information is often important for a salesperson to be able to go back to her management for approval to offer a better deal.

I agree, but I also feel that you need to be proficient at distinguishing good-intentioned salespeople from unscrupulous ones who are just seeking a negotiating advantage. So, no single rule applies to the sharing of information in a negotiating situation. You have to make the decision that is right for the specific circumstances.

More open communication may make some procurement professionals nervous as some feel that developing a relationship plays to the salesperson's advantage and to the procurement professional's disadvantage. That does not have to be the case.

By communicating openly, you can learn the objectives of both the salesperson and the supplier and how a win-win result can be achieved. And a relationship-building demeanor has many times influenced Knudsen to believe in a higher probability of a long-term relationship which gave him the "ammunition to go back to my boss or my boss' boss or the company to help (the procurement professional's company)."

So, to summarize the negotiating principles that arose from our discussion with Mr. Knudsen:

- Salespeople often enter negotiating situations with available improvements in their "back pockets."
- A significant motivator for salespeople to offer improvements is the potential for a long-term relationship.
- Skilled salespeople evaluate your body language as well as your openness and friendliness in communicating in determining the likelihood of a long-term relationship and, therefore, how much improvement to make to their offers.
- You should observe, or have a colleague observe, suppliers' body language in negotiating situations.
- By asking questions and getting a salesperson to talk, you may uncover available opportunities for better deals.
- Sharing information is critical to developing the long-term relationships that result in good deals. But you have to be careful to distinguish good-intentioned sales people from unscrupulous ones and share or withhold information as dictated by the specific situation.
- The belief that developing a relationship plays to the salesperson's advantage and to the procurement professional's disadvantage is a myth. By having an open relationship, you can learn a lot about the objectives of the salesperson and the supplier and can be better positioned to achieve better deals and a win-win situation.
- A relationship-building demeanor on your part may compel the salesperson to seek a better deal from management.

Choosing Among Different Negotiation Approaches

It should be clear by now that negotiation success doesn't just depend on having a great arsenal of negotiating tactics. You need a negotiation game plan and you must also consider your counterpart's negotiation game plan.

How many of us armchair quarterbacks watch a football game and say "They should have run the ball more" or "They should have exploited their passing attack?" When we say such things, what we don't take into account is that the other team is using a defensive scheme that influences the play calling. Similarly, the supplier's tactics must influence our "play calling" in the context of a negotiation.

The balance of power should shape your approach to negotiating. And that balance of power is sometimes affected by some common situations. Here are some situations that will impact the balance of power.

Goods vs. Services. When buying goods, you can generally take a more tenacious approach to negotiation. With services, negotiating can be a bit trickier, particularly when you are negotiating with the person who will ultimately be providing the services such as a consultant, accountant, graphic designer, or similar professional. These individuals tend to take pride in the work they perform and view your attempts at negotiating a better price as a devaluation of their work. They may respond by providing services that demonstrate that "you get what you pay for" instead of giving you their best efforts. So take a firm but diplomatic approach when negotiating with service providers.

Custom Orders vs. Mass Production. When you place a second order for mass produced goods, you probably won't be able to negotiate a much better price than you negotiated for your first order. However, with custom-made goods, you do have a little leverage. On the first order, the supplier probably built 100% of its non-recurring costs (e.g., process design, set up, production instructions, etc.) into the fee you paid. If you end up placing an unplanned second order, the supplier has already recouped its non-recurring costs and, thus, your unit price should be lower than it was on your first order.

Technically Committed vs. Technically Uncommitted. Let's face it. When other people in your organization have worked with a supplier to determine the technical specifications for what they are going to buy and only one supplier can comply with them, there is little leverage that you have in negotiation. So, when other people interact with potential suppliers, your negotiation power depends not so much on how you communicate with the supplier, but moreso on how you prepare your internal team. Everyone responsible for the technical decisions should be advised of these things:

- No one should share a supplier or specification selection with suppliers until a purchase order is issued.
- The less certainty a supplier has about getting the business will translate into more price flexibility.
- Your approach is not necessarily designed to choose the lowest cost supplier but rather to ensure the lowest possible cost for the preferred specifications backed up by compliant supplier performance.

Win-Lose Negotiations & Their Consequences

Once you've assessed the buyer/seller power balance, it is time to actually prepare for the negotiation. The most general level of negotiation preparation is putting yourself in either a "win-win" or "win-lose" mindset. Experts say that win-lose negotiation focuses on "dividing the pie" so that you get a bigger piece of the pie and that win-win negotiation focuses on "expanding the pie" so that both parties benefit moreso by collaborating rather than competing. Win-win negotiation is often preferred because it allows organizations to start doing business in a friendly, productive – rather than an adversarial – manner.

But there are also hidden consequences of being a win-lose negotiator. While I was preparing materials for this book, I was going through some old notes on negotiation and came across some materials from a negotiation retreat that a former employer – a company that had an alliance with a British company - sent one of us to in the '90's. The Head of Purchasing and top Purchasing Director for the employer were actually employees of the British company.

They liked to preach the "British style" of negotiating. And the culture dictated that Brits negotiate with a lot of emotion.

They sent members of the procurement department to the aforementioned negotiation retreat where the training was being conducted by a couple of British consultants. One acronym that was introduced during this session was NIGYYSOB.

NIGYYSOB?

Yeah, they said it stood for "Now I've got you, you son of a gun." Only "gun" was replaced with a less-savory term. You gotta love the Brits, huh?

OK, we know, it's weird.

But the concept was that you should be careful not to have your supplier hate you too much when a negotiation concludes - along the same lines as the "be hard on the problem, not the person" and "help your counterpart save face" tactics mentioned in the landmark negotiation book "Getting To Yes." Inspiring too much hate, they posited, would manifest itself in some way of your counterpart getting back at you (either personally or in business dealings) when it's an opportune time.

They proceeded to tell a true story of how a buyer was always tough in a personal way with a certain supplier's salesperson over a period of years. Then, one day during a tough negotiation, the salesperson stands up and punches the buyer in the face, breaking his jaw.

As the buyer slouches in his chair with blood pouring from his mouth, the salesperson smiles and says "I've wanted to do that for 10 years." The salesperson then exited the building and retired that same day.

Fortunately, that's never happened to me. I did think it was going to happen to a former boss one time, though...

That boss had responsibility for some categories and the folks at our level had responsibility for others. One day, the boss (let's call him Rajeev) was complaining about there being a lot of maverick buying for one of his categories and said that he was going to ask our contracted supplier's president to remove the rep (let's call him Jody) from our account.

Jody had been working our account for something like 10 years. Rajeev said that he thought that Jody "intimidated" the largely female administrative staff throughout the organization because Jody was a "big guy" and they didn't like him for that reason.

So Rajeev told Jody's company's president. We're not sure what he told the president (probably not the "intimidating big guy" rationale), but Jody was not only removed from the account - he was fired completely (we were a pretty big customer)!

Jody was crushed and ended up being admitted into a mental institution due to his self-destructive devastation. I'm not sure if he became suicidal or not, but it wouldn't surprise me. Sadly, I don't think that Rajeev felt one bit of regret.

Some of us had a secret fear of Jody coming into our offices and going postal or picturing the boss someday being found in a nearby dumpster. There was an aura of wrongness in our department for some time after that.

There is a line in being a tough negotiator. When you cross that line, it's good for no one.

Ever heard the expression "It's nothing personal, it's just business?" It's wrong.

It's all personal when someone's career and future can be affected by the outcome. Just ask Jody or the broken-jawed buyer's salesperson.

Colleagues want each other to succeed. Enemies hate to see each other succeed and will try to prevent such success. You've read some examples about being an enemy in negotiations, or what win-lose negotiation is like. But what is win-win negotiation like?

I'll cover win-win negotiating techniques in the section that covers tactics. For now, want to concentrate on preparation.

How A Skilled Negotiator Prepares

Here are six characteristics of the way that a skilled negotiator prepares:

1. The Skilled Negotiator Knows Her Counterpart. Procurement professionals often fail in negotiations due to being caught off-guard by the experience and/or aggressiveness of the supplier's negotiator. So always learn about your counterpart before you begin negotiations. Insist on a phone conversation prior to the negotiation. You can tell the supplier that the purpose of the call is to shore up logistical details like time, location, and length of your meeting. And do shore them up. But also find out more about your counterpart through "small talk." How long has she

been selling the product or service? Is he an aggressive personality? Then, adjust your tactics for that type of counterpart.

2. The Skilled Negotiator Knows Her Worst Enemy. If I was to ask you who your worst enemy is in the context of a negotiation, I bet there's a high likelihood that you would respond that it's your supplier counterpart. That is, the sales person on the supplier's team who's trying to get the highest price for the product or service that he or she is trying to sell to you. And in some cases you'd be right. In other cases I'd say that you're close, but not quite right. Why is that?

   Well, in my opinion the procurement negotiator's worst enemy is the set of assumptions that the procurement professional makes in context of the negotiation. And let us explain more through a real-life story.

   This story is about a buyer responsible for buying signage for his company. Let's call this buyer "Chuck" to protect the not-so-innocent.

   In one of his first signage buys, Chuck was buying signage with a baseline price of $100,000.00. Chuck negotiated with the top rated supplier and was able to persuade that supplier to reduce his price by 20 percent.

   Chuck felt pretty good about this so he went into his boss's office and said, "Boss, I think we're ready to sign the contract with this supplier. I was just able to negotiate a 20 percent price decrease."

   Chuck expected his boss to be pretty happy about that, but the boss turned to Chuck and said, "Is that as low as they will go?"

   And Chuck said, "Well, yeah."

   The boss said, "How do you know?"

   And Chuck sheepishly said, "Well, that's the price we ended up at when we concluded the negotiation."

   And then the boss said, "Well, how do you know that they wouldn't be willing to go even lower if you continued with the negotiation?"

   And Chuck looked like a deer trapped in headlights because he didn't have a good answer for his boss. And at that point Chuck realized that the assumption that he was making about the supplier's pricing was limiting his ability to maximize his success in the negotiation.

   Unfortunately, these types of assumptions do get in the way of a lot of procurement success. I have many other examples. I've had conversations with distributors who have said, "Well, we don't train our buying teams in negotiation because we don't negotiate with our manufacturers. They set the price and that's the price that all distributors pay."

   Now personally having been in a procurement department for a distributor, I know that that's not true in all cases. But do you see how powerful that assumption is?

That assumption is standing between the distributor and that distributor's ability to improve profits through negotiation. And even if the price isn't flexible, maybe payment terms or some other benefit is.

I've also seen a lot of examples in inflationary times of price increases being just accepted and buyers will say, "Well, commodity market prices are going up, there's nothing I can do about it." Yes, it may be true that commodity prices have gone up. And maybe you won't pay the same price that you did last year. But that doesn't mean you shouldn't try to negotiate and maybe take a little bit of the price increase away just through negotiation. Because of the assumption that commodity markets are going up and price increases are therefore non-negotiable, procurement professionals in some cases are not helping their company's profitability as much as they could.

So what I suggest is for you to evaluate your assumptions – your worst enemy - before going into a negotiation. Try to catch yourself making these types of assumptions. And when you do, ask yourself "Is that assumption correct?" Challenge that assumption and see what happens. I guarantee you that over the course of your career you will be more successful in some negotiations because of it.

3. The Skilled Negotiator Uses Deep Logic.
   Logic can be a powerful negotiating tool. But a skilled supplier negotiator will anticipate your logic and shoot it down. For example, let's say you were buying used aircraft parts. You may say to the supplier who bid $3,000 for a part "I always see these parts selling for $2,000, so your price isn't fair." That might be good logic, but the supplier may say "But those parts are in 'repaired' condition rather than 'overhauled' condition and don't have the same warranty." If you didn't go deep with your logic and consider all possible supplier responses, you likely have no more ammunition for persuasion.

4. The Skilled Negotiator Controls The Meeting.
   Salespeople are taught to control meetings. In a negotiation, this disarms you and prevents you from reaching your negotiation goals. Don't let the supplier control the meeting. Either present an agenda or prepare a set of probing questions to lead the conversation. And when you've achieved the results you're looking for, give signals that the meeting is over (e.g., stand up, say "Thank you for your time in meeting with me today," etc.)

5. The Skilled Negotiator Knows What The Supplier Will Ask & How To Answer.
   At the outset of negotiations, suppliers want to learn if they can earn your business with their current proposals or if they have to improve them. Be prepared for their questions and know how you're going to answer them. In addition to the supplier questions I addressed earlier in this ebook, the supplier also wants to learn:
   - Do you have the budget to pay the current price?
   - How quickly do you need to make a decision?
   - Are there other suppliers that you're courting?

   Some suppliers may even directly ask you these questions. So be prepared for them.

   Because each situation will be different, it is impossible to provide the single best answer to each

question that would be honest in every case. But I can tell you how certain responses affect your leverage...

** Do you have the budget to pay the current price?*

This can be a two-edged sword. Saying you have the budget will make the supplier feel less compelled to change his price. Saying you don't have the budget will make the supplier feel that you are not serious about buying and therefore feel that negotiation is pointless. We like to use a standard response like "As a matter of policy, we simply do not discuss budget with suppliers regardless of the situation."

** How quickly do you need to make a decision?*

The quicker you need to make a decision will make a supplier feel that you might be pressured to accept a higher price.

** Are there other suppliers that you're courting?*

I always say "As a matter of policy, we do not discard any options until a deal is signed."

Please note that these questions may be asked directly or the information can be gleaned more subtly. A savvy salesperson will find less intrusive questions to ask to get at the same information! So you'll need to be prepared for such conversations.

6. <u>The Skilled Negotiator Recognizes The Importance of Timing</u>.

Your preparation must not only cover "what" to say, but also "when" to say it. "Timing is everything" is a phrase used in topics from stock market investing to comedy to gadget play calling in football. It very appropriately applies to supplier negotiations as well.

Negotiating at the wrong time can harm a supplier relationship and even cost your organization money. Here are a few points in time and tips on whether or not to negotiate at those points.

Before The Proposal

Imagine yourself in a situation where you are discussing a product or service with a potential supplier prior to getting that supplier's proposal. If pricing comes up, you may be compelled to ask for big discounts. Don't! Why not? Well, if the supplier senses that you are going to push hard for cost cuts, how will he craft the proposal? That's right – he'll inflate the price so that you feel like you "won" the negotiation after wringing a price reduction. In reality, the supplier may have padded the price so much that your final price is more than you would have paid otherwise.

Immediately After The Agreement

After concluding supplier negotiations, some procurement professionals ask for something else due to a forgotten issue or wanting to win bigger. Negotiating after a "handshake" can hurt a supplier relationship. A supplier who negotiates in good faith only to have an agreement re-opened immediately will likely be on guard against you. This supplier may not treat you like a

partner and may even behave opportunistically in the future. There are plenty of good supplier negotiation techniques to use prior to the handshake. You don't need to resort to bad faith to get the results you want.

Prior To Contract Expiration

The months prior to a contract's expiration represent an excellent negotiation time. An incumbent supplier doesn't want to lose the business he has worked so hard to secure. Extending the contract would save time and money in a supplier's sales process. You can often negotiate excellent concessions if you dangle the prospect of extending the contract without going out to bid. But the key is timing. Doing this well in advance of the expiration creates the perception that you have options. And suppliers are often happy to cut good deals to become your only option.

Structuring the Ultimate Contract

As you plan on how to approach the negotiation, you will obviously want to end up with the "Ultimate Contract" – an agreement representing the best offer in the market for all terms: price, warranty, delivery, payment terms, etc. What often happens is that one supplier offers the best price, a different one offers the best warranty, a third offers the best delivery, etc.

You should never approach a negotiation feeling that you have to sacrifice a good deal on one term for a good deal on another. Use this process for planning your Ultimate Contract negotiations.

Summarize RFP Responses. Use your eSourcing software or create a spreadsheet to list each major term and each supplier's offer for that term.

Identify The Best Deal For Each Term.

Create The Ultimate Contract On Paper. Create a single sheet with the best offer for each term as if a single supplier offered all of those terms. That is what the Ultimate Contract will look like. This sheet will represent your goals for negotiating.

Decide What You Can Sacrifice If You Must. Sometimes, it's just not possible to get the Ultimate Contract. So you must prioritize the terms you need and the ones you simply want. For example, can you accept a shorter warranty if you get an even better price? Can you forgo that liquidated damages clause as long as you get the desired payment terms? We're not suggesting approaching the negotiation in a softer way – always strive for the best – but simply to know what the most important terms are.

Negotiate Ethically But Confidently. Because at least one supplier has offered you the deal you are asking for related to each individual term, you can feel confident that the market can bear your demands. So approach the most attractive bidder with your demands. Just be careful not to cross the ethical line. Do not disclose that you are requesting a certain term because a specific competing supplier has proposed it. But if a supplier suggests that your demand for a certain term is unreasonable, let him know that you have proof that it is reasonable.

Assumptions Are the Enemy of the Ultimate Contract

Here's a real-life story from a procurement professional's past that drives home the point that suppliers do hold back on some terms when submitting their proposals. This story about that signage buyer, Chuck" again.

The company Chuck worked for was buying signage like crazy. And his internal customer's approach to determining demand was so non-strategic (if he knew then what he knows now, things would have been different).

Anyway, there were some specialty-type sign items that the organization was buying. Not every sign manufacturer had the capability to produce the type of precision-cut lettering they were looking for. When the internal customer determined the sign needs for one location, he wanted them ordered NOW! That meant no waiting to determine what else could be packaged into a deal to have more leverage and get a better price.

And this was a high-profile project with Chairman of the Board involvement so, as a new buyer, Chuck wasn't going to push back.

So he'd go out to bid, select a supplier, and a couple weeks later go out to bid again. The company found itself primarily using two suppliers who met the quality requirements, were competitively priced, etc.

In this one solicitation for signage, one of the suppliers (Supplier A) offered a slightly better price, but the lead time was two weeks longer than the other supplier (Supplier B). So, Chuck decided to pay a small premium to get the better lead time. Knowing the jobs the organization had in Supplier A's shop didn't give Chuck any reason to question their lead time.

In the debriefing, Chuck told Supplier A that they didn't win the award because their lead time was 8 weeks instead of 6 weeks (what Supplier B proposed). The supplier ranted and raved that they could have done the job in 6 weeks.

In Chuck's mind, he said: "Well, uh, if you could have done it in six weeks, why didn't you say that! Doesn't it make sense to put your best foot forward? Duh!"

But the supplier shouldn't take all of the blame in cases like this.
With a quick phone call to each supplier to see how flexible their important variables were, Chuck could have saved his organization a few dollars - much more than they would have spent paying Chuck for the few minutes he spent "negotiating."

So, the moral of the story is that a procurement professional should never assume that any variable is inflexible. Ask for improvement on them all. That's one of the keys to negotiating the Ultimate Contract.

Structuring a Deal for Sustained Good Service

As you're structuring what your deal should look like, you should consider how to keep your organization important to the successful supplier. When you're an "Important Customer" to a supplier, your needs get immediate attention. You don't have to be a huge company to be an "Important Customer." Being a large customer doesn't hurt, but there are other ways to become and stay important to your suppliers. Let's explore one approach.

In contracts involving multiple payments, a supplier wants as much money as possible up front. This may lead them to desert you towards the end of the contract when their revenue from you is small and their revenue from new customers is large. So it's better for you to have an arrangement where less money is paid in the beginning of a relationship and more is paid in the end.

Here's an example of a typical initial proposal from a software supplier for a three-year contract:

Cost Component	Amount	Payment Due
Licensing Fee	$165,000	Upon signing
Implementation Fee	$150,000	After implementation
Maintenance Fee	$60,000	@ start of each year
TOTAL	**$495,000**	

Of course, you're going to negotiate this offer, right? A revision left up to the supplier may reduce the licensing and implementation fees by 20% and reduce the annual maintenance fee to $20,000, resulting in a total cost of $312,000 and a savings of $183,000. That's a nice savings, but the arrangement makes you less important as time goes on. A better way to restructure the pricing and achieve the same savings is as follows:

Cost Component	Amount	Payment Due
Licensing Fee	$72,000	Upon signing
Implementation Fee	$60,000	After implementation
Maintenance Fee	$60,000	@ start of each year
TOTAL	**$312,000**	

By distributing costs towards the end of the contract, the supplier has a financial interest in being responsive late in your relationship. Other ways of staying important include using option years, termination provisions, and liquidated damages clauses in your contracts. So when you're negotiating a long-term deal with a supplier, consider how you are going to remain important to your supplier throughout the entire contract.

Negotiation Tactics

As you can tell by the amount of pages so far in this ebook, I think preparation is extremely important if you want to have a successful negotiation. Some people tend to think that the quickest thinkers are the best negotiators. But good planning reduces the need to be so quick on your feet – you anticipate

what to say and when to say it, which makes you appear like a quick thinker when really you're just a great preparer. Deciding on your tactics is more part of preparing for a negotiation rather than something you do on the spur of the moment in the heat of the battle.

Most people want to jump straight to negotiating tactics. But preparation should come first. And now that you've learned about preparation, you can begin to talk about tactics. Again tactic selection is really part of preparation itself.

Why? Because not all tactics are equally effective. And some tactics will work in some situations but not in others.

Negotiation Tactics That Can Backfire

One of the reasons that negotiation is one of the most exciting business processes is that there isn't 100% certainty. Here are three examples of negotiation tactics that have proven to be very effective, yet still can fail if not applied in appropriate situations.

The Crying Poor Tactic. The Crying Poor Tactic is used by publicly-held companies whose poor financial performance is well known and also by small companies. Buyers from these companies will stress to the supplier their financial state (e.g., "You know we don't have a lot of money, so we need lower pricing.").

This negotiation tactic can indeed be effective. However, it can also raise suspicion in your supplier that can have a negative effect on the deal. The supplier may be wary that they won't be paid on time or at all. The supplier may worry that your company won't be around to fulfill its contractual commitments. And, as a result, the supplier may withhold its best deal.

The Saving The Toughest Issue For Last Tactic. Deciding the order in which the various issues will be discussed with your supplier is critical. Some negotiators like to save the toughest issue for last.

Saving the toughest issue for last does work well in certain situations. It allows you and your supplier to agree on easier issues, thus building a rapport and spirit of cooperating for mutual success. It also helps you assess your supplier's negotiation style, strengths, and weaknesses while preparing to negotiate the big issues.

However, if there is a deadline for your negotiation, saving the most difficult issue for last can be disastrous. You could have little time left to finish the negotiation and feel pressured to concede to a less-than-optimal deal.

So, while deadlines can work for you in a negotiation, they can also work against you. Evaluate the deadlines: When are they? Who has imposed them? Are they negotiable? And if the deadline has been imposed by an internal customer or management and is not negotiable, address the most difficult issues sooner rather than later.

The Get It From Someone Else Tactic. The fear of losing a deal to a competitor can get a supplier to its lowest price very quickly. Saying "If you can't lower your price, that's OK - we'll buy it from someone else" can work in certain competitive situations.

However, not all markets are so competitive where you can indeed buy the same exact item from any supplier and get equivalent quality, delivery, and service. Suppliers in these less competitive markets know this.

If you attempt to use the Get It From Someone Else Tactic on them, they will realize that you have less knowledge of the marketplace than them, which will make them feel like they have more leverage in the negotiation and they will be less likely to concede.

And that brings me to a sales negotiating tactic that can be adapted for procurement negotiation. When negotiating, suppliers may mention how they are different than their competitors and, therefore, better for you. They often base their difference on common problems that procurement professionals encounter with other suppliers.

In sales, that technique is called differentiation. You can use a variation of this technique when negotiating with suppliers. I'll call it "reverse differentiation."

Using The Reverse Differentiation Tactic

In using the reverse differentiation negotiation technique, you identify common problems that suppliers have with other customers. Then, when negotiations are at an impasse, you appeal to their emotions by showing how working with your company isn't as painful as working with some of their other customers.

The key is that your point(s) of differentiation must be true. If your organization has one or more of the following characteristics, you will be different than most of your suppliers' customers and can use these characteristics to "sell" your supplier on the benefit of giving you a better deal in order to earn your business.

Quick Decision Making. Some organizations take weeks or months to make a procurement decision, have it approved, and place an order. If your company moves on its decisions quickly, stating how you can help your suppliers have shorter "sales cycles" can persuade them to offer better deals when negotiating.

Prompt Paying. Some organizations take 45, 60, or more days to pay their invoices, which is costly to their suppliers. If your organization pays promptly, you can use that fact to your advantage when negotiating.

Evangelistic. Supplier marketing is more effective when their materials contain customer testimonials. But many companies do not permit their staff to offer testimonials. If your organization willingly provides testimonials, you can demonstrate that your value as a customer is higher and that the supplier giving you a better deal would be well worth it.

Low Maintenance. Some customers whittle away at supplier profits by demanding more attention than other customers in the form of requesting special procedures, customizations, or other unique attention. If you aren't a "high maintenance customer," you can mention this when negotiating to give

the supplier assurance that a thinner profit margin won't be eaten away by forcing the supplier to respond to special requests.

Earlier in this ebook, I talked about win-win negotiation being the preferred approach to modern negotiation. Using the "reverse differentiation" negotiation technique is a great first step towards becoming an effective win-win negotiator, or "expanding the pie" if you will.

If you're just getting started as a negotiator, expanding the pie is a quantum leap. Using the reverse differentiation negotiation technique is a great intermediate step between being an adversarial negotiator and a seasoned expand-the-pie negotiator. It inspires you to "sell" the supplier on the benefits of working with you rather than beating the supplier up and stating the consequences of not agreeing to your every desire.

So if you're not quite prepared for expanding the pie, using the reverse differentiation negotiation technique can really help you become more of a collaborative negotiator.

"Use Today Tactics"

See – negotiating tactics don't have to be complex to be effective. Some are simpler than others. I have three tactics that I call "Use Today Tactics" because they really are so simple that you can use them today without much practice. Here they are…

Use Today Tactic #1: Don't Use All of Your Ammunition at Once. There may be several logical reasons for a supplier to reduce his price: ordering early, being eligible for a multiple-product-purchase discount, etc. Suppliers will often try to convince you that their first price reduction is a great deal that you should accept. So if you used all of your reasons for getting a price reduction at once, the supplier has more power to defend his price and you have run out of reasons for getting a lower price. So follow these steps:

- Know the reasons for requesting a price reduction
- Decide the sequence to introduce those reasons
- Ask for a price reduction based on one reason
- Thank the supplier after getting it
- Ask for a better price for another reason and repeat

Use Today Tactic #2: Ask About The Supplier's Questions. During a negotiation, the supplier will ask you questions. For example, when trying to decide by how much to reduce his price, the supplier may ask you: "When did you want delivery to take place?" It would be easy to say "In two weeks" and leave it at that. We'd respond by saying, "We originally wanted delivery in two weeks, but does our delivery timeframe make a difference in our pricing?" If the answer was "Yes," we'd follow up with "What delivery date will qualify us for the best deal?"

Use Today Tactic #3: Listen To Suppliers' Dialogue. I would never endorse "spying" - listening to or recording someone's conversations against his wishes. But I feel that cell phone calls made in your presence while negotiating without a privacy request are fair game for listening.

In such conversations, you can pick up clues about the factors the boss is considering in revising his offer. For example, let's say you hear the salesperson say "No. They'll be paying 100% upon completion

instead of a down payment." From this, you can tell that payment terms affect your pricing. So you can say "I overheard you mention payment terms. How might altering our payment terms help us get a lower price?" This tactic often uncovers otherwise hidden savings opportunities.

Yes, paying attention for clues in your counterpart's words can help you be a more successful negotiator. But so can looking for clues in your own words.

Choose Your Words Carefully

One of my students recently wrote to me with a request: "Normally we have been using a word 'best' for price negotiations with suppliers as in 'Your price is too high, please quote your best price.' and sometime 'better.' Kindly advise which is the suitable word for price negotiations, which as I understand that is 'better.'"

Actually, when you are leading a procurement negotiation, I feel that you should use the word "lowest" rather than "better" or "best" when discussing price.

Think about it. The "best" price in the mind of the supplier will not likely be the "best" price in your mind, right?

If a supplier says "We gave you our best price" that may be true because the best price for them is the highest price. If the supplier is convincing, then you may believe that they've given you their lowest price.

But the best price for you is the lowest price. So ask for the lowest price, not the best price.

There are so many subtleties of the language that come into play in negotiations. Think about the words you use when negotiating and whether a slight tweak would make more sense. After all, your supplier might be looking to wrest concessions from you and will be analyzing your words as well. So what do you do when a supplier asks for concessions during the course of a negotiation?

Responding to Suppliers' Requests for Concessions

Here are three techniques that you can use to avoid giving up too much when your supplier requests concessions.

1. Just Say No. If a supplier asks for a more favorable term in a contract, a higher price, or any other concession, start out by simply saying "no." No justification is required. You would be surprised how many suppliers will just drop the issue then and there and not ask you again.

2. Introduce Consequences. If a supplier asks for a concession, test how important the concession is to the supplier by tactfully introducing consequences. For example, you could indicate that agreeing to a shorter warranty period would require the approval of management, technical staff, and others, and that such approvals would result in a long delay of formalizing the deal. If the delay in securing your business (the consequence) is unattractive to the supplier, it may drop its request for the concession.

3. Trade. If a supplier wants one term of an agreement changed to its benefit and you absolutely cannot convince the supplier to drop their request, try to only concede on the condition that you receive a concession of equal or greater value. For example, if a supplier cannot complete a service within 30 days as originally sought, attempt to obtain a more favorable fee structure to compensate for the concession that you have to give.

By using all of the tactics we've introduced, you will likely be asking your supplier for a large number of improvements in its proposal. You want to aim high. But you also want to maintain your place in the win-win negotiation mode we discussed before.

Interpersonal Skills in Win-Win Negotiation

Win-win negotiation is characterized by the fact that both parties feel like they ended up with a good deal. To achieve optimal results in a win-win negotiation, the parties must view the negotiation as a collaboration of colleagues rather than a clash of enemies.

So how do you create a collaborative, win-win atmosphere? It starts with having good interpersonal skills. Here are three things you should plan to do in your negotiations as well as other interpersonal situations.

1. Listen To Your Counterpart. Each party in a negotiation has ideas. Each party wants those ideas heard. Grant your counterpart the courtesy of your attention. Doing so will earn you return attention and will create a collaborative atmosphere. Interrupting your counterpart will create an enemy that will feel satisfaction if you fail.

2. Acknowledge Your Counterpart's Ideas. Negotiators take pride in the ideas that they bring to the table. To discredit those ideas will hurt your counterpart's pride and, again, create a situation where your counterpart would love it if you fail. Instead of saying "That's a bad idea," say "That's an interesting idea, but it may not work in our situation. I would be open to exploring variations of it, though."

3. Mention Mutual Success When Needed. If your counterpart becomes hostile, remind him or her that you are seeking a win-win solution. Phrases like "We just have to work together to reach an agreement that works for both of us" or "I agree that this must be a win-win situation for us to work together" can be effective when used respectfully. Most people would feel guilty for playing win-lose in a win-win scenario, so reminding your counterpart that you both need to feel good about the outcome can stabilize a tense situation. Win-win requires skills, not necessarily sacrifice.

Win-win negotiation works great when both parties are committed to the concept. However, as some negotiations progress into the "back nine" – or late stages – supplier resistance may creep in. So, should you transition into a "tougher" negotiator at these times?

Closing a Negotiation With Results

Many of procurement professionals sometimes feel that their negotiation styles aren't "tough" enough. They feel that they could deliver better results if we had a more powerful negotiation style.

But there is a misconception that "tough" negotiation requires an intimidating personality or superior on-your-toes thinking. Not true.

You can use these firm techniques – and stay in win-win mode - to create the anxiety necessary to persuade a supplier to concede to your requests without being the proverbial "bull-in-a-china-shop":

Deadlines – Even though many negotiation books advise you to avoid deadlines, they can be very advantageous if used correctly. Having an absolute time by which your supplier must have its best and final offer on the table or risk losing the business will accelerate your receipt of the best deal. This principle is one of the reasons that reverse auctions are so effective.

Next Step Prerequisites – Suppliers will gladly haggle over less significant issues like packaging requirements, on-time delivery criteria, etc. to delay discussing the "big" things like price. By telling your supplier that you will not discuss peripheral issues until there is a satisfactory improvement on the significant negotiation points, you will get your supplier to his or her bottom line more quickly.

Use Cooling Off Periods – Some negotiations can drag on for months with little or no progress. This is usually because the supplier feels that you are "sold" and that you will no longer be able to delay acquiring the product or service. If you want to regain your leverage, tell your supplier that you are going to suspend contact with the supplier for seven days while you reassess the situation and your alternatives. Suppliers hate to be out of touch. A break from negotiations may persuade the supplier to reevaluate the importance of your business. In best-case scenarios, just the threat of a cooling off period will get your supplier "off the dime."

Use common sense when considering these techniques. They work best when you have alternatives to doing business with your negotiation counterpart and may not work well in all situations.

Improving Negotiation Skills

I hope that you've learned a lot about negotiating in this ebook. But I hope that I am not disappointing you by saying that reading this once will not guarantee that you will be a great negotiator for the rest of your career.

Negotiation is a skill that must be kept sharp continuously to maximize your success. Here are five strategies for maintaining your negotiation skills.

1. Engage. Negotiation is a dynamic, interactive process. The best way to improve is to actually negotiate. When you do, you should assess how well you met the targets that you set before negotiating. Evaluate what you did well and document any lessons learned.

2. Observe. Watching others negotiate can enlighten you to techniques and approaches that you may not have thought of on your own. If the option is open, ask a negotiation-savvy coworker if you can sit in on his or her next negotiation session.

3. Network. Ask other procurement professionals from different industries what works well for them. Filter this advice through common sense, though, as someone claiming to be a good negotiator may actually be a poor one. Try out some of their best suggestions and see what works for you.

4. Read. There is no shortage of negotiation books out there. Read customer reviews on Amazon.com before deciding which one to buy. Chances are that you'll uncover a technique or two from any good book.

5. Take Classes. Formal training in negotiation and in situations involving negotiation not only can help you improve your negotiation performance, but it also looks great on a resume.

About the Publisher

Are you struggling to have a rewarding purchasing career?

The Next Level Purchasing, Association was founded to help you.

Whether you want to learn about purchasing and supply management by reading free articles, sharpen your skills in a specific area such as negotiation, or earn a valuable certification while getting a comprehensive education in supply management, the Next Level Purchasing Association can help you achieve your personal and professional goals.

Next Level Purchasing was founded in 2000, introduced the SPSM® Certification on July 1, 2004, the SPSM2® Certification on July 1, 2009, and the SPSM3® Certification on July 1, 2012. Since its introduction, prestigious organizations from throughout North America, South America, the Caribbean, Europe, Asia, Africa, and Australia have enrolled their purchasers in the Senior Professional in Supply Management® Program.

Learn more about how Next Level Purchasing can help you have a rewarding career by visiting http://www.nextlevelpurchasing.com

Valuable pages you'll find on the Next Level Purchasing Web site include:

- **SPSM® Certification** – https://www.nextlevelpurchasing.com/procurement-certification/spsm
- **SPSM2® Certification** – https://www.nextlevelpurchasing.com/procurement-certification/spsm2
- **SPSM3® Certification** – https://www.nextlevelpurchasing.com/procurement-certification/spsm3
- **Request a Course Catalog**– https://www.nextlevelpurchasing.com/procurement-training/courses/request-course-catalog
- **Training For Teams** – https://www.nextlevelpurchasing.com/procurement-training/purchasing-teams
- **NLPA Purchasing Articles** – https://www.nextlevelpurchasing.com/news/purchasing-articles

Next Level Purchasing Association,
1005 Slater Road, Suite 101
Durham, NC 27703 , USA
Phone: 1-412-294-1990
Email:
support@nextlevelpurchasing.com