

RED BEAR
NEGOTIATION CO.



SUPPLIER NEGOTIATIONS


An Opportunity to Improve Profits





MAXIMIZE THE PROFITABILITY OF YOUR Supply Chain Agreements

The typical organization spends almost 70% of its revenue on non-labor costs. A 1% reduction in those costs can increase profits by more than 4%, according to a recent study of Bloomberg data. Any CFO will tell you that every penny saved in supplier negotiations fall immediately to the corporate bottom line.



In today's profit-conscious business environment, successful supplier negotiations are critical to implementing cost containment and profit improvement plans. Because of this, many leading companies are looking for ways to improve performance in this key area.

To grow in today's global, competitive environment, businesses have to think differently about the role procurement plays in developing and maintaining supplier relationships.

Supplier negotiations have become more important to improving corporate efficiencies. Those who manage supplier relationships are increasingly expected to help their companies:

- Drive savings through consolidation of supplier relationships;
- Develop radically improved approaches to inventory management;
- Meet aggressive quality standards; and
- Protect intellectual property while ensuring access to leading-edge technology.

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.



ADVERSARIAL NEGOTIATION APPROACH **NO LONGER WORKS**

Purchasing professionals (and others who negotiate with suppliers) have traditionally focused on outdated tactics by maintaining an adversarial relationship between vendor and buyer in which the buyer:

- takes orders from internal customers, then identifies a group of potential vendors;
- pits suppliers against each other and forces them to compete on price; and
- awards the business to the lowest bidder.

This traditional approach is becoming increasingly ineffective, given the current trends toward global supplier consolidation. A new approach is needed. Rather than beating up your vendors, you need to work with them as strategic relationship builders who:

- focus on price as one component of a negotiation that also includes quality, delivery, responsiveness, inventory management, and other non-financial factors;
- act as partners (rather than order takers) with internal customers to identify suppliers who can meet internal customer needs; and
- identify a small number of critical suppliers for long-term collaborations that contribute value beyond the lowest price.

Successful purchasing professionals realize that you must continue to negotiate profitable deals and do so in a more strategic manner that builds rather than erodes supplier loyalty and partnership.

TRADITIONAL MODEL

Lowest Bid Wins
Internal order taker
Beat them up on price

NEW MODEL

Lowest total cost of partnership wins
Value-added strategic partner to internal customers
Build long-term collaborative relationships

The traditional, adversarial approach to supplier negotiation no longer works in today's global business environment. A new approach emphasizing profitability and supplier relationships is required to succeed.



WHAT IT TAKES

A CHALLENGING COUNTERINTUITIVE NEGOTIATION APPROACH



STRIVE FOR MORE THAN A LOWER PRICE

Successful supplier negotiations involve more than just the lowest price. High performers strive for the best price, but also to:

- improve logistics and delivery, often on a global scale;
- share information in new and more strategic ways through electronic data exchange and linking information networks;
- increase efficiency through creative staffing, such as dedicated on-site service personnel; and
- develop transparent relationships to predict and reduce potential supply chain disruptions.

When you focus excessively on price, you can miss opportunities in these more strategic areas and end up with less profitable long-term relationships with suppliers. High performers understand that in order to protect their companies' financial interests, relationships with suppliers must be mutually beneficial.



#2

MANAGE INFORMATION STRATEGICALLY

Today's high-performing buyers take a more strategic and comprehensive view of information management by planning what to share and what to ask. Business leaders are always trying to find the best information that will help them make the right decisions. Planning what to share helps you avoid:

- obvious tactical mistakes, such as disclosing information that erodes your negotiation power: "We really need these parts next week...".
- sharing too much in an effort to be transparent, which then damages your position.
- withholding important ideas in an effort to maintain control.

Planning what to ask helps you:

- gather information about supplier cost structures to help them understand where economies might be realized;
- understand your own company's current and future needs and search for partners who can grow with you; and
- 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.

By managing the flow of information more strategically, you can create agreements that maximize the value you and your suppliers bring to the table. This only happens when you have all the information you need to make informed decisions.



#3

IDENTIFY UNDERLYING NEEDS

Most people focus on their own needs and how to meet them. High performers put an equal emphasis on uncovering and addressing the needs of the supplier.

Rather than worrying about what a supplier says they want from the negotiation, the high performer asks “why.” This increases the number of creative ways to strike a mutually advantageous deal because you aren’t locked into one solution. The “Heat Shrinkable Tubing” story on page 10 demonstrates how this approach can work.

#4

MANAGE CONCESSIONS

Traditionally, supplier negotiations have been seen as a battle between buyers and vendors, where concessions of value are made in both directions and negotiating power determines which side gives up the most. In today’s new environment, this doesn’t work.

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

Here is an example: A major consumer goods company was in the midst of a tough supplier negotiation and wanted to get better pricing and payment terms. Through effective questioning, they learned that the supplier needed certainty of future order flow. Realizing this, the buyer was able to trade regular forecasting reports to get better pricing and payment terms. A creative agreement was reached that met important needs for both sides. The cost to the buying organization was minimal; the value to the supplier was great.



#5

PLAN

BEFORE NEGOTIATIONS

Thomas Edison said, “A genius is just a talented person who does his homework.”

High performers realize that poor planning is expensive. When you fail to plan, you typically get a higher price, less creative ideas and more conflict with suppliers. It’s very difficult to be creative when you feel the pressure and tension that naturally occurs in negotiations.

In addition to thinking through the relevant cost issues, a negotiator must consider questions like these:

- What is the best approach to sharing information during the negotiation?
- What are the critical questions you need to ask?
- What are the toughest questions you will be asked and how will you answer?
- What negotiables, other than money, can you trade?
- Which negotiables have a relatively low cost for you and a high value to the supplier?
- What is your bottom line, the point beyond which you will not go with the supplier?

Planning will help you stay calm, thus avoiding costly and unnecessary giveaways that happen in the tense moments of your negotiations.



#6

WELCOME CREATIVE TENSION

Tension is a natural part of negotiations. When you have two or more people with interests that are not always aligned, you have tension. You may have competing interests, such as:

- cycle time vs. quality;
- price vs. specifications; and
- a product the internal customer wants vs. a product that makes the most sense for the company.

Most people are uncomfortable with the 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 part of negotiations. When handled constructively, tension can be a catalyst for achieving creative solutions.

What makes these six skills so challenging? Why don't you see them in use more often? The reason is simple: these skills are counterintuitive. Your instinctive, natural reaction in negotiations is often the opposite of what you should do (see table).

NEGOTIATION SUCCESS Is Counterintuitive

WHAT NEGOTIATORS TYPICALLY DO

Aim to get the best price.

Give away too much information, get too little in return.

Give too many concessions, too quickly, in order to reduce the tension.

Negotiate about what the supplier says they want.

Begin negotiating with minimal planning.

Look for ways to reduce tension in the negotiation, or use it to win at the supplier's expense.

THE COUNTERINTUITIVE RIGHT WAY

Set Higher Goals to get the most profitable deal, and to build a stronger supplier relationship.

Be intentional about what you share. Ask more and better questions to get the right information.

Give concessions reluctantly. Focus on concessions that are high value to supplier and low cost to the company.

Identify underlying needs that can lead to more creative, profitable deals.

Anticipate likely negotiation situations and plan approaches for dealing with them.

Use the natural tension in the supplier negotiation as a constructive source of creative, profitable solutions.

HEAT SHRINKABLE TUBING: AN INNOVATIVE APPROACH

A major auto maker identified a new, innovative “heat shrinkable” tubing product that would solve a number of design challenges in their manufacturing operation. This product was fabricated by a small, growing company with a young management team. When the auto maker approached the company with an offer to buy the tubing for 10 cents per linear foot, the response to the buyer was brisk: “There’s no way we could produce the product profitably at that price. We need to charge you at least 22 cents a foot.”

The two sides quickly became locked in a competitive price negotiation, and deadlock seemed imminent. At this point, the buyer tried a different, partnership-oriented strategy. He said, “You’d like to sell your product at 22 cents, we’d like to buy it for 10 cents. We’d love to do business with you, and you’d love to do business with us. Let’s see if we can find a creative way to resolve this problem.”

Through a process of research and discussion, the buyer discovered that the seller’s manufacturing process was extremely inefficient, leading to artificially inflated prices. This led to an innovative solution: The auto maker provided technical consulting to the tubing company to help improve manufacturing efficiency, which lowered the cost of manufacturing. In return, the automaker was able to get a much better price. Both parties benefited: The buyer was able to control costs and the supplier was able to broaden its market and improve profitability.





THE BOTTOM LINE: IT'S A STRATEGIC CHALLENGE

Managing supplier relationships requires a strategic approach to negotiation, and is critical to achieving aggressive profitability goals. Buyers are no longer simply managers of cost, negotiating lower prices. In your expanded role, you are the key link between your company's business strategy and the acquisition of the critical resources needed to implement it.

What does it take to acquire the counterintuitive skills for success? The most effective approach includes formal training and management reinforcement that:

- shows your people the inadequacies of their current approach;
- provides simple, systematic ways to negotiate better agreements;
- teaches fundamental principles and planning methods to duplicate the approach used by high performers;
- gives feedback on correcting mistakes, then building strengths through specific skills; provides opportunities to practice using skills in a safe environment;
- builds competency in negotiation planning; and
- apply new learning to current, actual supplier negotiations so time spent in the classroom has immediate payback on the job.

Based on two decades of successful negotiation training workshops in major global corporations,

RED BEAR Negotiation Company's Negotiating With Suppliers™ provides the principles and skills you need to improve the quality and profitability of your supplier negotiations. After completing Negotiating With Suppliers™, you will be able to:

- distinguish between strategic and tactical supplier situations, responding with the right skills;
- use six powerful Negotiation Principles to improve outcomes;
- obtain the best possible pricing while maintaining supplier loyalty & good will;
- negotiate more creatively when faced with potential deadlocks;
- negotiate effectively inside your organization; develop and implement effective concession strategies; and
- plan more effectively for all supplier interactions.

Using the Negotiating With Suppliers™ approach, you can boost the performance of your buyers, procurement professionals, and others who negotiate resources for your company. You will improve profitability and build better long-term relationships with the suppliers that provide you with products and services.



SUPPLIER RELATIONSHIPS ARE CHANGING FAST ARE YOU CHANGING WITH THEM?

#1 YOU'RE WASTING TIME & MONEY BY NOT CONSOLIDATING

All major corporations are depending on fewer suppliers to help them succeed. One study** attributes an indirect spend cost reduction of 3.35% and a reduction of equipment and supplies cost of 9.18% thanks to supplier consolidation. As the number of your suppliers shrinks, the average negotiation is larger and more complex.

The result: consolidation saves time and money once you eliminate the hours you used to spend handling many products from many suppliers. When all parties have fewer choices, it is easier and faster to manage other time consuming processes like non-standard purchases.

Do you have the skills to navigate these larger, more complex negotiations?

#2 YOU'RE JUST AN ORDER TAKER

Purchasing organizations cannot succeed if you're just taking orders from internal customers. Instead, share your expertise for resource selection, understand the objectives and plans of internal operating groups, and work side-by-side with internal customers to solve business problems.

The result: sourcing professionals use effective negotiation skills inside of your organizations as well as with outside vendors.

Do you have the negotiation skills to get things done by people you have no direct authority over and gain the cooperation of your colleagues for important projects?

#3 YOU'RE ONLY FOCUSED ON PRICE

Purchasing is responsible for and measured on savings, but future success will be found in your supplier relationship. KPIs are expanding to include revenue growth, innovative approaches, customer satisfaction and risk management. A transparent relationship with your suppliers will help you predict and reduce potential supply chain disruptions. You must develop skills to ask questions and listen with open curiosity to earn the trust of your suppliers.

The result: a reciprocal partnership where suppliers look for creative solutions with your best interests in mind and everyone wins more.

Do you have the skills to build rapport and come up with creative solutions in your negotiations?

#4 YOUR TEAM MEMBERS ARE DAMAGING YOUR NEGOTIATION, LITERALLY UNDERMINING YOUR EFFORTS

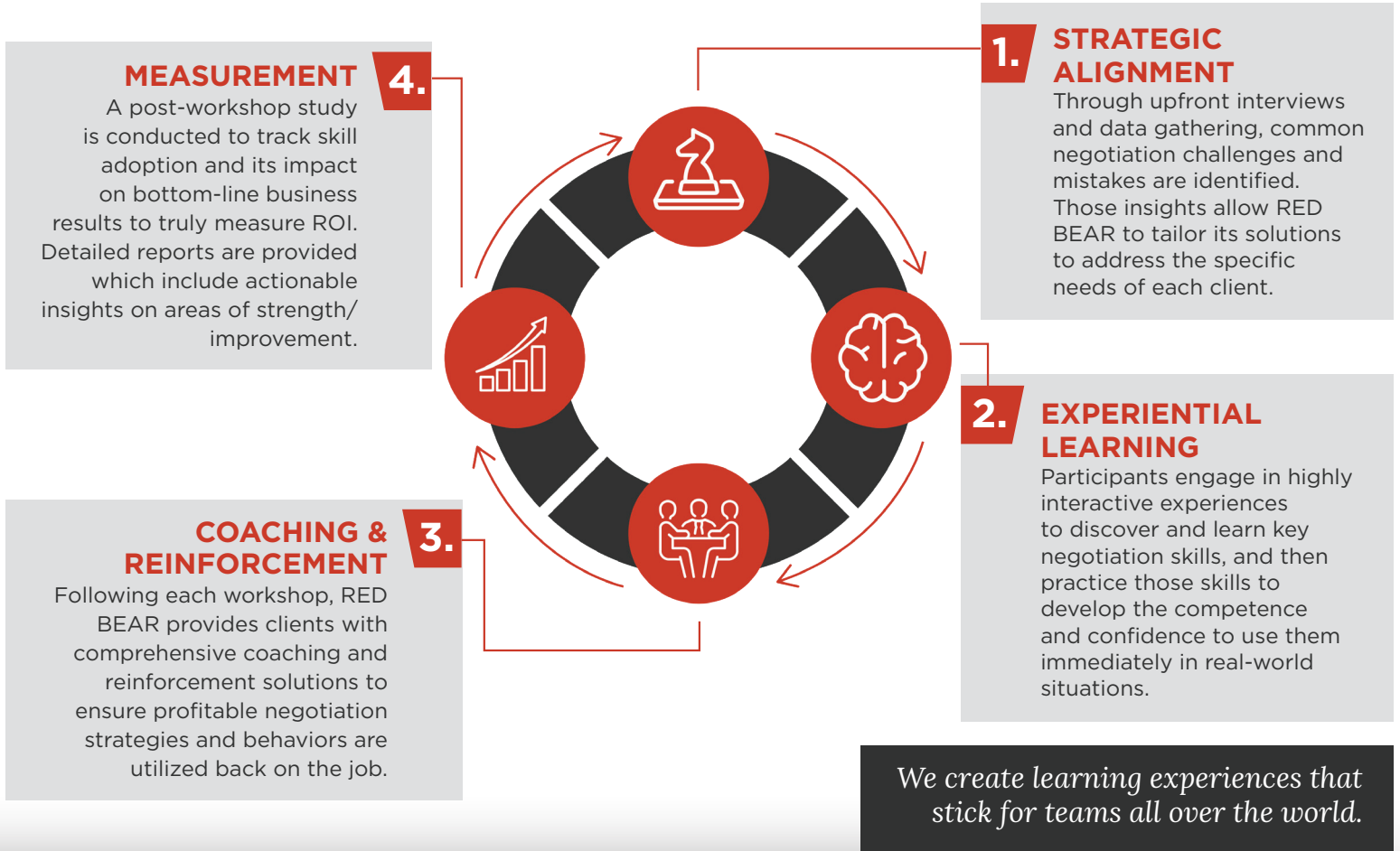
As products become more complex and purchasing covers more geography, you're responsible for coordinating more people on your team. Internal team members must have a negotiation strategy to avoid accidentally damaging your positions. And you must be skilled in how to work together to craft the best possible agreements.

The result: A wider population of your peers need to learn effective negotiation skills.

Do you have the skills to coordinate a larger team negotiation strategy?

The RED BEAR Difference

Customized Training at Every Step



The Global Leader in Negotiation Training Is Waiting for You

Are You Ready?

Is your organization prepared for volatility and economic uncertainty?
RED BEAR is ready to help your team become world-class negotiators.

CONTACT US TODAY

RED BEAR By the Numbers		
10+ years in business	Worked with 45% of Fortune 500	150k+ professionals trained
Communication in 14 languages	Delivered workshops on 6 continents	10x ROI guaranteed

ABOUT RED BEAR NEGOTIATION
RED BEAR transforms people, teams, and organizations into world-class negotiators. Trusted, forward-thinking companies around the world, across every industry, from the Fortune 500 to high-growth start-ups rely on RED BEAR's proprietary negotiation training to accelerate revenue/margin growth, reduce costs, drive greater internal alignment, improve cross-cultural expertise, and support achievement of other critical corporate goals. RED BEAR's training courses and expertise lie in sales negotiation, procurement negotiation, and cross-cultural negotiation. For more information, visit www.redbearnegotiation.com.

RED BEAR Negotiation. Become a World-Class Negotiator Today.