



# Enhancing negotiation effectiveness:

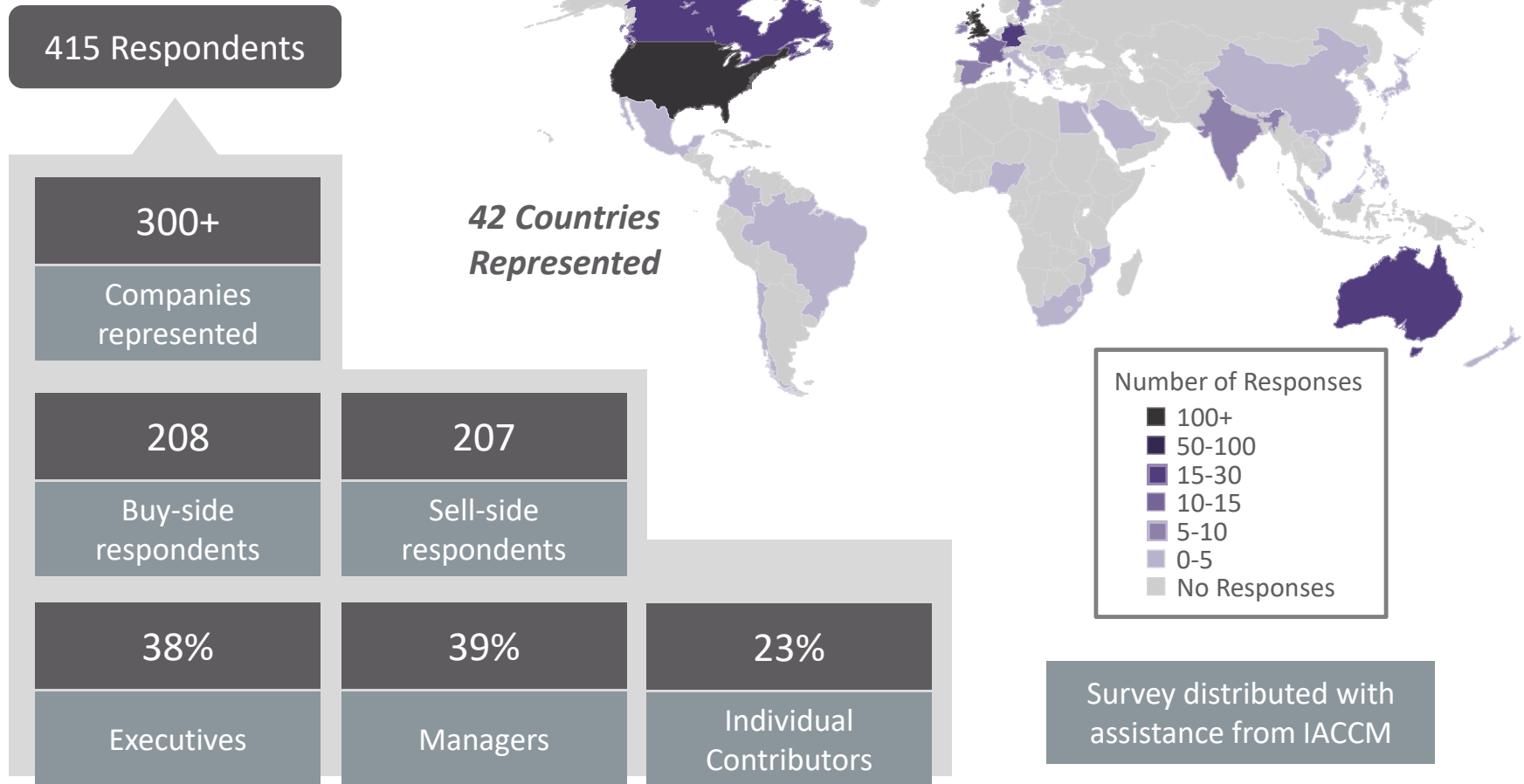
Insights from recent research

September 20, 2018



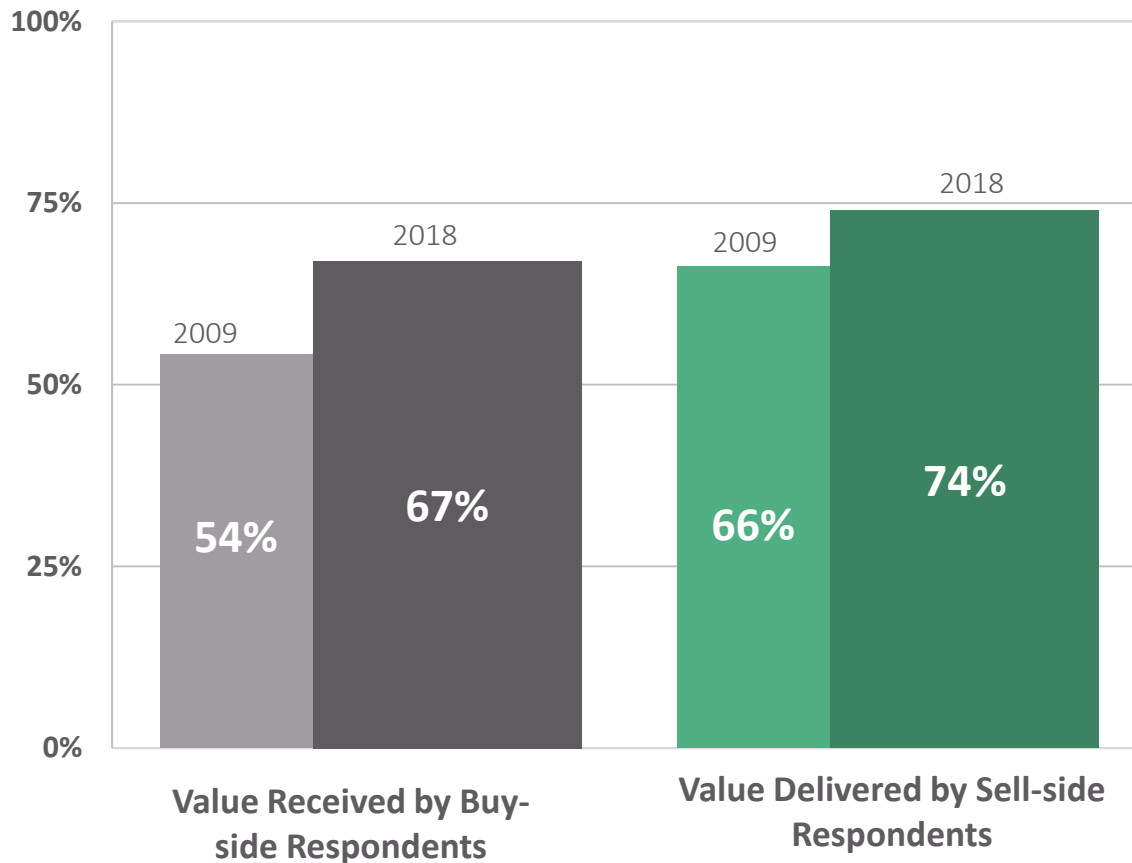
# Findings from Recent Research

# Negotiation Study Demographics



# Customer and supplier perceptions of potential contract value realized during implementation

## Average contract value realized in implementation



Despite the 24% (buy) and 12% (sell) improvement since 2009, both sides are still losing a significant amount of value (33% for buy-side and 26% for sell-side) during implementation.



# Major areas of value leakage

## For Customers

- Expected innovation does not materialize
- Scope changes lead to additional costs
- Off-contract purchasing undermines expected savings
- Project delays due to supplier
- Quality problems

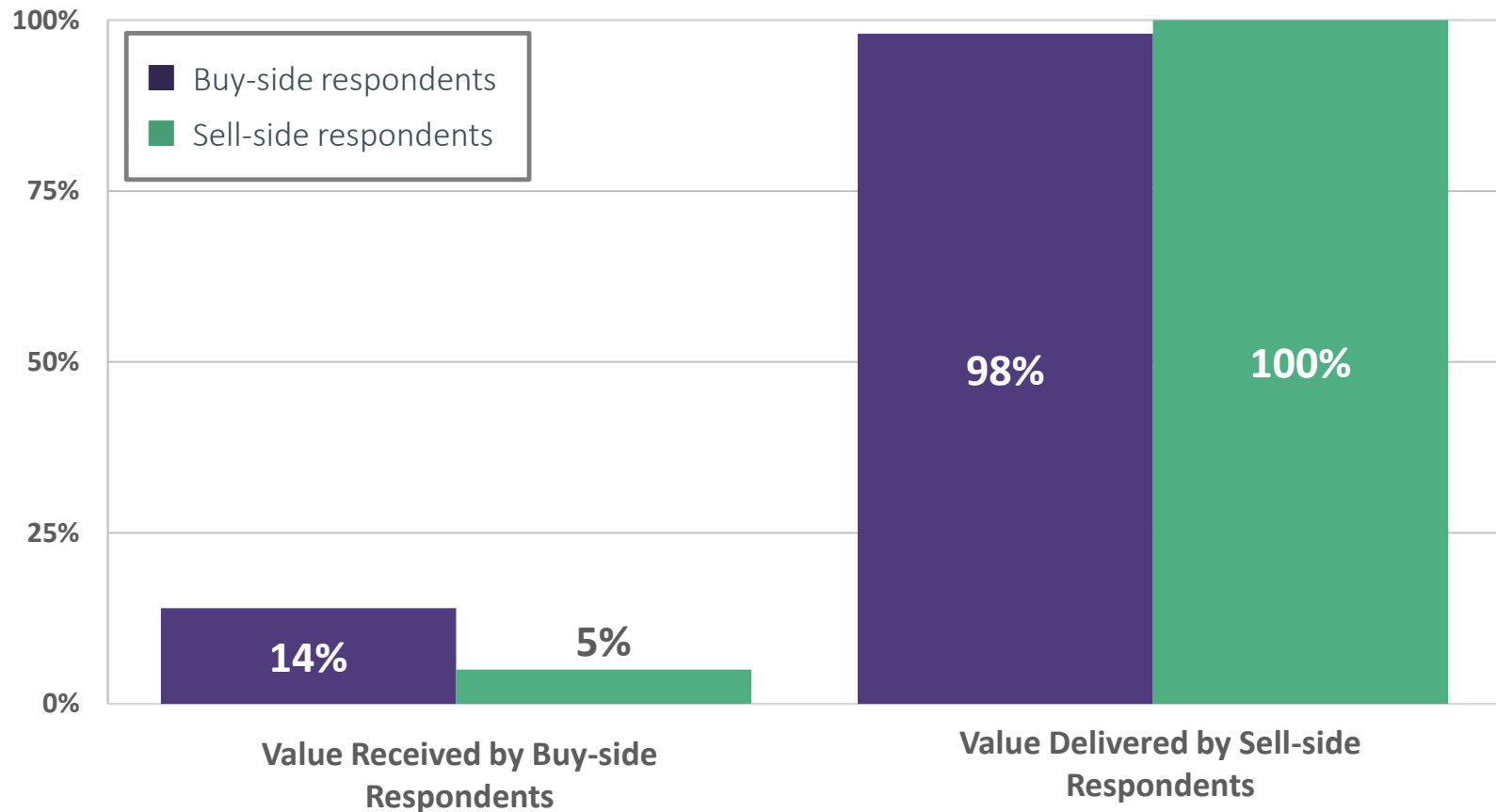
## For Suppliers

- Expected volumes do not materialize
- Changes in requirements lead to increased and unrecoverable costs
- Customer does not provide committed resources
- Project delays due to customer



# There is a vast gap between top and bottom performers

Total contract value realized during implementation by top and bottom 10%\*



# What differentiates top and bottom performers

Buy-side responding about their company	Top 10%*	Bottom 10%*	Difference
Those involved in negotiations engage in adequate preparation	50%	9%	455%
Company has a commonly understood and followed negotiation process	50%	22%	127%
Negotiators follow a formally articulated strategy when negotiating with suppliers	33%	13%	154%
Negotiators employ significantly different negotiation strategies from one category to another	78%	55%	42%



# What differentiates top and bottom performers

Buy-side responding about their company	Top 10%*	Bottom 10%*	Difference
Company has a formally defined and documented negotiation process	78%	65%	20%
Negotiators always or almost always follow a formally defined negotiation process	50%	14%	257%
Company engages suppliers early in defining specifications or requirements (pre-negotiation)	17%	9%	89%
Company has a formally defined and documented category management process	89%	60%	48%
Company has a formally defined and documented supplier relationship management process	78%	52%	50%





# Contrasting perspectives on negotiation

## Common Characteristics of Low Performers

- Believe negotiated outcomes as primarily dictated by market forces and leverage
- Assume negotiations as zero-sum and adversarial
- Approach negotiations as an event, rather than a process
- View negotiation as an individual skill versus organizational competency
- Focus on achieving the most favorable terms on individual deals
- Manage negotiations as a tactical activity owned by commercial groups

## Common Characteristics of High Performers

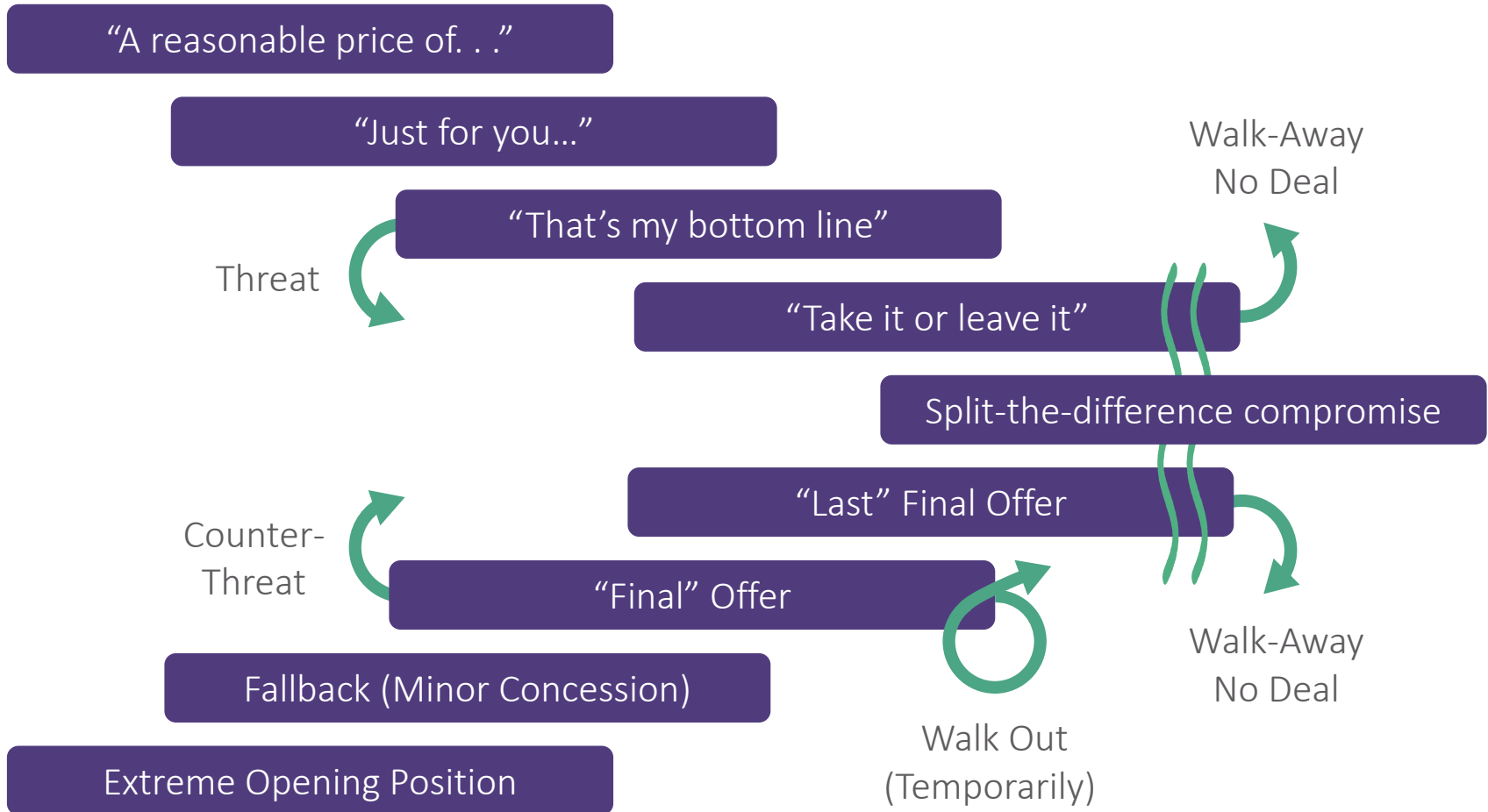
- Believe negotiated outcomes are largely determined by strategies and tactics
- Assume value can either be created, or destroyed, in every negotiation
- Manage negotiations as a process, not as events
- View negotiation as an organizational competency, not only an individual skill
- Focus on maximizing deal value over time, across their portfolio of negotiations
- Manage negotiations as a strategic activity that requires cross-functional involvement





# A Model for Negotiating Strategically

# A common, but inadequate, negotiation paradigm



# Negotiation approaches: A false choice

## Soft

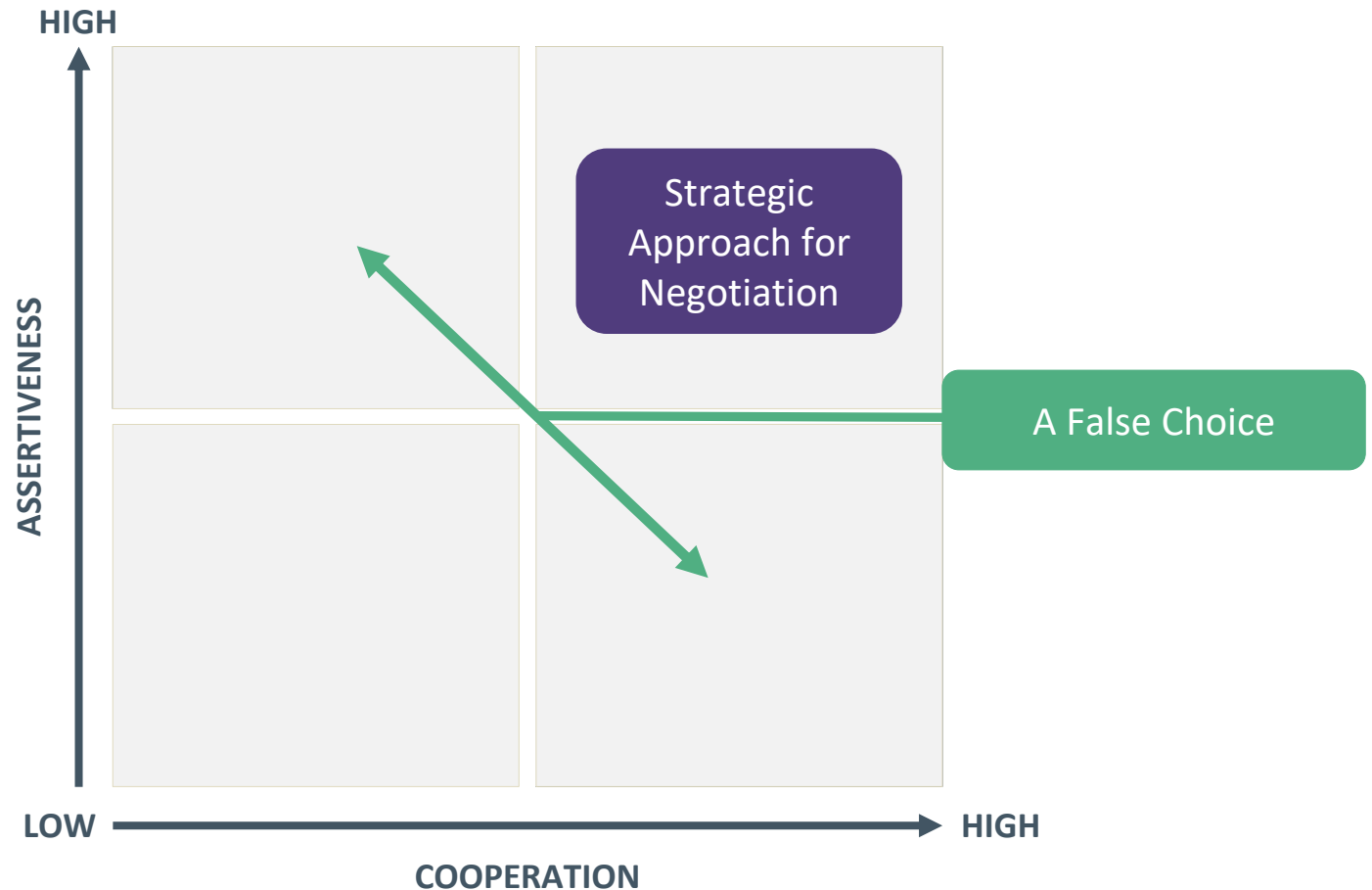
- Participants are friends; the goal is agreement
- Make concessions in an effort to “buy” a good relationship
- Soft on the people *and* the issues
- Open with a reasonable position, and make arbitrary concessions
- Yield to threats and seek to avoid conflict

## Hard

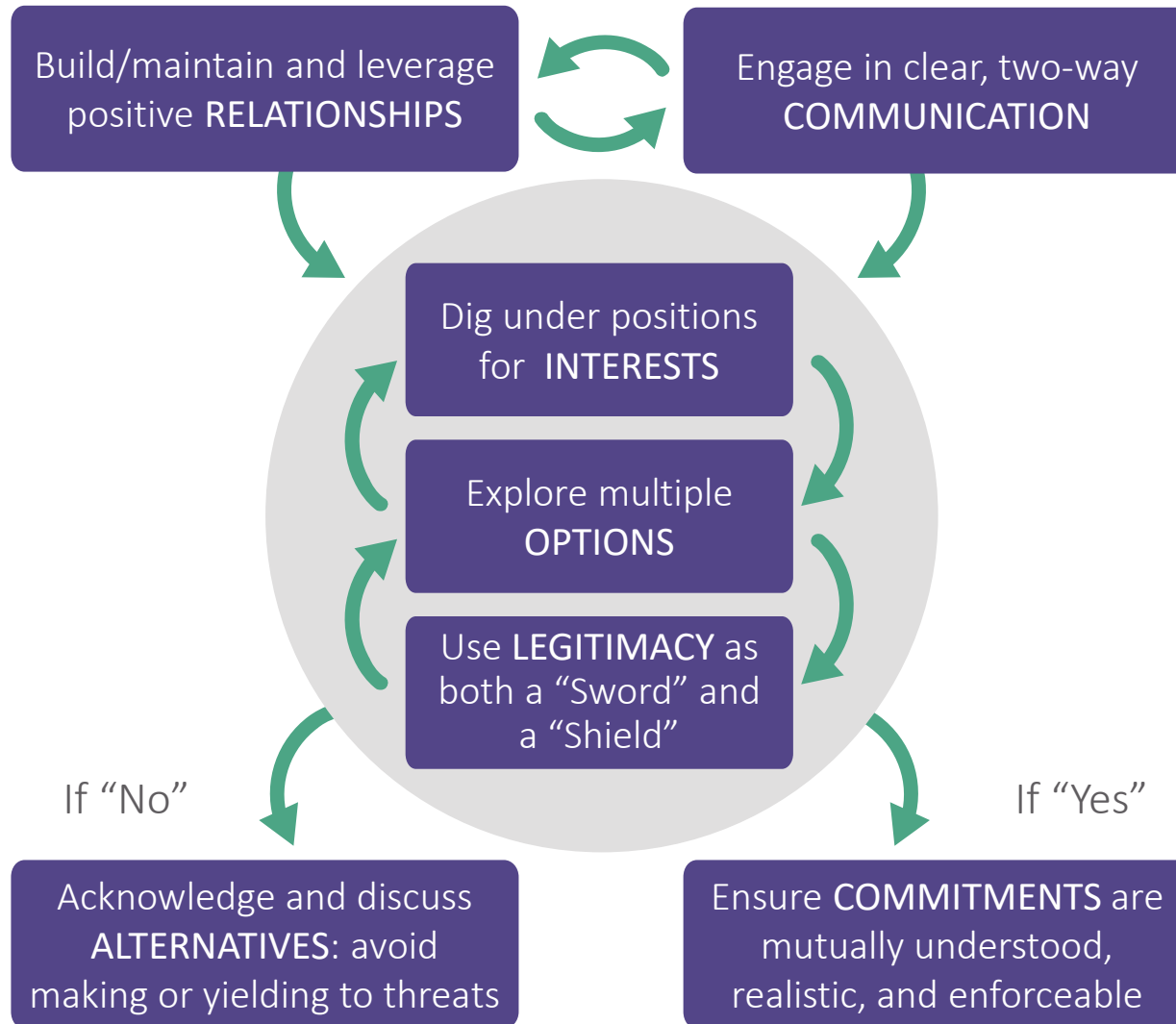
- Participants are adversaries; the goal is victory
- Demand concessions as the price of having a relationship
- Hard on the people *and* the issues
- Open with an extreme position, and demand arbitrary concessions
- Issue threats and create conflict to gain leverage



A more strategic approach is needed to combine the benefits of both assertiveness and being cooperative in negotiation

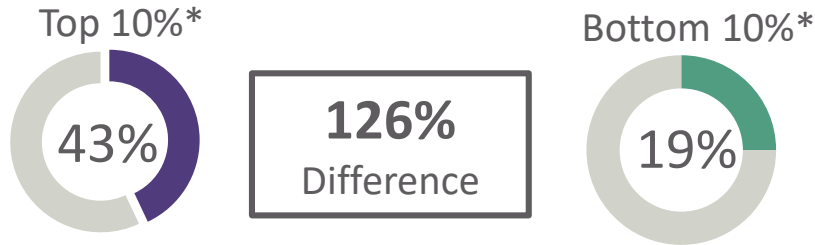


# A more robust negotiation framework: the principled, joint problem-solving approach

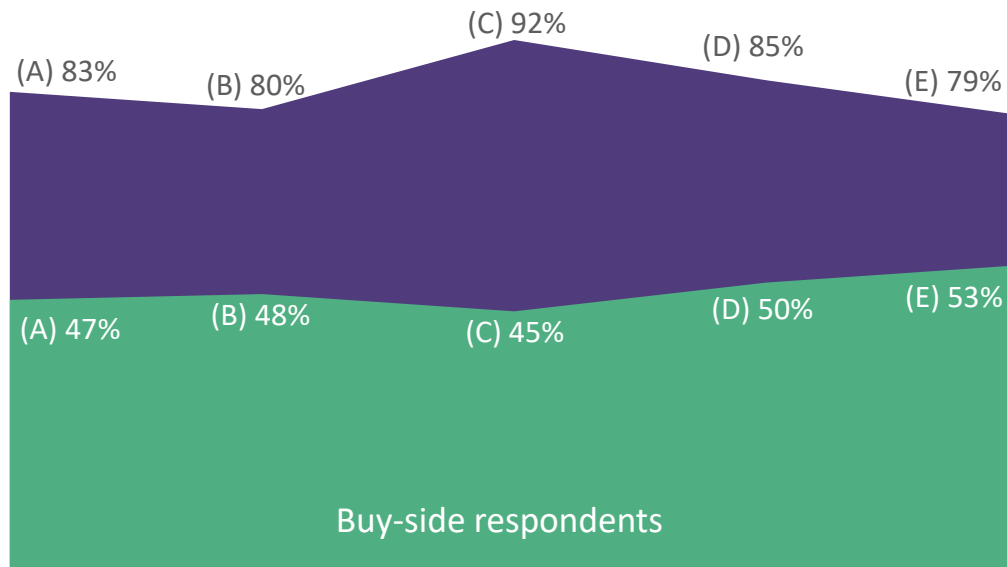


# Collaborative negotiations consistently outperform

Buy-side respondents who reported their negotiations were highly collaborative



The most collaborative negotiations consistently outperform the most adversarial across these key negotiation metrics



- (A) Level of satisfaction with contracts
- (B) Realized value
- (C) Efficiency
- (D) Predictability
- (E) Leverage

Percentage of Buy-side respondents

- Top 10% most collaborative
- Top 10% most adversarial





# Building a Negotiation Competent Organization



# Measuring negotiation success in four dimensions

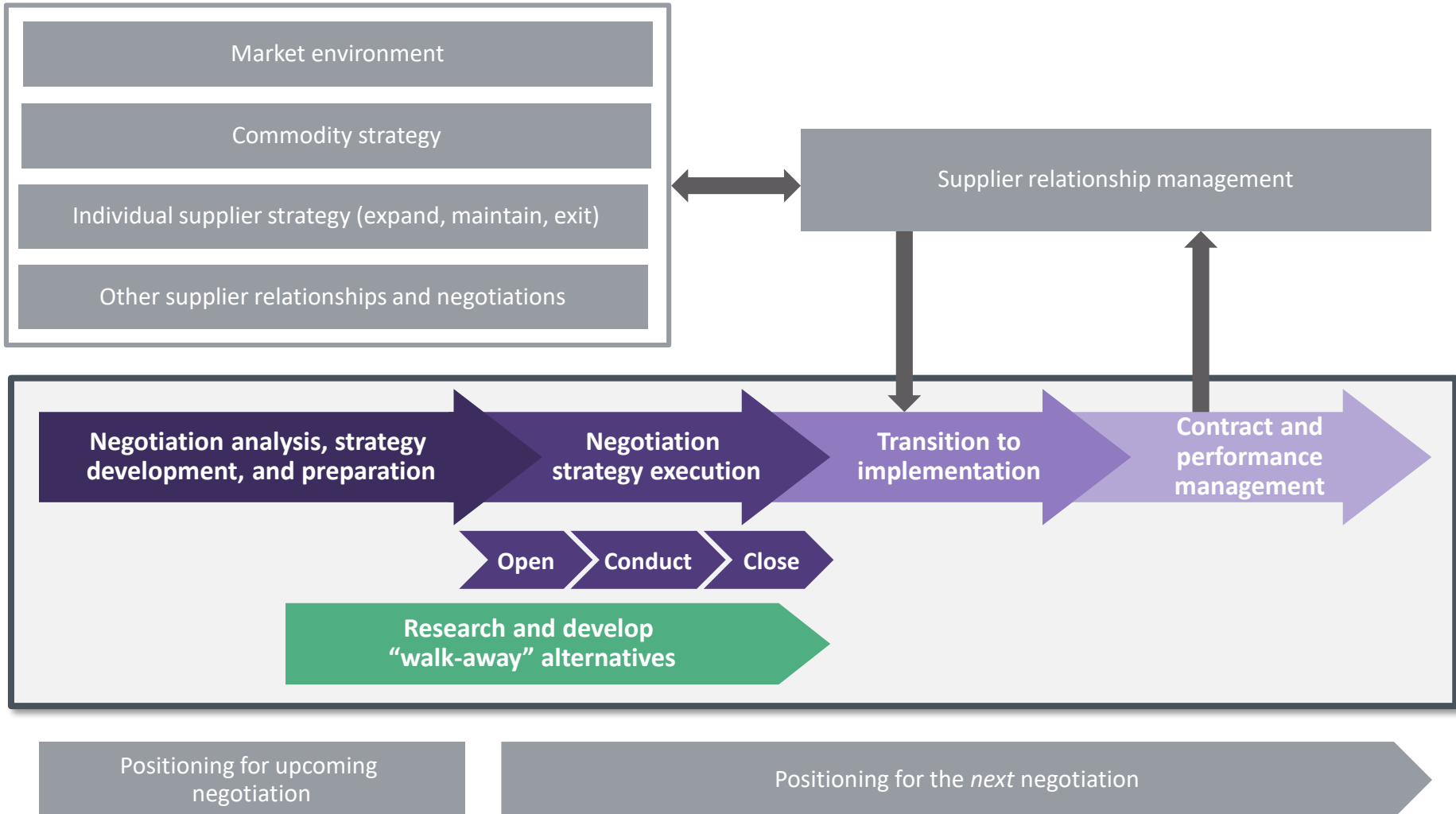
- The **terms of the deal** that are negotiated

AND

- The way the negotiation process affects, for better or worse, our **relationship with business partners** — and thus our ability to successfully implement the contract and work together
- The way we teach, consciously or not, our business partners to **negotiate with us in the future**
- The precedents created by the negotiation, and the extent to which these increase or decrease **our future negotiation leverage** in the marketplace



# Negotiation process and broader context



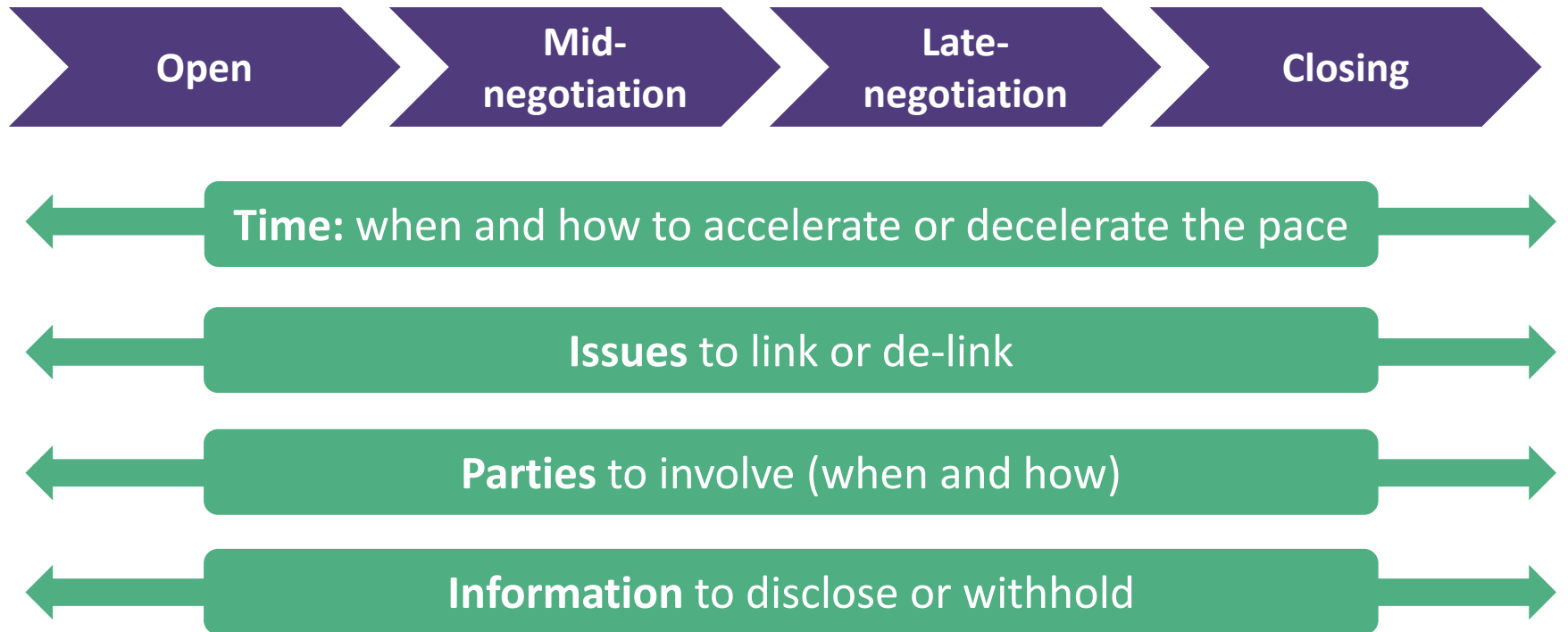
# Aligning procurement disciplines

Procurement Alignment	Top 10%	Bottom 10%	Difference
Strategic sourcing, category management, contracting and contract management, and SRM are fully integrated and aligned	80%	23%	3.5X
Sourcing and SRM strategies are fully aligned with go-to-market strategies	84%	31%	2.7X

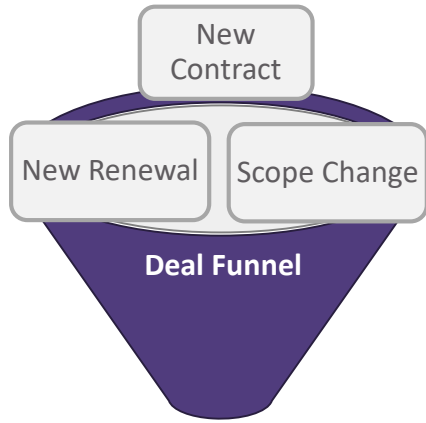
**10X more likely to get best pricing, people, and ideas from suppliers**



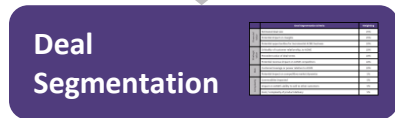
# Negotiation strategy dimensions across the stages



# Negotiation pipeline analysis



- Potential supplier negotiations and sourcing opportunities are identified and logged in the deal pipeline.
- The pipeline is reviewed to assess whether opportunities exist to link or unlink negotiations across ACME – with this supplier within or across business units or commodities, with other suppliers for similar goods, etc.
- The most strategic and/or highest value of those negotiations are brought in front of senior leadership for review, to discuss trade-offs and opportunities to drive additional value, and ensure alignment among impacted stakeholders



All deals should be reviewed at multiple points in the planning, strategy development, and execution processes before receiving final approval





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