

THE NEGOTIATION ROTTWEILER – SHOULD WE BEAT UP OUR SUPPLIERS OR COLLABORATE WITH THEM?



An Insight Whitepaper

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Negotiation

Jonathan O'Brien seeks to answer this 'of the moment' question as companies increasingly find their negotiation practices either ineffective or being called into question as unethical. He also explores why companies default to conflictual negotiation practice, and when and how to use more collaborative approaches.

Should negotiation be a conflictual process? It seems there is a commonly held belief that conflict is an essential part of every great negotiation and this permeates through common beliefs and practice in the procurement community. This, in part, comes from how many procurement professionals learn negotiation skills which promote good negotiation to be about adopting a highly assertive, attack first, stay strong and firm, and control the outcome approach.

The 'Negotiation Rottweiler' has become the hero and something to aspire to - exactly what companies need to send in to get the deal, whilst holding firm our position in the face of strong opposition from a well-organized supplier negotiation team! Indeed, many procurement professionals receive their training from negotiation skills training companies, where the sole approach advocated is built upon conflictual negotiation. One leading program begins with conflict from the moment the delegates arrive for their training program and continues through the program, equipping delegates with a range of approaches to always wield a big stick at the opponent. Worse, the majority of negotiation training programs that procurement professionals attend were designed for sales people, and so place the emphasis on how to manage 'the negotiation event' and how the negotiator must perform in the moment, along with how best to wave the big stick in order to be successful. In procurement, learning 'sales-based negotiation' centred solely upon the cohesive power and conflict gets us so far, but generally tends to fall short.

BAD DOG!

If all we do is try and beat up our suppliers, we will be successful in leveraging some great deals, however, looking across the entirety of supplier negotiations, this single dimensional approach can not only leave money on the table, but can also increase supply side risk and impede our ability to secure potential value from alternative approaches. There are four main reasons why the traditional, sales-based, 'Rottweiler' negotiation approach leads to sub-optimum outcomes:

1. We can only fight - mirroring the 'big stick' negotiation of our opponent does little more than make negotiations nothing other than a fight. Only one can win while the other loses. This might be appropriate for some negotiations but if it is our only approach it will limit possibilities.

2. Process and planning is key - this is essential if our primary focus for being good at negotiation is our performance in the negotiation event. We don't want to miss the crucial need for rigorous planning, research and a process to move towards an agreement.

3. Procurement personality traits - in general, there is a key difference in personality types. Those in procurement tend to have a wide and varied mix of traits, whereas those in front line sales and account management roles, are typically selected for their specific ability to lead client facing interactions, and for their competitive 'will to win' traits. For this reason, sales professionals almost always receive performance-based remuneration, whilst this is much less prevalent for those in procurement. Sales based negotiation training, often designed and delivered by those from the sales community, therefore tends to place the emphasis on how to deliver a performance to win during the negotiation event. Training procurement practitioners into this type of negotiation creates a one speed approach, that can only resonate with a proportion of procurement practitioners who have the right 'will to

win' personality traits. For the rest it creates a mountain to climb, and can really undermine confidence. I have worked with many excellent procurement individuals who had come to believe that their negotiation skills were poor, on the basis that they were uncomfortable with conflict and upsetting people. This is not the case, and such individuals have a lot to offer with a natural ability that will lend itself to the collaboration that is needed with certain suppliers. Teaching procurement people to be Rottweilers, especially where it conflicts with their natural personality traits, can limit potential and allow for failure in recognizing key talent.

4. The Corporate Social Responsibility agenda - a Rottweiler negotiation that leverages a great deal for our business might, on the face of it, seem like a great win. Historically, this has been the corporate view, however things are changing. The world is changing, and shifting consumer expectations, together with a range of emerging legislation, mean certain industries and organizations need to consider the impact of their actions beyond the transaction.

Corporate Social Responsibility is firmly on the boardroom agenda, whether by choice or obligation for many companies. There are growing implications for negotiation here, with large global organizations increasingly being required to demonstrate that their negotiation approaches are fair and transparent. As an example, in recent decades retailers have amassed considerable power from huge spend and controlling routes to market. Smaller suppliers who are dependent upon a retailer can wind up disadvantaged, with little choice but to allow the retailer to beat them down to a point that is at best only just sustainable. If allowed to run free, Rottweiler negotiations by giant companies who hold great power don't just impact smaller suppliers, but hard negotiations ripple back up the supply chain, risking unsustainable practice at the original factory or plantation, that might exist in another part of the world not governed by the regulations and controls that are commonplace to us. Increasingly, governments and industry bodies are seeking to better govern how giant corporates drive negotiation practice and many who have only known the Rottweiler method are finding themselves wondering how to adapt.

IN THE DOG HOUSE

So, is it time to banish the negotiation Rottweiler to the dog house for good? Quite simply - no! There is, and will continue to be, a key role for the highly experienced hard negotiator in procurement negotiations. More on that in a moment, but first I want to consider what alternative negotiation approaches could be used. I will begin with one that is the complete opposite to that of the Rottweiler - bring on the negotiation Labrador - a dog that just wants to be your friend, will look after you and do anything for you.

Is there a place for a highly collaborative form of negotiation, where both parties not only care about their outcome, but also the outcome the other secures? Where success is judged according to truly mutually beneficial results? Yes, most definitely, yet this very idea is likely to sound completely alien to anything many procurement practitioners would think could be good practice. It is here where the problem lies as this reflects how we have become conditioned to believe that only the Rottweiler will do.

To illustrate how collaborative negotiation works I will consider the famous 'win/win.'

THE PROBLEM WITH WIN/WIN

It is frequently suggested that this is what we should be aiming for - especially by our suppliers who want to condition us to the notion that we should be conceding to meet them. But is 'win/win' really possible and if so, is it desirable? And how could a Rottweiler really deliver such a thing?

A win/win is an agreed outcome where both parties walk away with the optimum value or benefit, balanced against the other party also securing the same. Sounds great but does such a thing ever exist? It does, but it is in fact rare, and a true win/win means both parties are concerned as much for their opponent as they are for themselves.

Win/win can be found in close personal relationships, ones where we care about the other party long term. A mother negotiating with a teenage daughter about staying out late may well be seeking a win/win, the teenager may also be seeking a win/win, or may have a different agenda. Such a concern for the opponent is rare in business relationships except where those relationships have a close, long-term dimension also. This might, for example, be a scenario where we have entered into a long-term relationship with a supplier to co-develop something, where if we were successful we both stand to benefit. This will require ongoing and close collaboration and it is here that business relationships are founded upon relationships between individuals, thus win/win is in fact a product of genuine close relationships, where parties hold concern for the other beyond the deal itself. This means that across a typical business, the conditions where a true win/win is possible or desirable are in fact quite limited, typically to a handful of suppliers. Where it does exist, our negotiation will need to be highly collaborative and something best left to the Labrador! So, what is going on the rest of the time?

The art of a good negotiator is to make the other party feel they are securing a win/win deal so that they walk away happy. Here negotiation and selling principles collide, we are in fact selling the deal and making

the other party feel good about it. 'Win' is in fact not necessarily a real position, but a perception. Therefore, if we can create the perception of a win in our opponent, we can in turn secure the outcome we need. This is where the world of negotiation tactics, clever spoken and body language, and some good acting can help create an illusion. It feels like a win/win, but it is in fact a WIN/win (big win/little win). Both parties have agreed to an outcome and both walk away feeling like they have good a good deal, but the reality is that with no personal desire to maintain a relationship beyond the deal, or little obligation to ensure the other party does well out of the deal, both parties will seek to maximize their positions. Here the game is on, using a variety of tactics and approaches to claim as much value from the other as possible, all creating the illusion that they are getting a great deal. Is this a bad thing? It might be for the teenage daughter negotiating with her mother, as such a short-term view could be damaging to the relationship in the long term. But for a business negotiating with another business, where we hold the power, and do not need a long-term relationship for a generic, undifferentiated area of spend, it is precisely the approach needed to maximize our position and win. It is here where the Rottweiler can deliver great outcomes.

So, despite the much-misused phrase, a win/win is real but only exists where there is a personal relationship that we care about, with a long-term consideration, or where there is a need for our actions to be sustainable. For everything else, win/win is an illusion and the real game is maximizing our win but making them feel good about it.

CLAIMING OR CREATING VALUE

To help determine how we should approach a procurement negotiation we must first be clear about our objectives. From here we can then determine the approach we need. There are essentially two types of negotiation: value claim and value create (figure 1). If we set out to claim value, this is like we are dividing up a pie where the size of the pie represents a fixed amount of value. The negotiation is centred around where we make the cut. What we give up, the other gets and vice versa, and our objective is only to maximize the size of our portion. Such approaches tend to compel us to seek a WIN/win on our terms, whilst working to make our opponent believe they have secured the big WIN and such a negotiation may well be best handled by our Rottweiler. In contrast, we could elect to create value. Here we worry less about how the pie is split, but instead put our efforts into working with the supplier to grow the pie so that we both secure a bigger amount, and how it is divided becomes less important. This is a job for the Labrador. So which dog makes the best negotiator?

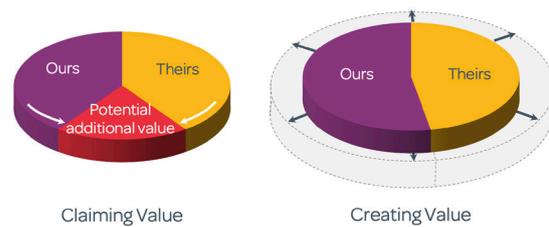


Figure 1: The Value Pie

EVERY DOG HAS ITS DAY

To be good at procurement negotiation sometimes we need to be Rottweilers, sometimes Labradors, sometimes Bernese Mountain Dogs and sometimes nothing at all. Being effective and using negotiation as a key tool to help build competitive advantage demands more than equipping our team with one type of negotiation skill, or approaching negotiation as if it were a separate and 'stand-alone' activity that can be simply bolted on. Similarly, sending procurement people on negotiation training courses designed for sales people is unlikely to have any meaningful impact, other than for a limited number of cases where we are negotiating to get a better deal for the generic, non-differentiated spend and the power is in our favour.

A strategic approach to negotiation is one that connects directly to the way we manage procurement at a strategic level. Good strategic procurement involves the effective application of category management and supplier relationship management to secure the required contribution from our supply base that will help realize our corporate goals. How best to source and who we should source from, will therefore be determined collectively across the various interested functions in the organization. It will be based upon comprehensive and deep insights around the business needs and wants that we are seeking to fulfil, our current and potential suppliers, and a deep understanding of the marketplace we are sourcing from. The processes we apply here and the insights from many of the strategic analysis tools a skilled procurement practitioner would use, provide unique building blocks to determine the optimum negotiation approach for any scenario.

Crucially, and unlike that taught at Rottweiler school, for procurement practitioners there is no single winning negotiation approach, but rather a variety of approaches open to us. The key skill required for a good procurement negotiator is to be able to determine, plan and deploy a unique negotiation approach in each case according to factors such as:

- Market difficulty and our degree of choice or ability to switch suppliers (and therefore the alternatives that might give us power in a negotiation)
- The degree to which a good negotiated outcome could significantly impact our organization's profit
- The strength of our position in the market and how

much leverage we may or may not have, considering factors such as how much we spend, dependency, current relationships, time and future opportunity

- How important the supplier is to us now and in the future, and the degree to which we might want or need a long-term relationship with them
- Our individual personality types (Rottweiler, Labrador etc.) and whether our natural style is suited to this specific negotiation and if not, how we must modify our behavior to negotiate well.

One key tool used in strategic procurement is Portfolio Analysis, based upon the work of Peter Kraljic (1983) – see figure 2. This tool helps us determine the strategic procurement approach for a category of spend (determined as a category), so it reflects how a specific marketplace is organized. We can use this tool to determine our unique negotiation approach according to the nature of what we are sourcing.

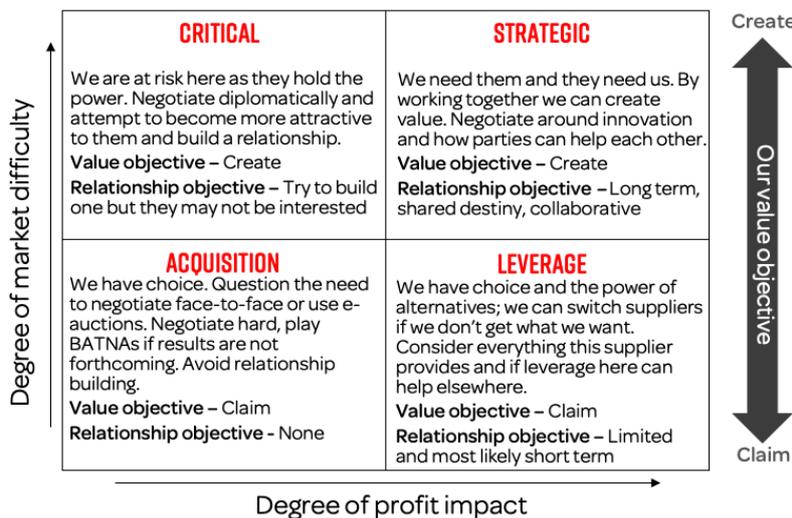


Figure 2: Portfolio Analysis, adapted from Kraljic (1983)

Considering the axis, market difficulty is the degree to which our choice in the market is curtailed. A market becomes difficult with one or very few providers, high complexity or dependency, limited supply, or difficulties in switching supplier easily. Impact on profit is the degree to which a small improvement in say, unit cost, quality, value or risk exposure, could have a significant positive impact on our firm's product. This axis is often replaced with 'spend' to make the model easier to understand and apply, and this works in the majority of situations but not all. I tend to consider both interpretations when using this model.

To determine the optimum negotiation approach, we start by classifying what we are buying, i.e. the category of spend into one of the quadrants according to the axis. Note that we do not classify suppliers using this tool. This then helps us to determine our overall sourcing strategy from which we can determine how best to approach our negotiation.

If we are in **Leverage**, then we have the power. The market is easy and, as the label suggests, we also hold good leverage with the potential to make a significant difference to our firm's profit. Here our negotiation approaches should seek to claim as much value as possible with a WIN/win outcome much in our favour. We are unlikely to need any sort of long-term or close relationship with the supplier as we have choice and we can switch supplier easily. This is the quadrant where the Rottweiler can run free, held back only by any CSR considerations around unfair use of power.

In contrast, if we are in **Critical** the supplier has the power and the market is difficult. We cannot switch suppliers easily or at all, and we lack leverage with little potential to impact our firm's profit. Still, so long as we need to source this area of spend, our negotiation has to be around finding ways to make us appear attractive to the supplier so that we reduce the risk of price hikes,

lack of interest in our account by the supplier, or worse, the supplier ceasing to want to supply to us at all. The Rottweiler cannot be allowed anywhere near this negotiation, instead, we need someone who will seek to build a relationship with the supplier if they will permit it and find ways to keep them interested in us, perhaps whilst finding alternatives that we could source that are not in **Critical**.

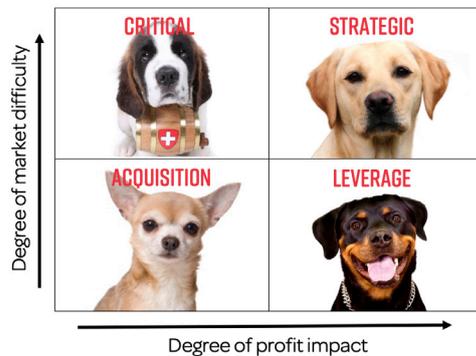
In **Strategic** we need the Labrador and here we are seeking to create value. This is the only place where we might find the true win/win outcome with a collaborative negotiation that is part of an ongoing long-term relationship, where parties have a shared destiny and mutual benefits.

In **Acquisition** we simply need the easiest negotiation approach, if any. Ideally, spend and categories in this quadrant are sourced on a transactional basis with little or no intervention. It is also preferable that there is no negotiation, and no need for a relationship with the supplier, despite what they might seek from us. This is like buying from Amazon.com – we just need the right stuff at the right price, delivered on time.

DOG AGILITY

There is no top dog in negotiation and if all we know is how to be a Rottweiler, we are missing the total benefits we could be securing from a negotiation. Effective procurement negotiation is about 'dog agility' – the ability of skilled procurement practitioners to determine and deploy different negotiation approaches, according to what we are buying and who we are buying it from, using our strategic procurement tools and insights to guide our negotiation strategy. Portfolio analysis helps

us to do this and give us a clear structure for how a procurement negotiator can plan the winning approach and the negotiation style we might need (figure 3).



Adapted from Kraljic, (1983)

Figure 3: Portfolio Analysis

This, together with thorough research and preparation, a repertoire of suitable tactics to use, and a good grounding in core soft skills around body and spoken language, enables procurement practitioners to secure

great outcomes. Furthermore, if these individuals are self-aware of their natural personalities and can learn to adapt behaviour where needed, it will command great results from any negotiation.

The negotiation Rottweiler is not dead, but equally is not the only dog in town. It is considered and planned agility that makes procurement negotiation successful.

Jonathan O'Brien, CEO of Positive Purchasing Ltd, is a leading expert on negotiation and works with global blue-chip organizations to help transform their negotiation and procurement capability. He also helped pioneer the Red Sheet® negotiation methodology. This whitepaper includes excerpts from "Negotiation for Procurement Professionals" written by Jonathan O'Brien and reproduced by permission of Kogan Page Ltd.

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