



Negotiating with a Supplier

How to win a partner instead of
creating an opponent



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Presentation Outline

- Introduction
- Charter of the Procurement organisation
- Avoidance of Price Increases by Suppliers
- Success factors



How do customers and suppliers deal with each other today ?



How do you see the customer / supplier relationship ?



How to approach a negotiation?

As a buyer representing a customer , you first need to **understand your counterpart**, which most often is a sales representative of the supplier, and his interests :

- How does he manage his responsibilities ?
- What is he expected to achieve in a negotiation ?





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What material management is expected to do for the company – the procurement charter

Have suppliers that:

reliably deliver materials & services,
with the **right quality** ,
at the **lowest possible cost** and
work on **total cost & lead time reduction**

Key Goals

Contribute **profit to the bottom line** by continuously reducing cost of purchased materials & services.

Develop a group of **key suppliers**
that can be counted upon.





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The Do's and Don't's of supplier negotiations

- ◆ Understand the market and the cost driving mechanism - **do your homework!**
- ◆ Request price decreases before the supplier/s asks for increases – **take initiatives on what to do together to reduce costs**
- ◆ Re-negotiate when possible and appropriate – Use arguments like **benchmarking** them against competition



The Do's and Don't's of supplier negotiations

- ◆ Request a **complete cost breakdown** specification from the supplier – changes to be verified
- ◆ **Utilise existing options** – prolong contracts lengths and price fixing periods (good ones)
- ◆ Use escalation possibilities when it actually comes to mandate **to accept price increases**



The Do's and Don't's of supplier negotiations

- ◆ Consider many final negotiations – **step up talks / negotiations to VP and CEO level** at the supplier & own company
- ◆ Change **tactics and the negotiating people** when feasible - the right people make a difference
- ◆ Demand your **share of the suppliers cost reduction results and their productivity increase**



The Do's and Don't's of supplier negotiations

- ◆ **Introduce a competitive element**, threaten with **low cost sourcing alternatives**, use reverse auctions, and when applicable, also in-sourcing
- ◆ Use delayed and staggered increase pattern – **six months later the situation can be different**
- ◆ Consider to re-position your earlier strategies regarding commodities, markets and suppliers. **Involve engineering to change past situation**



The Do's and Don't's of supplier negotiations

- ◆ Make use of the company's situation of being both local and global. **Use co-ordination possibilities across locations.** Use leverage through world wide co-operation.
- ◆ Improve **cross-company exchange** of information
- ◆ Sell value of own company image to **get priorities from supplier** compared to competitors



The Do's and Don't's of supplier negotiations

- ◆ Offset **price increases against total cost reductions**- create a win-win scenario
- ◆ Offer a “partnership” – closer **co-operation**
- ◆ Use **volume increase possibilities** when appropriate
- ◆ **Meetings between purchasing and marketing people to exchange experience** and get new arguments for improvements, understand market trends etc.



The Do's and Don't's of supplier negotiations

- ◆ Simply **say no** to further price increases !
- ◆ Use **all basic supply management practices** instead of traditional purchasing
- ◆ **Make the supplier/s aware of your long term direction** and let him understand that you are a partner who will stay in the market long term and consequently should get a different treatment than other customers





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Key Success Factors

The key success factors for suppliers as well as for a company with its customers:

PRODUCT QUALITY & RELIABILITY

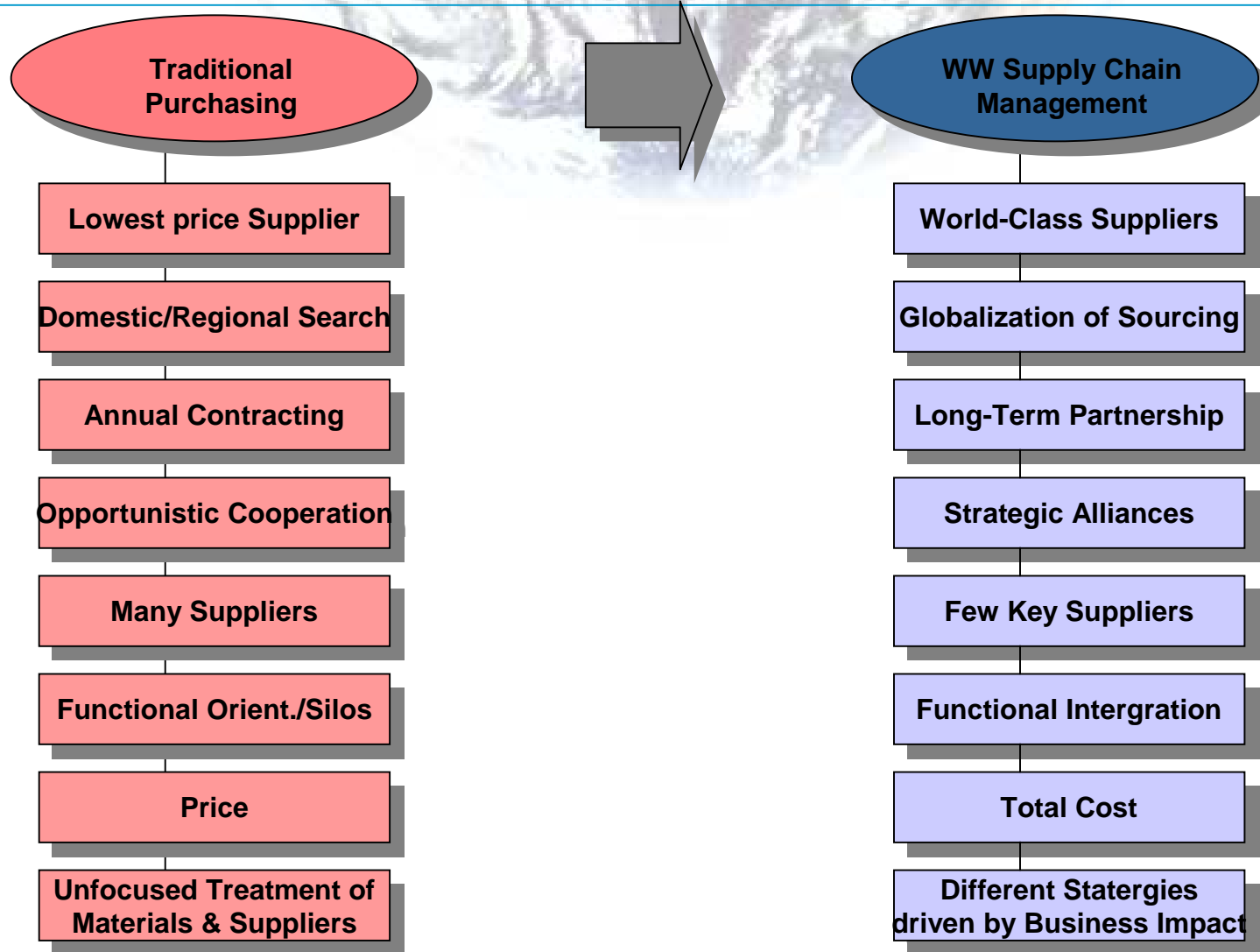
ON-TIME DELIVERY / SERVICE

OPTIMISED TOTAL COST

CAPABILITY TO MANAGE GROWTH



Purchasing vs. Supply Chain Management





The challenge of today

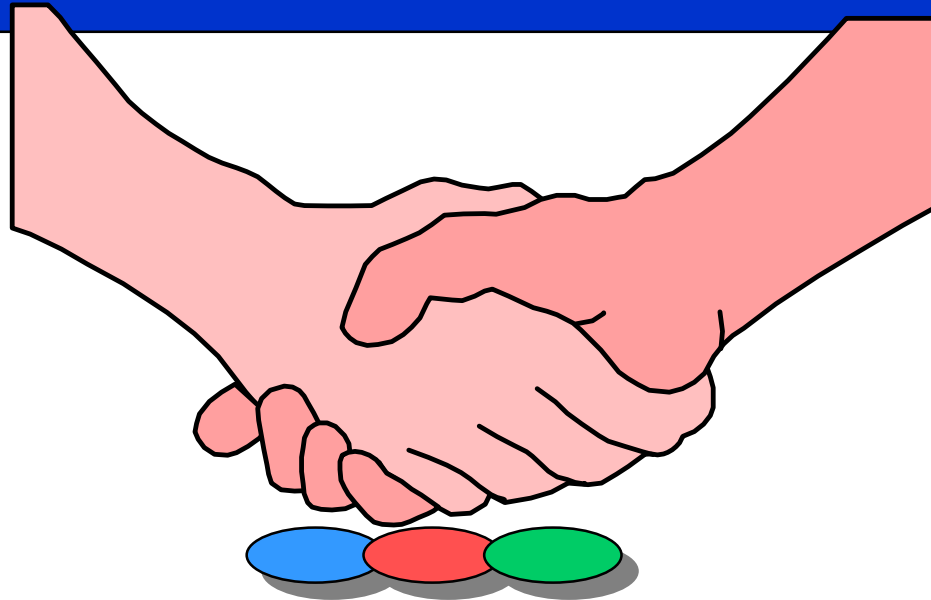
It is not companies
that compete
but supply chains

1995, Prof. Martin Christopher, Cranfield School of Management, UK



The Essence of Supply Chain Management

The willingness and capability to work successfully as true partners with suppliers and customers alike is the key for long-term business success.



How sales people can negotiate successfully with suppliers

- 1. **You deal with professionals** at the negotiation table - behave as a professional yourself
- 2. **There are tactics to apply** to arrive at a win-win situation instead of losing your shirt
- 3. If the **procurement power is shifting** you need to be prepared for it

