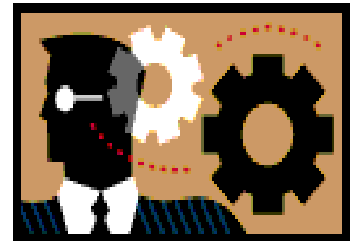




Tips & advice for purchasing professionals

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 –

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

Part #1: Getting started

What's in it for you? Generate significant bottom line savings and add value by developing a new strategic capability without any demoralizing impact on employees.

Reading time: 10 minutes

Introduction:



Organizations must recognize that they negotiate as an entity and develop a corporate level capability to do so, because how well organizations negotiate can impact their bottom lines significantly. Despite this most organizations have still to develop a corporate capability to negotiate. Here in the first part of a three part series, we discuss how organizations can start to develop a corporate level capability to negotiate to improve their bottom lines.

The concept of the corporation as a negotiating entity is not new, but remains relatively undeveloped. Yet depending upon the size of the organization there may be hundreds or even thousands of negotiations, being conducted at any point in time. The value of these negotiations collectively is likely to be very significant, yet companies continue to treat each one individually, with no clear governance, standard process, or metrics for success in place.

Supply management departments have made great progress in developing standard organization wide approaches towards sourcing, outsourcing, contract management etc, but negotiation has received no



more attention than individual training programs to teach effective negotiation skills to their managers. These same managers usually then find that little has changed in the way they negotiate when returning to their workplaces. This is because the building of individual negotiation skills, does not address the *organizational constraints* imposed upon a manager whilst conducting negotiations.



Most supply management professionals will have experienced their sales counterparts going around them, being undermined by others in their organization, and being caught between lawyers sparring with each other. At Purchasing Practice we believe that organisations can greatly improve their negotiated outcomes by implementing a structured enterprise wide methodology to negotiations, to create an organisational capability which will deliver competitive advantage in negotiations. Supply Management is well placed to lead on this.

Why is it this way?

Organizations typically see negotiations as separate events, each with its own goals, tactics, and metrics for success. Negotiations generally take place within specialist business functions and are highly complex in their own right, and negotiators must balance a number of competing factors within the negotiation:



- What can I concede?
- How should I consider long-term relationships vrs the short-term deal?
- Should I make the first concession, or wait for the seller to concede first?
- Do I have to close the deal, or can I walk away?

It can be difficult to make informed trade-offs in any one negotiation, so the prospect of trying to coordinate all your organizations negotiations can appear a daunting prospect.

Why Change?

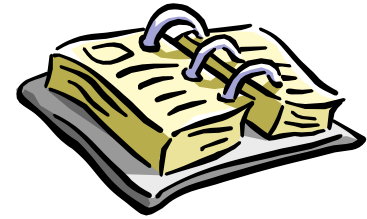
Taken in isolation the outcome of any single negotiation is unlikely to have a significant impact on a business's success. However, the compounded effect of all the negotiations a typical company undertakes can have a significant impact on both its strategy and bottom line. Yet organizations still rarely think about managing their negotiating activities as a whole. Whilst managing as separate events can demonstrate good results in specific negotiations, results can also be mixed and also counterproductive when viewed from a more strategic perspective. Negotiating "rock bottom" terms with a supplier may, damage an important long-term relationship, for example.



As businesses become more sophisticated, the way they conduct their business partnerships, alliances, and other carefully developed relationships becomes more important. This will



increase the pressure to treat negotiation as an organizational capability, rather than as a sequence of separate events.



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At Purchasing Practice we do not believe that developing a leading organizational negotiating capability can be achieved by producing a “how to” manual for all negotiations. We believe it requires a more strategic approach to the way negotiations are coordinated and managed, and perhaps more importantly, that senior management starts to recognize negotiation can be managed at a corporate level. If organizations can learn from each negotiation, capture the resulting insights, and learn from those insights, negotiating effectiveness will increase and improved business results will follow.

Making the Business Case for Change:



Supply management must make the business case in quantifiable terms to secure the support and commitment to the company’s resources to make the change happen. To do this, purchasers should try to *estimate* the ROI resulting from such an initiative to improve negotiated outcomes, by considering the following questions:

- What business benefit would result from improved negotiated outcomes with suppliers (e.g., lower TCO, reduced lead & turnaround times, and more beneficial terms)?
- What would be the impact on your organizations key financial metrics from a 1% improvement in negotiation outcomes across all negotiations?
- Can you estimate the difference in performance, in percentage terms, between your organizations top performers and bottom performers in negotiations?
- Does your organization have "structural" reasons that would prevent all negotiators in your organization from performing at or near the top of the performance scale i.e., capacity constraints, and regulatory restrictions?
- Can you estimate the impact resulting from all supply management’s negotiators performing at the top of the performance scale?

Now consider the same questions on the Sales side.

This exercise should be conducted deploying the same rigor as that given to a major strategic sourcing exercise, and is best done in a small, cross-functional team. Developing even approximate values to these questions will prove to be a very powerful tool in making the business case. The metrics will differ





between organizations, however, the answers to these questions are less important than gaining acceptance of the concept they support. That improving the organizations capability to negotiate can deliver very powerful benefits to a company's results and developing a plan to achieve this.

How do we get started?

Develop the corporate level negotiating strategy:

The first step to building a corporate capacity to negotiate is to develop the corporate negotiation strategy. An organization's negotiation strategy should support its procurement and sales strategies, which in turn should be supporting the business strategy.

A corporate negotiation strategy serves to embed negotiation as a key competency at an organizational level, and usually defines policies such as:

- All negotiations in excess of \$ XXX will apply the corporate negotiation methodology and supporting tools.
- All procurement and sales personnel will be trained in basic and advanced negotiation skills.
- No discounts to be made without receiving a concession of greater or similar value.
- All negotiations will be tied to defined corporate success metrics
- All negotiation in excess of \$ XXX will be subject to a debrief review.

Implement Governance



The next step is to implement a clear governance structure, to manage the negotiating strategy at a corporate level. This facilitates the integration of the corporate strategy with the instructions given to negotiators. These instructions in turn guide and enable their preparation, and coordinate their actions.

At the executive level effective governance requires:

- Establishing a formal negotiation process
- Defining how negotiation teams should be formed

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Placing "Transform" in the subject box



- Defining roles and responsibilities, including those who do not formally negotiate
- Providing senior sponsorship and champions
- Providing the necessary tools, and enablers with appropriate training and development
- Ensuring a supportive environment throughout the organization.
- Approving the negotiation teams objective and authority

At the negotiating team level the team leader must have a clear framework in which to control the activities, roles and responsibilities of the team, as well as the key decisions to be made. This includes:

- Rigorous application of the process
- Manage key stakeholder inputs
- Manage and control information flow
- Recommend an appropriate strategy and tactics for the negotiation including:
 - ✓ What is the appropriate relationship with the supplier
 - ✓ What metrics should be used by the organization to assess the outcome of the negotiation
 - ✓ Develop alternatives to a negotiated deal should the bottom line position be unachievable
 - ✓ Develop trade-off's among competing interests

Negotiators for all major deals must be prepared to submit strategies well in advance for approval through the governance structure. Having approved a plan and understanding the issues and interests at play, senior executives explicitly grant authority to the negotiating team to deploy the strategy and tactics at the table.

Conclusion

Many organizations have still to recognize that they negotiate as an entity and as a consequence have still to develop a corporate capability to negotiate. Supply Management leaders therefore have a clear opportunity to lead and innovate in this space. To be successful they will need to identify and present the clear business arguments in support of the necessary changes required to develop this capability.

The very significant cost benefits can be achieved without any major negative outcry from employees resulting from demoralizing cost savings efficiencies. Rather, the opposite is true; as by building capability employees acquire new skills, and by providing them with a clear strategy they gain a renewed sense of purpose, backed up by a governance structure that empowers them to action.





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Corporate procurement made simple

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 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.

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