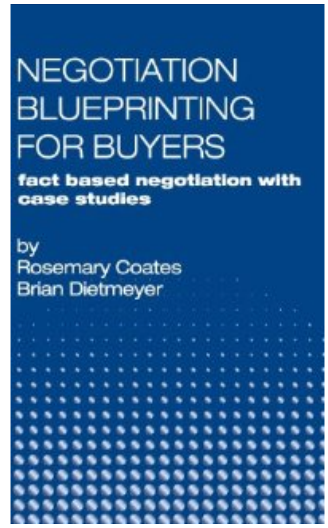
Think! Inc.

business negotiation, redefined

Speaking the Language of Procurement

OVERVIEW



Our deep background and consulting in both sales and procurement negotiation gives us unique insight into both sides of a negotiated deal. Founding Think! Inc. partner and CEO, Brian Dietmeyer, and supply chain management expert, Rosemary Coates, authored the book "Negotiation Blueprinting for Buyers." Additionally, our procurement consulting practice includes engagements with companies such as FedEx, Allstate, American Airlines and Chevron.

This manual focuses on two areas. The first is a better understanding of what is really going on behind the scenes in a purchasing organization. This knowledge allows us to "speak their language." The second section prescribes a solution for negotiating with purchasing.

SECTION 1: SPEAKING THE LANGUAGE OF PROCUREMENT

This section will focus on three key areas:

1. Internal Customers
2. Share of Spend
3. Business Fit

All three are very closely related as you will shortly see!

INTERNAL CUSTOMERS

One of the most important aspects of *speaking the language of procurement* is an understanding of their relationship with internal customers.

Who are the buyer's internal customers? In sales language they are the business people that we often call on. Buyers do not buy for themselves, they buy on behalf of other people. Let's take an example of buying tablets for the sales team. The internal customers on such a buy would include:

- Salespeople
- Sales management
- IT

Purchasing organizations measure internal customer satisfaction. When we ask sellers what drives high internal customer satisfaction they are either not sure or suggest that it's low price.

In fact, acquisition price for the tables will be important. What will also be important is:

- The weight of the tablet
- The size
- The speed
- Connectivity
- Service and support

In fact, every procurement organization we've worked with uses a "weighted attribute decision matrix" (WADM) to make supplier decisions.

A very simple example of such a matrix is represented below:

Criterion	Weight	Supplier-1	Supplier-2	Supplier-3
Cost	0.3	3.0	4.0	5.0
Trust	0.2	1.9	3.2	2.0
Timely Delivery	0.2	2.9	3.1	3.3
Quality	0.1	3.9	4.0	3.1
Flexibility	0.1	3.2	2.6	3.4
Risk	0.1	3.3	4.3	3.7
	Rank	2.90	3.55	3.58

Source: A Summary of Global Supplier Selection Process and Tools for Mitigating Risk
Jun 25, 2014 - LinkedIn

One of the most important aspects of speaking the language of professional buyers is understanding that while we might be selling something, procurement is making a decision. When making decisions on behalf of multiple internal customers, buyers employ a WADM to determine the overall value of different suppliers. While we hear "I can get the same thing cheaper" from buyers...same thing is rarely ever the case as evidenced by the below graphic.

In fact, the below graphic indicates that organizations make supplier investment decisions at the strategic, tactical and operational impact levels. In other words, they consider the impact of their decision on stakeholders at multiple levels given their role and business objectives.

Decision Area	Strategic	Tactical	Operational
Facility Location	#, Size & Location of Warehouses, Plants & Terminals		
Inventories	Stocking Locations & Control Policies	Safety Stock Levels	Replenish Quantities & Timing
Transportation	Mode Selection	Seasonal Equipment Leasing	Routing, Dispatching
Order Processing	Order Entry, Transmittal & Processing System Design		Processing Orders, Filling Backorders
Customer Services	Setting Standards	Priority Rules for Customer Orders	Expediting Deliveries
Warehousing	Equipment Selection, Layout Design	Seasonal Space Choices & Space Utilisation	Order Picking & Restocking
Purchasing	Developments of Suppliers-Buyer Relationships	Contracting, Vendor Selection, Forward Buying	Order Releasing & Expediting Suppliers

Source: Consult 101 - Slideshare

SHARE OF SPEND

Much like the sales side cares about "share of wallet," buyers care about share of spend. What is share of spend? In the simplest sense if a company spends \$100m per year buying things and only \$50m is sourced through procurement, their share of spend is 50%.

A good question to ask is, why is that? Why do 50% of the buyer's internal customers choose to buy on their own? In fact, buying organizations have a term for this, "rogue buying"! They want to do whatever they can to reduce rogue buying. On the other hand, we can ask why are 50% of the buys sourced through procurement. One simple answer to this is that spending above a certain level, let's say \$100,000, requires an internal customer to get procurement involved and obtain three proposals.

Another answer, and one more common, is that internal customers buy on their own because they don't see a benefit in going through procurement. It is in procurement's best interest to increase their value to the internal customer so they gain greater share of spend. Internal customers will, in fact, chose to involve procurement when they feel supplier decisions are made based on their overall needs, not just price. In an organization where internal customer satisfaction is low, rogue spending will be high. The converse exists as well.

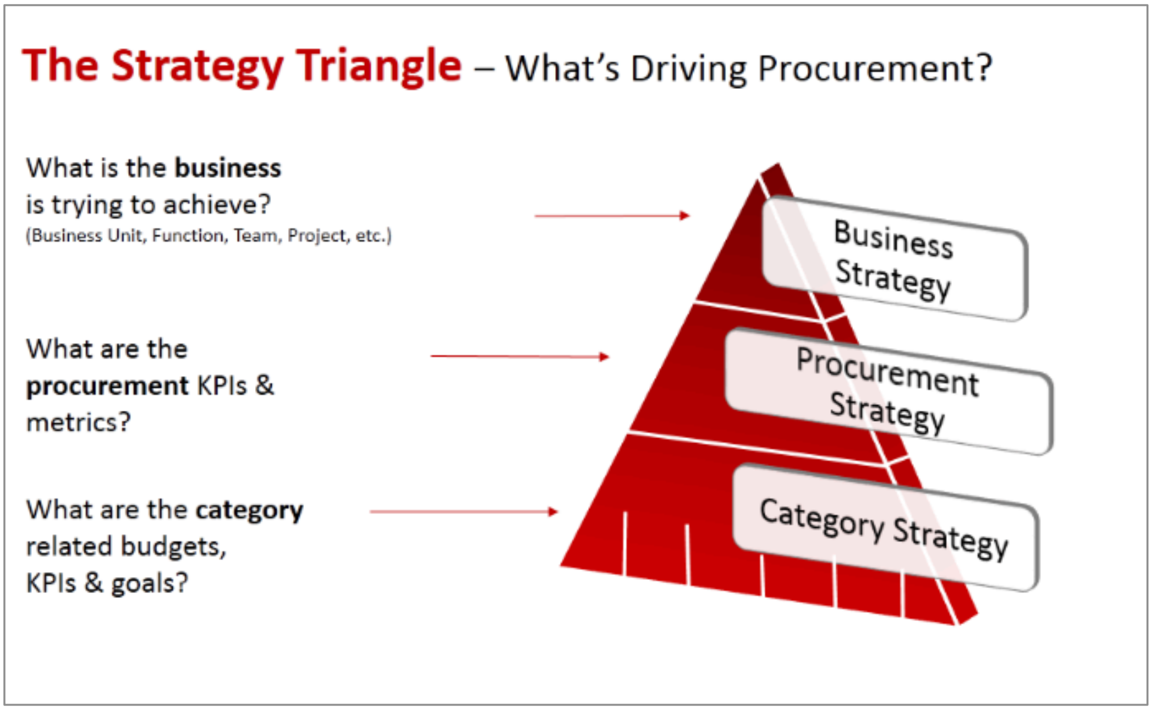
BUSINESS FIT

There is a strong trend happening in procurement right now to align sourcing with the strategy of the business. Internal customers want purchasing to buy not only on acquisition price but rather on total cost of ownership and business impact. Internal customers don't care how cheaply something was acquired if it doesn't forward their business strategy.

> ADOPT A BUSINESS—NOT COST—DRIVEN FOCUS
> **Sourcing and procurement can add greater value to the organization by focusing on the business's overall goals and objectives instead of focusing more narrowly on finding the lowest cost for purchased goods and services.**

KPMG

In fact, the below graphic demonstrates how procurement has reacted to the pressure to source in a way that is aligned with the overall business strategy. The emergence of category buyers is evidence of this. In order for procurement to strategically source, they need to create experts in the category they are sourcing. Think of it this way, before category experts, buyers were more like veterinarians…they would work on dogs, cats, snakes…etc. Category buyers make the transition from veterinarians to specialists like a spine neurosurgeon. This transition allows the buying organization to develop the expertise to align with the needs of the business, drive higher customer satisfaction and greater share of spend.



Source: customerTHINK- How High Can You Climb to Communicate Your Value?

SUMMARY: SPEAKING THE LANGUAGE OF PROCUREMENT

Buyers care about and make supplier investment decisions on behalf of internal customer needs at the strategic, operational and tactical levels. The better they meet needs, the higher their internal customer satisfaction, thereby, lowering rogue spend and capturing a greater share of spend.

Additionally, there is increased emphasis on buyers meeting the strategic needs of the business. In response to this, procurement Is taking a more category-focused approach.

All of this increases relevance for procurement, and without strategic relevance all of their jobs are at risk.

SECTION 2: NEGOTIATING WITH PROCUREMENT

Consider this: you have been selling to "the business" for the past six months. You thought the deal was closed…and now you're being "turned over to procurement." Most salespeople consider this event the worst thing possible for us. We facilitated this conversation with a group of buyers once and looked at it from their perspective. What buyers told us is that they also do not like this scenario. They said when the business turn deals over to them, they do so to get the deal done, not to lose it. Now this may not always be the case, but it's important to note that when we "pre-sell" the solution to their internal customers, and it gets handed over to procurement, the buyers see their power as extremely low.

Let us also consider another situation where we start the negotiation with procurement vs. "the business." I think it's fair to say that most of us in sales do not see the buyer as a legitimate stakeholder, but rather as a necessary evil. Executives, operational directors, etc. all fall within our opportunity plan as legitimate stakeholders with whom we need to build relationships. We suggest, given the changing nature of procurement, that we begin thinking of buyers as a strategic and legitimate stakeholder. By leveraging the language of procurement and understanding their needs, we can align with them.

Both buyer and seller want to meet the needs of "the business" or the internal customers. Our understanding of the various needs of those stakeholders, as well as how our solution meets multiple decision criteria for internal customers can be leveraged here.

In the next section, where we focus on the prescription for negotiating with procurement, we can think of Consequence of No Agreement Analysis as a mirror to what the buyer might call a weighted attribute decision matrix. In many cases, we've thought this through more deeply than they have and can help improve their investment decisions. The below blog from Buyer-Seller Insights illustrates this opportunity for sellers.

Buyer Seller Insights

Home | How Buyers Buy ... | Why Buyers Buy ... | Who Mal<es The Decision ... | Tips for Sellers ... | Selling To Procurement

Added on November 9, 2012

Ray Colhs

HOW Buying Decisions Are Really Made

You Are HERE!

Sellers Beware: The Procurement Gap

There is often a gap between how the buying decision should be made and how it is actually going to be made. That is between the buyers internal procedures, or external view of buying best practice and the everyday reality of rushed, or messy decisions. We call it the Procurement Gap. Helping the buyer to bridge that Gap can be a real source of opportunity for sales teams.

STEP-BY-STEP PRESCRIPTION FOR NEGOTIATION WITH BUYERS

THE PROBLEM

You have flawlessly executed your sales process at multiple levels within your customer's organization and now you sit across the desk from the supply manager who states "your competition is 25% cheaper, you have to go back and sharpen your pencil!"

You have a choice; go back to HQ and ask for a lower price, or take an analytical approach to dissecting this problem.

The Problem

THE ANALYSIS

Let's start by re-visiting what really drives today's purchasing professionals.

The notion that a buyer is only interested in price is not entirely logical. Almost any business-to-business sale where a professional supply manager and an account executive are involved is a complex one. If the deal is to be successful, there will be multiple criteria to be met on both sides. Take for example the following supplier performance metrics:

- Financial stability
- People
- Supplier performance
- Supplier cost reduction ideas
- Supplier development projects
- Delivery
- Quality
- Product Cost
- Order accuracy
- Customer support
- Business relations

Source: 9/01 Supplier Selection & Management Report

Success with professional buyers will stem from the ability to get a sense of what is occurring in the procurement world today. The "buyer" profile is changing, evidenced by one University, Arizona State, who is pumping out 23 year-old MBA's with an emphasis in Strategic Supply Chain Management. These well-equipped supply managers are concerned with the optimal total solution for their firm. They are performing in-depth analysis on the value of our solution vs. our competitor. These new buyers are frustrated as they justifiably point out that sellers promote value but can't quantify it.

Our prediction: Buyers are ahead of sellers in quantifying value and soon will be presenting us with total cost of ownership projections on our solution that surpasses any analysis we have.

The purchasing world is rapidly moving toward developing more effective and efficient models of supplier value. Fundamentally, the nature of negotiation is changing. Those items that truly are commodities are being reverse auctioned on the web with the lowest priced bidder winning. For non-commodity negotiation, the change is the evolution of a new purchasing model and most sellers do not take the time to stay abreast of the progression as noted in the following article:

"The idea was to get a better deal than your sales counterpart, and authority, power struggles, and emotional haggling were the tools. Enter the 21st century and a new look for negotiations. According to "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," the negotiation process will become more complex and sophisticated because it will move toward more win-win relationships, relying on total cost as a criterion."

1998 study, by NAPM, the Center for Advanced Purchasing Studies (CAPS), A.T. Kearney, Arizona State University, and Michigan State University

In our work with major buying organizations we find that very few purchasing decisions are made based on price alone.

Facts:

- Buyers are not charged with buying the cheapest product available
- The lowest price competitor does not have 100% market share
- Price premiums do exist

As stated earlier, virtually every purchasing organization we have experience with evaluates suppliers with a decision matrix and price is simply one of the many criteria. In most instances, the lowest priced supplier does not get the business. Buyers are charged with supplying their organizations with the lowest total cost of ownership and highest value solution.

"What is the fate of the traditional purchaser who has been trained and is skilled at mere price haggling?" They, like many other professionals who do not make the shift to strategic supply management, will find a world where their services might not be needed. However, those who do make the shift will find that relationship-based negotiation skills will be put to use extensively."

The Future of Purchasing and Supply: The New Look of Negotiations by Roberta J. Duffy, editor of Purchasing Today®. Additional information provided by Joseph L. Cavinato, Ph.D., senior vice president and NAPM distinguished professor of supply chain management for NAPM, Tempe, Arizona. August 2000 Purchasing Today®, page 43.

Our "organizational memory" triggers a natural response when a buyer asks for a lower price, so we do one of two things, approach HQ for the okay to reduce the price, or sell value. Selling value simply means we try to justify why our solution is more expensive than elsewhere. Consider two steps toward a more rational resolution of the "you need to sharpen your pencil" request. These steps need to be executed before one can "sell value."

STEP ONE: Consequence of No Agreement Analysis

When we attempt to compare our offer to our competitor's on the aspect of price alone, it is illogical. The most common problem sellers face is responding to the dreaded "your competition is 12% cheaper." If we think about our value proposition vs. the competition, we need to weigh ALL the variables when comparing the two, not just price. Other variables may include:

- Switching costs
- Human fit and relationships
- Impact of our product and services on the customer organization
- Outputs or production
- Financial risk
- Political Risk
- Long -term strategic fit and ability to move forward together
- Global reach
- Price

The above list is very similar to the list from the Supplier Selection Report listed above. Unless we are selling a pure commodity, we need to respond to the lowering of price request by completing a thorough analysis of all the hard and soft costs and benefits for the short and long term relative to the customer's alternative(s) to us. It is important to note several things here:

1. While most buyers have completed the sort of analysis we suggest, most compare two alternative solutions on a small list of criteria that doesn't effectively evaluate the total cost of ownership for one product or service vs. another. The problem becomes obvious, you are working with a supply manager that sees your offer as a gain or a loss based on the effective, or ineffective, evaluation they have completed for their alternative to you. It is up to the sales professional to know the supply manager's alternative better than they do themselves.

2. Once we complete such analysis it is imperative that we use the data very diplomatically to either help the buyer gain a more realistic view of their alternative, or in the case where they may have done the analysis, use the data to call a bluff when we are told our offer is higher than our competition.

3. This analysis should not be performed for industries or marketplaces, but rather for very specific deals. The variables may change and some items will duplicate from one deal to the next, but the circumstances regarding the consequences of not reaching agreement are almost always different and should be flushed out.

Using the Consequence of No Agreement Analysis, it's almost impossible to respond to a request that we match our competitor's price. However, even with the new specialization and advancement of the sourcing function, we find that many buyers still lack the necessary analysis. No surprise since it was us who taught them that simply asking us to "sharpen the pencil" works. Further, we find most buyers are telling what they believe to be the truth when they state they can get our solution better and cheaper elsewhere. Their decision is not based on rational analysis but rather partial information. Conversely, for those buyers who have done the proper analysis, we need to be armed at least as well as they are armed.

STEP TWO: Trading Analysis

Another effective tool for negotiating with the professional buyer is to expand any negotiation beyond single issue concessions to multiple issue trades. Price reductions, project "up time," or how many people will be assigned to a job, are all examples of single issue negotiations. The difficulty with a single issue negotiation lies in the fact that it is impossible to "create value" basically equating the negotiation to a zero sum proposition. If you are asked to provide your buyer a 10% price reduction all we have done is to take 10% out of your income and hand it to the buyer, or more simply, have rearranged value. The solution is to avoid asking for, or reacting to, single issue concessions because this behavior doesn't add incremental and measurable value to the relationship. We need to begin by simultaneously determining multiple issues of importance to us, and the supply manager, then trade those items of low value for those of higher value; a simple but not easy task.

To think through multiple issues from the professional supply manager's perspective we need to acknowledge that most operate on behalf of an internal customer and/or user groups. These groups help the supply manager determine the variables that will be negotiated in a deal. For example, someone sourcing technology for a production facility will take input from:

- Technicians on the floor
- VP, Manufacturing
- VP, Technology
- Other impacted departments, such as accounting, etc.

They learn from these groups what criteria they should be using to evaluate suppliers and make investment decisions (CNA analysis), and also what they would like to get out of this deal (concessions); two very different but related things. Items that are negotiable are those that can be taken in or out of a deal and are measurable, such as:

- Price ($)
- Length of contract (years)
- Volume of purchase (# of widgets)
- Which add on or value adds to purchase (software/consulting services)
- Warranty issues (% of defects, # of years)
- Support issues (how many people, how many hours/day and days of week)

They will work with their internal customer group to rank these items from most to least important and decide the acceptable low and high ranges for each item.

In a negotiation, it is in the best interest of both parties to create measurable incremental value by trading multiple items simultaneously, vs. reacting to or asking for, single issue concessions that either detract from or simply rearrange value. As sellers, we would be far more effective if we avoided reacting to a lower price request and began assisting the supply manager to make a decision that achieves as many of their internal customer objectives as possible while at the same time trading for items of importance to us. We all know too many salespeople that define negotiation as reacting to a list of zero sum demands from the buyer.

SUMMARY

The supply management environment is rapidly changing in an effort to source the highest value business relationships. It is time that sellers accelerate their negotiation analytics by incorporating a more strategic approach that can result in the creation of measurable incremental business value.

If you would like to discuss getting your team trained in the negotiation blueprint framework, please call 312-925-9326 or go online to www.e-thinkinc.com.