

Think!

business negotiation, redefined

Negotiation Benchmark and Diagnostic for Procurement Organizations

The Journey to Organizational Competency

Benchmarking *Your* Negotiating Process: Overview

Think!'s proprietary benchmark/diagnostic process is a deep, but highly efficient dive into all parts of a company that touch or are touched by negotiation. We use the information gathered to benchmark you against other companies, diagnose the root issues and prescribe solutions tailored to your business in your current market environment. Our approach is focused on installing world class organizational competency and driving ROI, in addition to improving individual skills.

Diagnosing Root Causes of Negotiation Failure

In the negotiation field, acute, surface-level pain is often expressed as “we are not achieving our savings goals” or “our buyers are not being aggressive enough,” yet these are merely symptoms of a problem that doesn’t contain enough information to stage an intervention. There are many root causes of negotiation problems creating these symptoms and driving this pain – some buying-related, some cross-functional – such as:

- Not dealing with cross functional supplier leadership where appropriate
- Silo driven, internal negotiation approval process
- Strategy/tactics disconnect with internal customers
- Maverick buying
- Poorly structured RFPs
- Single and sole sources
- Raw material price increases
- Limited supplier base
- Legacy practices



Our benchmark/diagnostic process is segmented into two phases and four steps. The first gives us a sense of the current state of your market environment, and negotiation methods and talents in your organization. The second looks at the future state or what "could be" if your organization's negotiation skills improved

1. In Phase 1, we measure the state of external factors impacting your negotiations. Then we benchmark your company against others to determine gaps between your current state and world class.
2. In Phase 2, future state and success metrics are developed to inform a highly customized proposal for problem resolution.

Diagnosing your company's current state, desired state and success metrics is a very important first step. Taking this step before prescribing solutions in a workshop is the key difference between attending a tactical training event and embedding a business process deeply into the DNA of your company. This critical step quantifies needs and begins building the cross-functional support needed for implementation later.

At every step, we operate with maximum efficiency and effectiveness. We interact with your team to gather only the data needed, requiring minimal investment of company resources and no disruption to company operations. And because our process *requires* the involvement of key thought-leader management in cross-functional areas such as legal, marketing, product management, contracts, finance, legal, operations, and, of course buyers, the results take into account your entire negotiation ecosystem within your company.

Section 1: Measure and Benchmark the Current Negotiation Environment, Strategy and Tactics at the Management Level

In the first step, we measure the current state of external factors impacting your negotiations. Then we work to understand how well your leaders believe your firm is reacting from an overall procurement and negotiation strategy and tactics perspective, given the external market.

The comparative data originates from a research project undertaken in concert with the International Association for Contract and Commercial Management (IACCM). The IACCM/Think! Study benchmarks the state of the art for integrated procurement and negotiation strategy and tactics for global corporations.

Summary

The market challenges most companies face are making negotiation more difficult and more important. With limited formal negotiation strategy (alignment on where we want to go) or formal negotiation process (how we get there one deal at a time), it is no surprise that most companies' management report that zero percent are "highly effective" with negotiation performance.

External factors impacting negotiation – focuses on areas related to suppliers and competitors to get a sense of changes in the following areas:

	<u>Market</u>	<u>ABC Company</u>
• Consolidations; supplier/industry	37%/20%	60%/40%
• Supplier price pressure	87%	80%
• Internal commoditization pressure	60%	50%
• Increased irrational competitive behaviors among suppliers	46%	30%
• Length of deals longer term	88%	100%

Reaction to market changes from a procurement and negotiation strategy perspective – measures your strategic plan to address these external factors and includes the following areas:

	<u>Market</u>	<u>ABC Company</u>
• Written/formal procurement strategy	34%	20%
• Written/formal negotiation strategy	24%	10%
• Central vs. decentralized negotiation decision making	67%/33%	60%/40%
• Degree of internal negotiation fairly high	50%	20%
• Low degree of cross-functional alignment on internal negotiation	50%	60%
• Complexity of internal negotiation	70%	50%
• Hiring outside procurement consultants	34%	0%
• Internal customers demand to obtain more concessions	84%	80%
• Connectivity between procurement and negotiation	50%	50%

Reaction to market changes from a procurement and negotiation strategy perspective – measures your tactical plan to address these external factors and includes the following areas:

	<u>Market</u>	<u>ABC Company</u>
• Written/formal procurement process	68%	60%
• Written/formal negotiation process	25%	0%
• Extremely proactive in managing negotiations	28%	16%
• Quality of negotiation planning well defined	31%	0%
• Highly effective at trading	67%	22%
• Overall rating of negotiation effectiveness as highly effective	12%	0%

ABC Company managers answered the above question by rating the company's capabilities and performance in customer negotiations as:

- highly effective
- effective
- somewhat effective
- not effective

They were then asked to explain their rating and sample verbatim answers are as follows:

We have agreed to some very poor deals this year, with significant concessions.

Effective: as we always reach agreement with our suppliers, we've never lost a deal because we couldn't come to terms. The question is did we concede too much to close the deal?

In my limited experience with procurement, we coordinate internally with a strategic vision. We do not follow a formal process

Decision-making for the vast majority of decisions is maintained with a few select individuals. Input of others is rarely taken into consideration.

Some folks are more effective than others.

Understand Supplier's issues and try and respond in accordance with our standard POs. Also, direct line to stakeholders for input.

I don't think we have trained our buyers well [to being negotiations with the initial supplier interactions] so are thus often more reactive than proactive and are less effective in our negotiations overall.

I think we are successful more often than not, but I think we can do better; such as having a plan in advance and proactive positioning, and trading effectively for any gives.

Section 2: Buyers and Negotiation Effectiveness Overview

We survey a portion of the procurement team to determine the importance and effectiveness of their current negotiation skills. What their strengths and weaknesses are when negotiating value. What they see as the most to least important and most to least difficult variables they negotiate. How well they trade with their suppliers to get what they want. What internal negotiations look like in their environment, and finally, we get a sense of the upstream effectiveness of your buying process and coaching as we "negotiate what we buy".

Negotiation skills	ABC Company
• The importance of negotiation in their position	83%
• Extremely effective at negotiating	0%
• Planning skill that is most important	planning for what I want
• Strongest planning skill	Planning for what I want
• Execution skill that is most important	Responding to offers
• Strongest execution skill	Asking for offers
• Trades when supplier asks for something	0%
• Trades when I want something from the supplier	33%
• Management provides coaching	17%
• Request for more coaching	83%
• In depth planning process for key/high impact deals	50%
• Consistency in approach to negotiation	0%
Internal Negotiations	
• Negotiates internally	83%
• High level of alignment and collaboration	0%
• Involves internal customers throughout negotiation	67%
RFIs/RFQs/RFPs	
• How often RFIs/RFQs/RFPs are issued	Average about 50%
• Allow suppliers to offer additional services/products beyond RFX	33%
International buying	
• How much of buying is placed with international companies	0 – 25% of the time
Suppliers	
• Allows sales reps to call on internal customers	67%
• Allowing sales reps to call on internal customers helps the negotiation	20%
Supplier Development	
• Titles of those with whom we most commonly negotiate	Sales Reps Sales Managers
The marketplace	
• Internal negotiations getting harder	67%
• Supplier negotiations getting harder	100%
• Suppliers demanding higher prices	100%
• Internal customers demanding lower prices	67%
• Most difficult variable to negotiate	Price and product

Section 3: Internal Customers

We survey internal customers to determine current state and improvement opportunities designed to foster better relationships, and a more integrated approach earlier between buyers and internal customers.

- What function are you in?
- When buying a product or service at a significant spend level what % of the time do you utilize procurement to buy for you vs. doing it yourself?
- What most determines why you use procurement?
- Do you primarily use procurement for:
 1. determination of your needs
 2. ranking suppliers
 3. negotiating the deal
- I use procurement more for:
 1. new suppliers
 2. renewals with existing
- Rank least to most important, I want procurement to (understand my biz objectives, determine my needs given those objectives, suggest suppliers/alternatives, rank suppliers against my needs, negotiate pricing)
- Rank how well procurement does these things today: (understand my biz objectives, determine needs given those objectives, suggest suppliers/alternatives, rank suppliers against my needs, negotiate pricing)
- What is more important to you: total cost of ownership vs. acquisition cost?
- What is procurement better at: negotiating total cost of ownership or acquisition cost?
- How would you rate procurement responsiveness/timeliness?
- When issuing RFPs, how well do you feel your needs are adequately addressed?
- When you work with procurement do they add value or slow down the process?
- Does procurement present new ideas and possible alternatives vs. traditional suppliers?
- Do you want more?
- How well does procurement drive supplier development?
- How important is that?
- Overall how would you rate procurement effectiveness in meeting your needs?
- Explain your rating?

Section 4: Determine future state and establish success metrics

The first three steps give us a sense of your company's *current state*. The fourth step provides us with *future state* and *success metrics* for a proposed negotiation initiative. Telephone interviews are completed with key, cross-functional thought leaders involved in negotiation as well as those who must be onboard for a proper rollout and adoption of any proposed solution. The following areas emerge from this research:

- Strategic goals that can be enabled/executed by negotiation
- Given their role and focus, what they see as a desired state for negotiation; details are drilled down into process, leading and lagging indicators
- Key deals facing the company in the next three, six, nine and twelve months
- Gaps between current state and world class from the benchmarking section
- Potential barriers to success

Present Results

Once research, benchmarking, diagnosis and prescription are complete, the research highlights, results of the diagnostic process and proposed solutions are presented to senior management in a face to face overview. Results include specific detail on current and desired state, as well as comprehensive success metrics related to negotiation effectiveness including process metrics, leading indicators and lagging indicators.

In addition to the overview slide presentation, we leave behind a complete detailed copy of our findings and recommendations including all the metrics presented. So whether or not you choose to contract training or consulting services, at the end of this diagnostic step, you will have your company's success metrics for a negotiating intervention in hand.

Working with Think!

Scope

Given the complex nature of most of our clients' businesses, this benchmarking and diagnostic process needs to be executed at a *scope* level rather than corporate level. We work with clients during initial discussion to determine the appropriate scope to be evaluated; typical scope definitions are buying types (national, global, strategic suppliers), geographic regions (U.S., LATAM, ASIAPAC, Europe and UK, etc.), and product or service type. A tighter scope leads to better and more customized results.

Client Investment

The client investment in this diagnostic process consists of distributing two 15-minute e-surveys through email distribution lists to members of the cross-functional and buying team, assistance

scheduling five to ten 30-minute phone appointments, and being available for a results presentation lasting approximately 1.5 hours. It is vital that all representatives from all parts of a client's company who participate in or touch negotiation be a part of the benchmark, diagnosis and solutions presentation. Typically this involves key thought leaders from functional areas such as procurement, legal, contracts, operations, finance, etc. Appropriate team members for each phase are chosen collaboratively during early project discussions.



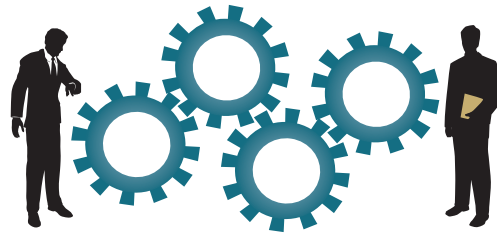
At No Cost to You

Think! knows this business. We are efficient and precise surgeons of our craft with every confidence that we can successfully benchmark and diagnose root causes and propose solutions that will measurably impact your negotiation effectiveness. As such, we offer this diagnostic process in order to earn the opportunity to give you a formal proposal outlining several ways we can help you make the journey toward improved negotiation skills.. We waive any fees associated with the services offered here in exchange for access to your cross-functional leadership during the research phases and face-to-face presentation of results.

Before you hire us, and whether or not you choose to contract follow-on training or consulting services, at the end of this benchmarking and diagnostic step, you will have in hand your company's success metrics for negotiating effectiveness. To date, the information we have provided at the end of this process has compelled 80% of the companies diagnosed to move forward with our proposals.

Timeline

On average, the diagnostic process and results presentation can be completed in as little as four weeks. The timeline varies according to the availability of your senior executive team to participate in the diagnosis process and attend the final presentation.



Deliverables

At the end of this project, the Think! team presents the results in a slide presentation to the senior executive team, highlighting the research and discussing the proposal going forward. The same information is also left behind in a 50-page report that includes detailed success metrics specific to a proposed negotiation effectiveness solution. Examples of those metrics are as follows:

Think! is the only negotiation consulting firm in the world that will deliver custom success metrics/ROI for a proposed negotiation intervention as part of our proposal process, long before we’ve been awarded the business.

Lagging Indicators	Leading Indicators	Process Metrics
<p>The ultimate success metrics for this initiative, such as:</p> <ul style="list-style-type: none"> • Negotiation process improvement • Formalized planning for key supplier negotiations • Internal customer satisfaction up • Less maverick buys <ul style="list-style-type: none"> • Formal negotiation process from 0% to 80% • Formal negotiation strategy from 10% to 80% • Quality of negotiation planning from 0% to 80% • Extremely effective negotiation from 0% to 80% 	<p>Specific items in the control of buyers that are directly linked to driving lagging indicators – those negotiable items you want more of and less of in deals, such as:</p> <ul style="list-style-type: none"> • Blueprints completed with internal customer on 75% of negotiations • Systematically bring all key internal customers in at the start of every negotiation for a strategy session • Identify and blueprint key program management opportunities for negotiation • Identify and blueprint strategic opportunities 	<p>Enablers:</p> <ul style="list-style-type: none"> • Completing the diagnostic • Training the buyers • Train the coaches • Internal customer alignment • Build internal customer satisfaction tool for negotiation • Integrate the blueprint into existing technology

About Think! Inc.

Think! Inc. is an international negotiation consultancy offering improvement processes that will transform any sales team into efficient and effective negotiators. Think! Inc. offers a wide range of services from specially tailored two-day Strategic Negotiation™ workshops based on the findings of a thorough needs analysis to implemented organizational negotiation solutions. These solutions assist our clients in developing an organizational approach to negotiation with a common goal, language and process, resulting in consistent customer and competitor messaging, internal alignment and creation of true business value.

Think! Inc. was founded by Max Bazerman, author of *Negotiating Rationally* and professor at the Harvard Business School, and Brian Dietmeyer author of *Negotiation Blueprinting for Buyers, fact based negotiation with case studies*, along with Rosemary Coates author of *42 Rules, for Sourcing and Manufacturing in China*.



Think! Inc. business negotiation, redefined

1750 w. superior, suite 100

chicago, illinois 60622 U.S.A.

+1.888.99.Think (888.998.4465) +1.312.850.1190

info@e-thinkinc.com

www.e-thinkinc.com

As part of entering into a contract with Think! Inc. for the purpose of the services described here, a memo of understanding and Nondisclosure Agreements from both Think! Inc. and the client are required. This grants Think! Inc. and its representatives access to client data and personnel for research, analysis and presentation.

The data collected and reports prepared as part of this contract are used solely for the purpose of executing and presenting the results of the diagnostic services and to inform any ongoing consulting and/training that may follow. Data and reports are not made public, sold or distributed for any other uses.