

# Think! Inc.

business negotiation, redefined

A black silhouette of a muscular man from the back, holding a large white sign with both hands. The sign is framed by a light blue border.

Increasing Your Power  
in a Single Source Negotiation

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**PROBLEM:**Supply Managers Often Think They Have No Power  
in a Single-Source Negotiation

Even the most astute supply managers can feel powerless, exploited and set up for failure when faced with a single-source negotiation situation. Nonetheless, the business objectives and margins of your organization and your supplier organization have to be met. That won't happen unless there's a balance of power and when power is imbalanced, neither party genuinely wins. By implementing two key solutions, you will ensure everyone's interests are served. You'll negotiate smarter and ultimately, achieve more opportunities and stronger relationships.

**SOLUTION Step One:**

## Know What the Supplier Will Do Without You

To properly prepare for any single-source negotiation, ask yourself:

- What are the consequences to the supplier if they don't reach an agreement with me?
- What will that cost them? What are the short- and long-term costs? What are the soft and hard costs?
- How will that benefit them? What are the short- and long-term benefits? What are the soft and hard benefits?

By determining what will happen if an agreement isn't reached—the Consequences of No Agreement (CNA)—you are essentially diagnosing the strategies and interests of the supplier. The difference between determining CNA and Best Alternative to No Agreement, a concept that may be familiar to you, is that CNA explores the bigger picture. It's too easy to become overly enmeshed in your own dependence on the supplier and forget that the supplier may very well be just as dependent on you! Determining the supplier's CNA can provide critical information that can give you the power you need to negotiate well.

Consider the case of a major air carrier. The supply manager was certain that negotiating with a local government was going to be a no-win situation.

"They can charge me whatever they want. I have no alternative but to fly here," he grumbled.

However, after considering the CNA for both sides, the supply manager determined that, he indeed, had a great deal of negotiation power. If the supplier—the local government—terminated the relationship with this air carrier, the number of flights to and from the city would be greatly reduced, and what's more, tourism and business travel to the city would be virtually over.

It's critical that you don't become overly focused on your own CNA and assume in a sole-source negotiation that the other side has more power. Once you explore the CNA for the supplier, you will discover that **you have leverage** and can diplomatically use it to execute a balanced negotiation that results in a healthy, long-term relationship.

## SOLUTION Step Two: Enhance and Leverage Your Value

Sometimes, even after exploring CNAs, you may still feel powerless. At that point, you need to ask yourself:

“What does the supplier value about their relationship with us? Why is it important to them that we remain their customer?”

Again, focus on the needs of the supplier, because this truth will emerge: it is much more difficult for any supplier to lose a favorite customer than it is for that customer to lose the supplier. By positioning yourself and your organization as a better customer, you will increase your supplier’s reliance on you.

Begin the process of transforming yourself into a favored customer by looking for terms and conditions that will cost your organization little but that the supplier will value highly. This simple-to-grasp but challenging-to-execute concept is key to enhancing value proposition and is the best way to add measurable value to the relationship.

### Ask yourself:

- Who is my supplier’s best customer?
- What criteria makes them the best customer?
- Where does my organization rank in their best-customer list?
- How can my organization align with the supplier’s best-customer criteria?

Best-customer criteria usually include straight-forward items such as price, volume, delivery, length of contract, and strength of relationship at multiple levels within the supplier’s organization. More advanced best-customer criteria may include information sharing, supply management, warehousing, electronic-data exchange, joint-revenue targets, and process-improvement projects.

## How to Execute Solution Steps One and Two

Stop focusing so heavily on trading during negotiation. World-class class negotiation results come less from the act of trading and more from doing the hard work of prioritizing the tradable items of both sides. Begin determining priorities by asking yourself:

- What specific items does my organization want out of the negotiation?
- What is most to least important to us?
- How will we measure this?

Next, consider the same for the supplier. Again, it’s so easy to become so focused on the demands of your own organization that setting priorities for suppliers feels foreign. But it’s critical that you focus not only on what you want out of the deal, but on how you can help the supplier achieve some of their highest-priority needs – especially those needs that are ranked low by your own organization.

**SOLUTION Case Study:**  
How to Do CNA Diagnosis and Ranked-Criteria Analysis

A supply manager who had to do single-source negotiation around an engineered-components purchase began the process by reviewing the supplier’s website, then interviewing the supplier’s key contact to better understand their business strategy and direction, and schedule additional research meetings with other contacts within the supplier’s organization.

The supply manager confirmed that the supplier’s CNA was losing a quality customer and a great reference in a highly targeted industry. He also discovered that one of the supplier’s major objectives over the next two years was to increase engineered-component sales to new customers.

Based on this understanding, the supply manager was able to position his value more effectively during negotiation, and increase his credibility within his own organization because he had such a strong grasp of the goals and needs of the supplier.

The supply manager analyzed the supplier’s best-customer criteria and identified two very wise trades:

**Enhanced global reach.** The supplier’s highest priority was to access global markets. The supply manager made key contacts to achieve that goal; moreover, he benefited because he was able to obtain a more consistent and high-quality supply to remote regions.

**Cost reduction.** The supplier wanted to develop new products at less cost, so they joined forces with the supply manager to undertake an intense review of design, engineering, ongoing maintenance, and other development costs, which resulted in a more realistic sharing of costs between the two organizations.

**SOLUTION Conclusion:**  
You *Can* Wield Genuine Power in a Single Source Negotiation

Understanding supplier CNA and their priorities will help you position yourself more powerfully than ever before. Achieve this by looking beyond your own CNA, and thoroughly analyzing the hard and soft costs and benefits if an agreement is not reached.

SUPPLY MANAGER’S PRIORITIZED NEEDS	SUPPLIER’S PRIORITIZED NEEDS
1. Quality 99%	1. Term 5 years
2. Price \$100k	2. Relationship U.S. + Asia
3. Term 3 years	3. volume 2,000
4. Volume 2,000	4. Price \$125k
5. Raw Material Clause No	5. Raw Material Clause Yes

Without trying to advance your own position, objectively conduct research by listening to the supplier's needs. By understanding what the supplier wants, why they want it, and how they want it, you'll be prepared to deliver a value-based offering that addresses as many issues and interests as possible for both organizations; one that exceeds everyone's CNAs. If it is painful for the supplier to lose your business, identify a diplomatic way to share your knowledge.

Look beyond your own priorities and understand the supplier's best-customer criteria and needs, goals and objectives in rank order. From there, use this knowledge to determine wise trades: items which are of high value to the supplier and low cost to your organization. In the process, you'll advance your organization on the best-customer list and gain power.

Through successfully offering valuable choices for everyone involved, the single-source negotiation process becomes more collaborative and significantly less competitive, and ultimately, everybody wins.

Think! Inc. was co-founded in 1996 by Max Bazerman, Ph.D. of the Harvard Business School, and Brian Dietmeyer, author of *Strategic Negotiation* and *B2B Street Fighting*. Since then, Think! has worked in 47 countries with customers like Allstate, Dun and Bradstreet, Chevron and American Airlines. Think! Inc.'s managing partner for purchasing, Rosemary Coates, is also the author of *The 42 Rules for Sourcing in China*. Together, Rosemary and Brian have authored the book, *Negotiation Blueprinting for Buyers*.

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