Effective Negotiations with Strategic Suppliers

If you sense that your procurement strategy is causing you to leave money on the table, you’re not alone

A major IT solution enterprise approached Advantage Thought Leader Accordence® with a somewhat surprising challenge. Despite their massive global footprint and broad market penetration, they found negotiations with strategic suppliers to be surprisingly difficult. The typical image of the corporate procurement function is that it is a heavy weight. In exchange for the reality, or illusion, of volume buying, procurement exacts leverage over suppliers in a number of ways:

• Organizes purchasing centrally, or at a minimum, coordinates it internally
• Distances the buyer agents from the end-users to reduce the suppliers’ influence strategies
• Attempts to consolidate purchasing in exchange for preferred pricing
• Facilitates increased competition among the supplier community, and can make suppliers compete against themselves to gain access to a tiered relationships with the buyer, in which the supplier makes guarantees on volume, quality, and relationship.

For many massive purchasers of substitutable goods and services, the procurement function has an easy time playing hard ball with suppliers. But these and other procurement advantages are not always automatic, even for the major buyers in the marketplace. Detailed, data-driven analysis of the existing procurement relationship, and enhanced strategies for maximizing the negotiation help to build up the capacity of the procurement function and identify opportunities for increasing leverage, professional and organizational skill.

For the major IT enterprise, a closer examination at their challenge revealed that the supplier acted as the sole source supplier it believed itself to be and refused to return phone calls, regularly declined to provide email addresses, and otherwise generally made itself unavailable. The supplier managed a large and diversified number of relationships with the IT enterprise, each of which was isolated from the other. Close relationships had been built among supplier and the IT enterprise’s sales function as well as with internal end-customers and external end-customers. But what was most problematic is that not only was there different discounting programs in each of the lines of the relationship, but internally there was also a concern that if procurement drove down price in one area, the supplier would simply raise prices elsewhere, in a more vulnerable function.

Solution

Accordence helped reduce the uncertainty of the procurement challenge by taking a number of proactive steps with the client: First, the client was encouraged to focus on getting solid data on their total spend. To everyone’s surprise, the supplier and purchaser were equally valuable to each other. In a recent business quarter, they had nearly equal purchasing from each other. However, the supplier was more centralized. The key weakness identified for the client procurement function was the proliferation of contracts and programs and the lack of communication among the different internal stakeholders.

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In the absence of widely dispersed data, inaccurate information and misperceptions existed about the effect of an eventual renegotiation of the master purchasing agreement. Accordence therefore facilitated meetings of the various internal stakeholders to share knowledge and program data, discuss the Procurement Organization’s goals, build team buy-in, assess points of resistance, and discuss openly how to overcome them. The meetings also helped the community of internal stakeholders identify and prioritize strategies for Procurement’s negotiations with the supplier, along with any trade-offs inherent in each approach.

Finally, Accordence leveraged lessons learned from the first encounter with Procurement regarding the one supplier, and went on to conduct a deeper and broader study of the various global procurement areas within the client organization, and assessed the representative challenges they faced that were either unique to them or shared across the organization. Using this information, Accordence created, piloted, and rolled out a customized training program aimed at enhancing the analytical and interpersonal skill level and confidence of the individuals and teams operating in Procurement.

Additionally, Accordence facilitated discussions and training programs in which the sales organizations and procurement worked together, sometimes for the first time, in order to understand each other’s concerns and facilitate each other’s work. Accordence learned the external challenges, internal dynamics, and organizational characteristics of the client’s procurement environment in order to create customized consulting and training solutions. These new skills improved client’s confidence and negotiation competencies, permitting them to leverage their many supplier relationships to deliver millions of dollars in savings, thus enhancing their competitive stance in the marketplace.