A Better Way to Negotiate
How cost transparency is changing the way we engage with suppliers.

Two Ways We Engage with Suppliers

- Bidding events
- Direct negotiations (with existing suppliers)

Two Ways We Engage with Suppliers

- Bidding events

Best practices
Two Ways We Engage with Suppliers

Bidding events

Best practices for bidding events are well established and results are usually effective.

So why not use them all the time?

Especially, since Direct negotiations lack the element of competitive pressure.

Most organizations simply do not have the resources needed to bid everything, all the time.

The universe of suitable suppliers is often limited.

Price adjustment clauses or ‘requests’ (even in bid contracts) are commonplace.
Two Ways We Engage with Suppliers

Most organizations simply do not have the resources needed to bid everything, all the time.

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Direct Negotiations are a frequent fact of life.

Two Ways We Engage with Suppliers

Direct Negotiations

Best practices

While best practices for bidding events are well established,

Direct Negotiations resemble the Wild West.
Best practices for negotiations are emerging

The Golden Rule of Negotiations

The Golden Rule

Never enter negotiations without first researching what has happened to your supplier's costs.

The Green Giant Story
(Or how I stumbled upon the Golden Rule)
By following the Golden Rule, you can:

*Identify opportunities* to lower prices

Prevent *price creep*

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Opportunities to negotiate lower prices.

**Hockey Sticks**

&

**Silent Slopes**

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**Hockey Sticks**

1-year back

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Two-Year Hockey Stick

Hockey Sticks
Finding the last peak

Hockey Sticks
Two can play the ‘pick-a-time-slot’ game
There is Always a Hockey Stick

Looking Back

Finding a Matching Point
Silent Slopes

Prevent price creep

Once suppliers realize their costs are transparent, their behavior usually changes.

And for a very logical reason!
It’s in their long-term best interest.

No supplier wants to appear greedy or hypocritical because it is bad for their image and therefore bad for business.

Cost transparency works because it is based on suppliers’ natural desire to preserve their good name.

Cost transparency puts pressure on suppliers to reduce prices, without depending on bidding.
You are the one who creates this transparency by researching your suppliers’ costs

Researching suppliers’ costs is a go-to best practice when bidding is not an option and you need to negotiate with suppliers

Remember the Golden Rule
Model what you should be paying

Modeling what you should be paying

Why build a model?
Modeling makes what you should pay transparent and puts pressure on suppliers to lower pricing.

Modeling what you should be paying

How complicated is it?
Price models are easy to build: the trick is to focus on trends not precision.
Copper Cable with Supplier’s input

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Cost on 01/1/2013</th>
<th>% of Selling Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper (New York)</td>
<td>364</td>
<td>35</td>
</tr>
<tr>
<td>PVC</td>
<td>194</td>
<td>10</td>
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<tr>
<td>Tracking Cost Index USA</td>
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<td>4</td>
</tr>
<tr>
<td>Americas Unit Labor Costs</td>
<td>189.7</td>
<td>8</td>
</tr>
<tr>
<td>Supplier's profit, overhead and reserves</td>
<td>42%</td>
<td></td>
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</tbody>
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What just really happened?
You introduced cost transparency into the negotiation.

And he lowered the price to preserve his good name

And he lowered the price to preserve his good name

You actually made him a co-owner of the model
The key benefits of Modeling

1. Strengthens your negotiating position.
2. Saves precious time.
3. Attracts the best kind of suppliers.
4. Is a fair and constructive approach for both parties, leading to lower costs and a stronger supply chain.
5. Creates a long-term advantage for your organization.

Let’s talk about Sales Reps

What does a sales rep care about most?
Whose side is the sales rep on?
How much negotiating autonomy does a sales rep have?
How much influence does a sales rep have back at the office?
What is the best way to work with your sales reps?
The best way to work with sales reps is to arm them with information.

Information they can use to influence their companies’ management

Make them champions for your cause

Taking Supplier relations to the next level

Going Fishing with Suppliers

Where are the trophy fish when it comes to saving money?
The best cost-savings opportunities are usually found in your suppliers' organizations:

knowledge and ideas inside the heads of their managers, engineers, planners & operations staff.

The Ball Packaging Story
(or how a supplier saved our business)
Suppliers are a great resource

They know a lot about the outside world.

They have deep technical knowledge about their own products.

Work with your sales rep to open doors to expand the breadth of relationships between both organizations.

Your role is to be the catalyst that makes things happen: arranging and chairing meetings, setting agendas and priorities, encouraging new ideas, managing projects to ensure things get done.
The best part of fishing with suppliers is the **job satisfaction** you get from being an agent of positive change.

Summary of the ideas discussed

The two ways we engage with suppliers

The Golden Rule of negotiations and the power of cost transparency

How to use historical information to your advantage

Why modeling what you should be paying is so powerful

How to work with sales reps

How to build constructive, broad-based and mutually beneficial relationships with suppliers

Implementation takes some effort for sure, but the rewards are well worth it
Look at what you can achieve

• A lower cost and stronger supply-chain – a very valuable asset

• More rewarding work for yourself – being a catalyst for positive change sure beats hassling over price all the time.

• Respect and appreciation from colleagues and management.

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A lower cost and a stronger supply-chain – a very valuable asset

More rewarding work for yourself – being a catalyst for positive change sure beats hassling over price all the time.

Respect and appreciation from colleagues and management.

And a stringer of trophy fish to show your boss at performance appraisals (and include in your resume).

Remember the Golden Rule