OUT-NEGOTIATING YOUR SUPPLIERS

Strategies to Successfully Negotiate with Suppliers & Get What You Want

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Purchasing & Procurement Center is an organisation whose sole focus is on procurement, sourcing, contracts consultancy, training and software solutions. Below is a summary of our services.

I. Procurement Consultancy Services

Setting Up New Procurement Department
- Results Expected: A world class Procurement Department with comprehensive processes, policies and procurement systems.

Procurement & Purchasing Cost Reduction
- Results Expected: Typical results you can expect are anywhere from 5% to 20% savings.

Procurement Gap Analysis & Best Practices Implementation
- Results Expected: At the end of the project your team will have a plan that outlines the actions to take to close the gap.

Customized Consultation Based on Special Requirements
- Results Expected: In-depth implementation of your organization procurement plans.

Supplier Development & Relationship Management.
- Results Expected: Proper processes to select and qualify suppliers, plus strategies to manage supplier relations and development.

II. Procurement Software

E-Purchasing
- PPC E-Purchasing handles both direct and indirect goods and services purchase and automates and streamlines the purchasing process. PPC E-Purchasing includes: RFQ, Quotation, Purchase Order, Delivery Order, Invoice, Reporting, Catalogue etc.

E-Bidding (Reverse Auctions)
- E-Bidding is a sophisticated eBidding Solution designed to deliver significant purchasing savings. PPC E-Bidding is a web-based solution and is accessible on the web.

E-Tenders
- E-Tender is a sophisticated web-based solution designed to cover the entire tendering process from tender specifications right up to tender approval and award.

III. Procurement Trainings Outsourcing

You can outsource training your procurement staff, by sending them to attend our public courses or running a course only for your team. Below is a list of some of the course that we do.

Procurement Trainings
- Best Procurement Practices
- Cost Reduction in Purchasing
- Purchasing Performance Measurement
- Purchasing Negotiations
- Capital Equipment Purchasing
- Leading & Managing For Procurement
- Category Management in Procurement
- Preventing & Managing Backdoor Selling
- Purchasing for Non-Purchasing Professional
- Excellence in the Procurement of Services
- MRO Purchasing

Commercial Contracts
- Contract Management & Administration
- Contract Development
- Contract Negotiations
- Contract Terms
- IT Contracts
- Oil & Gas Contracts
- Construction Contracts
- Tender Management
- Contract Specification Writing

Strategic Sourcing
- Seven Step Strategic Sourcing
- Implementing Global Sourcing
- Strategic Sourcing for Best Supplier Selection

Materials & Inventory
- Materials & Demand Planning
- Inventory Management
- Warehouse Management
- Supplier/Vendor Managed Inventories

Supplier Management & Development
- Improving Supplier Performance Thru Audits & Surveys, Supplier Relationship Management & Development, Supplier Selection & Qualification & Certification, Supplier Risk Management
- Supplier Rating & Collaboration

**1. Quick Introduction**

Purchasing Negotiation is part art part science. Anyone can master it (you included) provided that you take the time to learn. And congratulations to you – you have already taken the first step in starting to become a Master Purchasing Negotiator.

In this Report you will find out what it takes to become a successful Procurement Negotiator. You will understand the disadvantage that normally buyers have against Sellers (you call them suppliers, but whenever somebody sells you something they are sellers) and how to use that to your advantage. Then you will discover the biggest mistake made by buyers in most instances of negotiations.

You will learn the steps of the negotiation process e.g. how to prepare for a proper negotiation, who are the suppliers you should really negotiate with, how to handle the negotiation meeting and a sample negotiation letter. You will also learn how backdoor selling really makes you lose your negotiations before you start and how to avoid it.

A very important note. While this Report is free, its value is priceless. What is written in this Report is based on countless encounters with purchasing & procurement people as well as direct negotiations done with various suppliers. I bring an experience looking at negotiations from a sales point of view, training sales people how to negotiate with buyers and win.

With all these said, let’s start.

**2. What is Purchasing Negotiation?**

You can have a good academic discussion as to what is purchasing & procurement negotiation, but in a simple language it is the process where corporate buyers & sellers discuss/negotiate terms of a contract before concluding a deal & starting the contract management process.

This is both an analytical & psychological process. Analytical in the sense that you need to look at the facts of the each negotiation and understand how to negotiate each issue.

Psychological in the sense that you are talking to another human being on the other side of the table (phone sometimes or email), who is very subjective and emotional, just like all of us are.

**3. The main disadvantage Buyers Face when dealing with suppliers**

When an organization relies on its sales force to generate business, it makes sense that they should be trained as much as they can on how to sell effectively. The whole sales process focuses on how to convince the other side to do business with you. Plus sales people are measured by the sales they bring in, so:

**no sales = no performance = no job.**

Then it is no surprise that all organization focus a lot on training their sales force as best as they can. Here’s a typical training scenario for a Sales Person:

Minimum 2 Days training when starting work;

Minimum of weekly trainings (about 1 hour) from their manager or someone senior;
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Daily coaching & role plays.

This does not include external training, so that when all is added up overall sales people receive more than 100 hours training per year.

A quick question for you:

*How many hours training did you receive in the past month?*

*Last Quarter!? Last Year!?*

If you said none don’t feel that bad, as you’re not alone. If you answered over 100 hours, please write a Report for us. So whenever a buyer engages in negotiations with a seller the odds are stacked against him since the seller is the better trained person.

4. *The biggest mistake buyers make when negotiating*

Did you ever storm into your boss’ office with great enthusiasm and told him a great idea only to be bombarded by questions and not being able to convince your boss to implement this idea.

Well, maybe you did, maybe you did not, but the point that I’m trying to make is that in many cases buyers walk into many situations without thinking it as a negotiation. Let me repeat it again:

*The greatest and biggest mistake buyers make is that they approach many situations as non negotiating situations.*

If your supplier calls you, put on your ‘negotiations hat’. If you supplier sends you a quote, look at it from a negotiation point of view – how can you negotiate this offer?

Or if you walk into your boss’ room trying to convince him of this great idea that you have, why not enlighten your boss he is going to benefit from this idea, not the organization (well the idea by default would help the organization otherwise you would not speak to your boss).

Actually another word for negotiating can be selling. If you thought that you are buying you’re right, but you need to look at all interactions with others as selling something. You are selling your boss the benefit of your idea and you are selling your supplier why he should do business with you at a discounted price, or at 90 days payment rather than 45 days, or deliver in 3 days rather than 3 weeks.

5. *Prepare, Prepare, Prepare*

If before reading this Report you believed that you must be the smartest man on planet Earth to be a successful negotiator, by now you may realize that your suppliers are not smarter than you, they are simply better trained and prepared.

So, to overtake them in negotiations the first step is to simply prepare better than they are.

This is what one Buyer told the supplier:
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Based on the Producer Price index of the material you quoted us, there’s been a price decrease of 7.4% this year as compared to last year. But your price for this year has remained the same/increased. We would need you to lower the price by 7.4% then.

It happened that the supplier had no clue about the Producer Price Index (PPI), and granted the discount.

So what do you need to prepare?

When negotiating on behalf of your company, you need to prepare about supplier’s price & Cost, Supplier Delivery Times & Costs, Supplier Service Response time.

Very simply if you do not have good information about these items, you will not be able to negotiate. Think about the following scenario. You are meeting the supplier and you have the following info.

- Supplier’s price is 10% above market price and he’s making 45% margin on your project (You discovered this by doing a price/cost analysis).
- The 45% margin is split as follows: 20% on goods sold, and 25% on the maintenance/service contract. (you also know this because you found the Producer Price Index for the goods delivered and services for that type of contract)
- The normal market margin for goods is 12% and for services is 18% - total of 30% as compared to 45% that your supplier wants to make.

While this is a simplified example, once you have this information, it is much simpler to negotiate with your supplier. If you have the best supplier you may be willing to pay a bit extra but not 50% more than the market (market is making 30% GP, as compared to 45% of your supplier).

Below are some things that you need to prepare:

1. Issue Identification
   Identify the issues you want to negotiate. For example read the suppliers offer, highlight important parts and jot down notes about part that you are not clear, or that you cannot accept.

2. Issue Information
   Have good information about each issue that you want to negotiate (after all this is what preparing is all about).

3. Classify the Issues
   Classify them according to:

   Negotiable:
   These are issues that you can negotiate and be flexible. State your maximum that you can negotiate on these points, so that at any point in time during negotiations you know your limit. (just in case you go over your limit and then you get that Donald Trump famous saying: “You’re Fired”).

   Non-Negotiable:
   These are issues that you will not negotiate and not budge.
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4. Prepare the meeting agenda
When doing this you will outline your issues again, but more importantly you would want to give the supplier the first turn to highlight any issues they may have with your contract. When you have a prepared meeting agenda, you will work according to that, and will not forget any point.

5. Get ready to Negotiate
Understand the most important thing before going to the negotiation table: Most issues can be negotiated.

Yes, some “negotiation gurus” mention that ‘everything is negotiable’, but in real life it is not so. There are things that you or your supplier will not budge no matter what. With that in mind be positive and believe that it will go well. Most of the time it will, when you are prepared.

An important note about preparation: always be ready with your BATNA – Best Alternative To a Negotiated Agreement. Let’s illustrate this.

Let’s say you are speaking to an important supplier and need to purchase what he has. Now you have no other supplier lined up and you badly need what the supplier has, otherwise your production line may stop working. In this case you don’t have a BATNA, and the supplier will have the upper hand.

Here’s scenario 2. You are speaking to the same important supplier, but before that you have spoken to another 2 suppliers and they have indicated they can provide what you want at a reasonable price. You are keen to work with this important supplier however, provided he can offer a similar reasonable price. You mention this to him and at the same time you mention that you are considering to select one supplier out of 3.

Important to remember is that the other 2 suppliers are ‘real’ suppliers that you will do business with, if your supplier of choice is not flexible enough. If the other 2 suppliers are just paper quotations but you still want to do business only with the important supplier, then again you don’t have a BATNA.

The message is simple: Have real alternatives in any negotiations and you will most of the time do well.

6. Selecting your Battle Field
This is where many buyers also make the mistake of negotiating with suppliers whose volume is very small to the company. Imagine you have 100 suppliers and you spend 10 Million with them. 80 of them get only 1 million of your business, 15 of them get another 1 million, but the top 5 get 8 Million. So where is your battlefield?

No need for an MBA on this – negotiate with the top 5 suppliers. And this is also part of your preparation, since to get a classification of your suppliers you need to do an ABC Analysis. This will help to classify suppliers/inventory into 3 categories (A, B, C) based on how much you spend with them.

It is an accepted fact that any company will spend 80% of its money with 20% of suppliers, the next 15% of the money with the next 15% of suppliers and the final 5% of money with the 65% of the suppliers.

7. Stop Back Door Selling
Before you start preparing, you need to gather all the people that have contact with the supplier and issue a strict memo:

No One talks to the suppliers regarding the contract that we have not awarded yet.
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Why?

Many times suppliers are very good at back door selling, which simply means suppliers will do one of the 2 things:

1. **Get insider information about your company from other departments eg engineering.**

Imagine you have invested a lot of time in preparing and believe you will get the supplier to agree to your terms, since they are reasonable, only to find out that the supplier does not budge. You also know that you have to give the business to this supplier, because engineering wants to deal with this supplier. It just seems they know this too that’s why they don’t budge.

What could have happened is that the engineering manager could have told the supplier:

   “Ah don’t worry, I just recommended to procurement/contracts department that we want to do business with you only. They will contact you about this”.

2. **Suppliers ask innocent questions, which make you reveal your negotiating position.**

What questions? Here are 3 of them:

- **This purchase is already budgeted in your company’s budget, right?**
- **You would need this delivered by end of the month, correct?**
- **How do we compare to the other 2 suppliers regarding this contract?**

These seemingly innocent questions, give away most of your bargaining power. If they know you have an approved budget for this, they know you will buy.

If you need this delivered by end of the month, the supplier knows that you are approaching your deadline if it is 19th of the month.

So how do you answer these questions? You can first refuse to disclose them politely if appropriate. For example you can simply say:

   “It is not appropriate for me to say how you compare to the other suppliers. We are evaluating each based on merit.”

Or for the other two you can say:

   “Not necessarily, it all depends on how good your offer is. It all depends on the Return on Investment (ROI)”.
8. The Negotiation Meeting

This is the meeting proper where you (and your team if there’s one) will sit down with the supplier. Important here is that this meeting most of the time is not called negotiation meeting – but any time you meet with a supplier to discuss their offer it means you are negotiating.

Your negotiation outcome however is most likely achieved before the meeting ie during the preparation stage, so again do not set foot in a meeting without being prepared.

If at any point during the negotiating meeting you find that you did not prepare for a certain issue, then simply mention that you would need to get back to the supplier on that issue. Then work out the other issues.

Some meeting tips:

- Approach the meeting with a cooperative point of view. Cooperate with the supplier rather than antagonize him.
- Be friendly but professional e.g. I’m glad we have a chance to sit down and discuss how we can work together.
- Be positive e.g. It’s good that I hear you have the same viewpoint on this.
- Do Not Get Angry or Emotional. Keep your cool & calm. It’s just business after all. How do you do that?
  - First, pause for a few seconds before saying something
  - Second, if you are thinking whether something that you may say would offend the supplier, then don’t say it. However, if you really thought about it coolly, and then you still want to say it, then just go ahead and do it.
  - Thirdly, breath deeply. It relaxes you. You may even joke with the supplier that you are practicing your breathing so that you don’t get angry or upset with what he said.

9. Sample Negotiation Letter

Sometimes negotiations are done via email, rather than face to face. If you have such a case you can use the template below to write a negotiation letter. The sample letter follows first, then the 6 steps you can use when writing such letters.

Dear Janet,

Thank you for your proposal. We sincerely appreciate the effort that you have put in submitting such a comprehensive proposal for our company.

We do understand that you would have spend considerable time and resources to come up with this proposal which outlines in details how you are going to provide what we need.
I and my team reviewed the whole proposal in detail, and overall we are happy with it. At the same time there’s one fundamental issue which will probably stop us from giving this contract to you.

Let me explain:

Our Vice President has given us a specific budget for this contract. He also has instructed our contracts team to get another 3 quotes from other suppliers, with a view to have a competitive pricing quoted.

On my side I managed to convince him that we should hold on from getting quotes from other suppliers, since in the past you have done a very good job. I promised him that we are going to get this contract within the budget that he gave. He agreed to this, but if we cannot get your proposed price within our budget, then we would have to open this to another 3 suppliers.

Again I personally would love to have you as our supplier. But to do this we would need your price to be better than what you have quoted in your initial proposal. Your price should be 9% lower at a final price of USD 177,500.

If you cannot offer this price, I’m afraid that we would have to look at getting other suppliers for this job.

Again I hope and trust to get your acceptance of this offer from our side. I trust you understand that in the past we have been loyal clients to you and I am sure that in the future your flexibility in your offer should result in future work for you and your organization.

Looking forward to hearing from you by 27 October.

Best Regards

Morgan Freeman
Contract Specialist
Contracts Unit

Let’s quickly dissect the letter written above, so that you have a template for writing future letters.

1. **Have a positive, polite & professional tone throughout the letter.**

   The whole letter is positive and professional. If the vendor cannot accommodate the discount asked by the client, then the client nicely outlines the possible course of action he needs to take.

2. **Praise the Vendor**
The first 3 paragraphs of this letter do exactly that, by praising the vendor for the comprehensive proposal.

3. Explain your Position

This is highlighted in the second part of the letter above where we outline the Vice President’s budget cap, how the Contracts Specialist would like to work with the supplier etc. Here usually some suppliers would make up many stories. However it’s best to simply tell the truth and leave the ‘tales’ out of such letters.

4. Ask for an Odd Number Discount

When you ask for a discount always go on the odd numbers, 3, 6, 7, 9 % and so on. Never ask for 5/10/15 % and so on. When you ask for an odd number it shows that you have carefully evaluated the proposal of the supplier and considered your budget. If your industry operates on low margins it would be fine to go on 2.5%, 3.5% and so on.

5. Let the supplier Know what would happen if he will not negotiate on price.

In our case we mentioned that we would have to open this to another 3 suppliers.


Be careful that when you indicate the prospect for future business you are non-committal as you do not know whether you will be able to give future business or not. Whenever in doubt, simply refer to past business as a possible trend for future business.

10. Conclusion

By now you already know that it is not difficult to be a good negotiator and effectively negotiate with suppliers.

While there is quite some information to digest, I believe if you take nothing from this Report but two things only, you would already be on your way to better negotiation:

1. Prepare.

No matter how good or bad are you in other skills if you have fully prepared you will negotiate a good deal.

2. Be positive and open in your negotiation.

If you show that you are eager to give your business to the supplier, and that what you are asking is reasonable, you will get the supplier on your side.
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After all, they are selling and they need your business more than you need them. If they are unreasonable to your reasonable demands, then look for another supplier.

Similarly if you are unreasonable in your demands, they will look for another client.

Now that you finished this Report, let me mention that part of the information included in this Report is taken from the 2 Day seminar we conduct with Procurement Expert Robi Bendorf “Purchasing Contracts Negotiation Planning & Strategies”

If you ever wanted to get that edge in negotiations then this is a must attend seminar. Get full details at:


And it comes with 2 guarantees: 100% & 200% money back guarantee. Ask us to explain the difference between these 2 guarantees.

And if you decide not to attend it’s fine. But I’d like to ask one favor from you. If you liked this Report please spread the word. You can send them to our website to download the Report (but you can’t send this Report to them). Here’s the link to send to your friends and colleagues:


All the Best

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