

SALES & MARKETING

EXECUTIVE REPORT

Purchasing is now a partnership

... Working with vendors
is just good business

By PAUL HENNESSEY

As the global business environment has become more turbulent, supplier negotiations have taken on an important new role: Helping improve corporate competitiveness.

The goal of most supplier negotiations today is no longer just to get the lowest price. It is also to find new and innovative ways to meet a wide variety of business challenges, often by tapping into the knowledge and expertise of the supplier community.

Traditionally, purchasing professionals (and others who negotiate with suppliers) have focused on the competitive aspect of the buying process. This "old mindset" is characterized by an arm's length adversarial relationship between vendor and buyer in which the buyer "takes orders" from internal customers, then a pool of potential vendors; pits suppliers against each other and forces them to compete on price; and awards the business to the lowest bidder.

A new approach is needed: Rather than seeing themselves as "prize fighters" looking to "beat up" their vendors, those who work with suppliers need to see themselves as strategic relationship builders who focus on price as one part of the "total cost" negotiation equation which also includes quality, delivery, responsiveness, inventory management and other non-financial factors. These suppliers partner with internal customers to identify suppliers who can meet internal customer needs. They also identify and partner in a more collaborative way with a smaller number of critical suppliers.

In short, they realize they must continue to negotiate profitable deals, but in a manner, which

builds rather than *erodes* supplier loyalty and partnership.

Supplier relationships must work for both sides

BayGroup International has concluded that high performers are fundamentally different in six key areas:

♦ **High performers aspire not just to get the best price, but also to achieve goals in areas such as:** 1) Radically improving logistics and delivery (often on a global scale). 2) Sharing information in new and more strategic ways through electronic data exchange and linking of information networks. 3) Improving efficiency through creative staffing (for example, asking suppliers to provide dedicated on-site service personnel). 4) Achieving stringent quality standards.

When they focus excessively on cost, sourcing professionals can miss opportunities in these more strategic areas and end up with less profitable long-term relationships with their suppliers. High performers, on the other hand, aspire to protect their companies' interests *and* build profitable, mutually beneficial relationships with their suppliers.

♦ **They manage information strategically.** Today's high-performing buyers avoid obvious tactical mistakes such as disclosing information, which erodes their negotiation power: "We really need these parts next week ...". They also take a more strategic, comprehensive view of information management. They: 1) Gather information about supplier cost structures to help understand where economies might be realized. 2) Understand their own company's current and future needs and search for supplier partners who can grow with them. 3) Collect information about the financial strength and business strategy of potential suppliers to help

determine whether and how a viable long-term partnership might work.

◆ **They identify underlying supplier's needs.** Most negotiators focus on their own needs and how to meet them. High performers put an equal emphasis on uncovering and addressing the supplier's needs. Rather than "prize-fighting" over what a supplier says he wants, high performers ask "why" and get to the underlying issues. By doing so, they can increase the number of creative ways to strike a mutually advantageous deal.

◆ **They manage concessions effectively.** High performers take a more sophisticated view of concession making during negotiations. They realize that different concessions have different costs and different value to the different buyers. By evaluating the cost/value equation for the negotiable they might give up or ask for, they craft agreements that lower both costs and build supplier loyalty.

◆ **They plan before executing.** There are many components to an effective supplier negotiation plan. In addition to thinking through relevant cost issues, the negotiator must consider: 1) What is the best approach to giving and gathering critical information during negotiation? 2) What are the toughest questions we will be asked and how will we answer them? 3) What negotiables other than money can we trade? Which are of relatively low cost to us and high value to the supplier? 4) What is our bottom line, the point beyond which we will not go with the supplier?

◆ **High performers welcome creative tension.**

Most people are uncomfortable with tension created by competing interests like these and look for ways to reduce it. High performers, on the other hand, realize that tension is a "natural state" in supplier negotiations. They know that if there isn't tension, there probably isn't a real negotiation going on at all. They also realize that tension, when handled constructively, can be a catalyst for achieving creative negotiated solutions.

If these approaches are so logical, why aren't they used more often? The reason is simple: The skills of effective supplier negotiation are counterintuitive. The instinctive, natural reaction of most negotiators is often the opposite of what they should do.

Today's corporations demand more of the people who manage their supplier relationships. Building new and better approaches to negotiation has become a strategic challenge, critical to achieving aggressive profitability goals. Buyers are no longer simply managers of cost. In their expanded role, they are the key link between their company's business strategy and the acquisition of the critical resources needed to implement it. ■

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