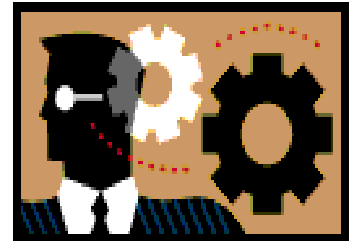




Tips & advice for purchasing professionals

Welcome to Transform, the source for comment, news and information for organizations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



The Corporation as a Negotiating Entity –

The second in a three part guide for CEO's, CFO's and purchasing leaders on developing a corporate level capability to negotiate

Part #2: "The Negotiation Tool Kit"

What's in it for you? Understand the tools needed to build a corporate capability to negotiate and generate significant bottom line savings and enhanced value from business relationships.

Reading time: 10 minutes

Introduction:



Here in the second part of a three part series, we discuss the processes, tools and infrastructure that must be developed by organizations to provide consistency of application, excellence in execution and support organizational learning and development, either as part of a strategic sourcing initiative or as a standalone negotiation.

Negotiation Management Process

The corporate level negotiation strategy and formal governance structure discussed previously determine the rules which govern corporate level negotiation interactions. Once these have been established, it is important to develop and implement a well defined negotiation management process to ensure effective application of the strategy. All resources involved in negotiations can then be trained and brought into this process.



The negotiation management process itself comprises two distinct areas; planning and execution. The planning stage is generally a predictable process characterized by rigorous process application. The execution stage however is a dynamic changeable and sometimes theatrical process. These two stages combined are typically structured around four key steps:

- Develop the Negotiation Strategy
- Prepare for the Negotiation
- Conduct the Negotiation
- Evaluate the outcome

***“If you can’t describe
what you do as a process
then you don’t know
what you are doing”***

- W. Edwards. Deming

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Organizations should ensure that the negotiation process is robust and has a high practical value to its users. This can be achieved by clearly defining each of the steps so as to provide a detailed breakdown of the task to be completed in each step to support a successful outcome.

The implementation of such a practical and detailed negotiation management process goes a long way to ensuring a consistent application of leading negotiation practice across the organisation. In addition to supporting successful outcomes it also provides a shared vocabulary and a common foundation for the evaluation, refinement and improvement of negotiated outcomes.

Tools:

This consistency of application can be supported by equipping negotiators with supporting tools to provide practical “how to” help on a day to day basis. This can include; RFP analysis, strategy development, preparation formats, negotiation tools, BATNA development and evaluation, which can all be aided and supported with the use of templates.

Once the negotiating team is armed with a strong process and supporting tools, the use of tactics and sleight of hand by their opponents are rendered completely ineffective against the negotiator that applies a rigorous process to the negotiation. And whilst the soft skills are still relevant, this new, more powerful approach means the negotiator is not dependent upon them for success.



Feedback & Knowledge Management:

By setting up and maintaining a negotiation knowledge base, impetus is given to ensuring a best practice approach to each negotiation.

The organizations knowledge base grows by establishing a feedback mechanism that helps gather, analyze, and act upon its experiences in negotiation. Feedback goes to individuals, for their own growth, but more importantly, lessons are extracted about negotiating team tactics, about interesting or new deal structures, and about organizational challenges.

Knowledge management requires several components:

- Access to both internal and external information sources,
- Repositories that contain explicit knowledge,
- Processes to acquire, refine, store, retrieve, disseminate and present knowledge,
- Organizational incentives and management roles to support these activities,
- People who facilitate, curate, and disseminate knowledge within the organization,
- Information technology to provide automation support for many of the above activities.

Such a capability will provide the organization with the ability to constantly refine its approach to negotiations, whilst ensuring that all its negotiators are at the cutting edge of developments. It also helps move the organization away from the "negotiator as lone wolf" approach, to one in which each negotiator comes to the table building on what others in the organization know about negotiation drawn from a dynamic centre of excellence .

Beyond Individual Training towards a Centre of Excellence:



Building individual negotiation skills through training can fail to produce organizational results. At Purchasing Practice we recommend organizations look beyond individual training to build a more strategic competency. One that ensures negotiators meets and supports the overall business goals and objectives, and support the continued development and application of an organizational negotiation capability. This can be achieved through creating a "negotiation centre of excellence", where negotiators can:

1. Simulate negotiations on a regular basis
2. Access a negotiation reference database – relevant to the types of negotiation applicable to the organization
3. Access tools to support the negotiation process implementation
4. Attend individual coaching in leading negotiation practice

"There is nothing worse than sending a changed person back into an unchanged organization."

- Warren Bennis

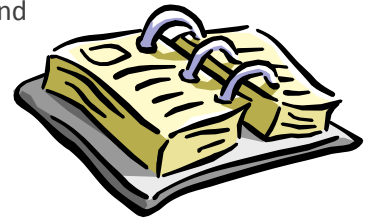


5. Attend debriefing sessions in a safe learning environment

By evaluating individual negotiation outcomes, challenges and opportunities the center of excellence can feed the knowledge gained to propose updates to the corporate level *negotiating strategy* and provide resources to make these changes happen.

By feeding these proposals back through the governance structure for approval, select targeted interventions can occur, including tailored training, negotiation coaching and aligning success metrics with individual and group performance rewards.

Having a common negotiation framework will also enable negotiation knowledge, techniques, and results to be organized, taught, and shared throughout the organization. This common framework allows the organization to learn from its negotiations-in essence, to develop and benefit from a “*corporate memory*”.



Visit the **Buying Magician Blog** to read: “**Defining Negotiation Success**”

www.purchasingpractice.com/blog

Evaluation

At Purchasing Practice we believe that organizations should move away from purely outcome-based evaluation towards a process-based evaluation methodology utilizing a balanced scorecard approach. The task of negotiators in this environment should then be to “*reach an outcome based on successful application of the process.*” Determinations of negotiation success or failure therefore should be based on whether the outcome is the result of a thorough, informed and well executed negotiation process.

The balanced scorecard could typically include metrics for the following components:

- process compliance
- outcome against stated objectives/BATNA
- relationship and risk management
- debrief and learning dissemination

Rewards and incentives should be tied to these components, and evaluated at a formal debrief after a negotiation, to promote:

- learning, to facilitate improved results in subsequent negotiations
- sharing of experiences across the organization
- translate experiences into improving the negotiation processes

**“If you don’t keep score,
you’re only practicing.”**

- Tom Malone

In this way negotiation becomes a topic of continuous improvement at an organizational level.



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Automation

Both large ERP providers and smaller specialist developers have entered the on-line negotiation space as part of their Supplier Relationship Management (SRM) software. These systems enable buyers and sellers to negotiate and manage relationships online and in real time, bringing cost savings to the entire supply chain process.



Goldman Sachs recently estimated that companies can reduce total purchase costs as much as 30% and sourcing cycle times more than 50% by bringing the entire negotiation process online and using decision support and collaboration to eliminate inefficient time lags, supply/buyer mismatches and uncertain negotiations.

Web-based worksheets can be completed and approved by managers prior to entering into negotiations and each step of the worksheet can be tied into the strategic sourcing process. When completed, the worksheet represents the team's negotiation plan. This can help build alignment across multiple functions and business units, as well as a structured preparation tool to help negotiating teams arrive at the table prepared to negotiate creatively and constructively.

One further benefit from automation which is particularly valuable is that it helps to integrate processes such as negotiation and strategic sourcing into the organizations corporate culture.

Conclusion

Developing a corporate capability to negotiate, requires detailed processes and tools that can be applied and repeated by anyone involved in negotiation throughout the entire organization, in both purchasing and sales. It also means learning, sharing and evolving with experience – *“the corporate memory”*.

By investing in its people, processes, tools and infrastructure to achieve a corporate capability, organizations can develop a capability that survives individual employees and has the power to generate substantial returns on its investment.

Organizations that succeed in developing a corporate capability to negotiate will also gain a powerful strategic advantage by managing and optimizing the business benefits related to its business relationships with both suppliers and customers.



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The Opportunity:

Working with you on the inside, Purchasing Practice can help you develop a powerful corporate negotiation process to help drive improved and more consistent negotiation outcomes. We can help you unlock significant value from your business relationships by working alongside you to support the building of an enterprise wide capability in negotiation, strategic sourcing, category management and B2B supplier management to drive change and unlock value.



Purchasing Practice –*Corporate Procurement made simple*

Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).



We can help your organization “make change happen” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Opportunity Analysis: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Call us on 778 988 1052 or email us at info@purchasingpractice.com to schedule a consultation.