

# **NEGOTIATIONS WITH SUPPLIERS**

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# 1. How to Negotiate

Negotiation is a specific skill, grounded in training and experience, which most suppliers expect. There are many negotiating techniques of which some depend on the personality and temperament of the negotiator. A few general guidelines on negotiation are given below but note that they do not cover negotiating tactics in detail:

1. Be ethical. The buyer/seller relationship should be based on mutual trust and understanding and the principles of fair competitive bidding should be observed.
2. Do not commit to the outcome of a negotiation unless specifically authorised. Be aware of the advantage of taking the attitude "providing my boss agrees".
3. Define responsibility levels clearly for all staff involved in buying. Do not allow comparatively junior or inexperienced buyers to take responsibility for negotiating complex or large orders without the involvement of more senior staff.
4. Do not worry if a supplier says he is being negotiated down to a loss on a sale. This may well be a negotiating ploy. If not, the supplier may still cover fixed costs, or break into a new market. If in doubt make a financial check on the company before placing any orders.
5. Do not let a supplier know he will get an order. User Departments, in particular, should try to ensure that no member of their department releases such information. This is especially important where someone in the User Department is seeking sourcing information or wishes to clarify some technical aspects of a supplier's bid. Staff who are normally in regular contact with the suppliers should be encouraged to adopt a cautious and discreet approach. After tendering, contact with potential suppliers should be by the buyer only.
6. Buyers responsible for purchasing equipment of a highly technical nature should be supported by a technical expert.
7. Do not disclose information from one supplier to other suppliers. This includes prices, specifications, etc. However this does not rule out the careful use of such information (ie by implication and not by disclosure of actual facts) in order to improve your own specification or other bids.
8. Round table discussions are often preferable to phone calls or correspondence because body language and reactions can provide valuable information.
9. Only negotiate with the supplier's decision takers. If this is not possible, the supplier's representative should be requested to arrange for his company to respond in writing quickly to unanswered questions raised during discussions.
10. Take minutes at meetings. Distribute them to all participants (including the supplier) for agreement.
11. All changes agreed at the meeting should be confirmed in writing by those actioned. Confidential notes of internal discussions should be recorded separately and distributed internally only.

12. Do not overlook long-term considerations for short-term gain.
13. Do not issue false information at any time. However, withholding information is a legitimate tactic. Do not, however, leave suppliers with a false impression - otherwise the failure to supply the information could be deemed to be misrepresentation.
14. Give suppliers the opportunity to correct obvious mistakes. Be aware, however, that bidders may use this as a tactic to start negotiating.
15. Keep in touch with the User especially if negotiating time is likely to affect factors such as delivery time.
16. Negotiate with all suppliers who submit acceptable bids and who have a reasonable chance of gaining the order. If more than one bidder remains, a more detailed tendering exercise for the remainder may be appropriate. However, where the EC Public Procurement Directives are operating, and where negotiations result in a change of specification or other requirements or terms and conditions from those included in the original invitation to tender, all bidders should be given the opportunity to rebid.
17. Whenever necessary the buyer should consult with the User, or other expert adviser, and if sensible involve them in the negotiations.
18. Always be in a position to justify a selected supplier. Include a justification on the summary of quotations form compiled for every enquiry whether or not negotiations are conducted.
19. Do not disclose any budgetary or grant information to suppliers prior to tendering. This can result in suppliers responding to match these budgetary or grant requirements, rather than submitting their most competitive market prices.

## **2. Post-tender Negotiation**

Post-tender negotiation with the provisional successful tenderer, or with short-listed tenderers, should be used for fine tuning and clarification purposes only and should always involve staff from the Procurement Office. If the outcome of any such negotiation is considered to have materially altered the contract, or to have deprived another tenderer of an equal opportunity to win the contract, then the tender process could well be invalidated.

Great care must be taken to ensure that no prospective supplier is given an unfair advantage over others. This would contravene the rules of the EC Public Procurement Directives.

Negotiation usually results in achieving better value for money by exploring ways in which both parties can benefit at a reduced overall cost to the purchaser. The check-list in the next paragraph presupposes that the purchaser has chosen a short list of suppliers who have already quoted. In arriving at this short list, the purchaser may well have discussed the requirements with the supplier both before and after the supplier's quotation. Such discussions can in themselves provide major cost benefits by identifying possibilities such as using an ex-demonstrator or last year's model.

The usual opening gambit is for the purchaser to tell the supplier that the prices are too high. Where another supplier is offering a better deal, say so without being specific. In the case of the supplier tendering the lowest price the focus should be on aspects within the tender which are not so competitive. Then invite each short-listed supplier to come and discuss the bid, and suggest ways of lowering the price. The supplier may suggest, among many possibilities:

- a straightforward discount which should be accepted as a starting point;
- extra equipment or training in place of a discount;
- a different but acceptable piece of equipment (ex demonstrator, etc.);
- changing the specification to reduce the price;
- including more "free" maintenance;
- varying the payment terms in exchange for a discount, or to the purchaser's advantage.

At this stage the purchaser can consider which specification changes would be acceptable and go through these one by one requesting price reductions for each. The purchaser then decides on the final supplier (but does not tell them) and should consider inviting the supplier in for a final round of negotiation.

Equipment suppliers are often more willing to negotiate on add-ons and downstream costs than the initial price, and may be willing to offer extended warranties, free spares or consumables, and staff training.

### **3. Single or Sole Source Supplier Purchasing**

Single source is where there are overpowering reasons for using a particular supplier even though there are others. Sole source is where there is only one possible source. Even where there is only one supplier there may still be scope for negotiating a better deal, for example, by obtaining a price breakdown and negotiating over standard elements/components of the pricing schedule.

## **4. The Stages of Negotiation**

### **Preliminary Stage**

- What are the issues?
- Which are the main ones?
- What are objectives?
- How can we obtain them?
- What are our/their strengths and weaknesses?

### **Introductory Stage**

- What sort of person is our opposite number?
- What is the extent of his/ her authority?
- What questions do we ask?
- What does he./she wants?

- Did we obtain the right answers in the 'Preliminary stage'?

### **Bargaining Stage**

- Can we 'trade' concessions?
- Can we acquire useful information?
- Is the negotiation going according to our plan?
- How can we influence its direction?

### **Agreement Stage**

- Do we interpret 'agreement' in the same way?
- Can we draft documents based on the agreements?
- Does our opposite number think he/she has done well?

### **Post Agreement Stage**

- Which objectives did achieve? How?
- Which did we fail to achieve? Why?
- How would our approach differ if we were to negotiate this matter again?

## **5. Ten Guidelines for Negotiators**

**Establish opponent's authority.** This closes the retreat route "I'll have to check back on this" which otherwise might be employed when the opposite number is under pressure.

**Aim High.** Set yourself objectives which are stretching.

**Trade Concessions.** The skilful negotiator concedes from time to time. The skill is in giving a small concession for a large one.

**Keep the initiative.** Opinions differ as to the extent to which 'pressure' should be used in negotiation, but it is a good idea to keep control by asking for explanations of, and justification for, points put up by the 'opposition'.

**Be prepared to make time.** The use of diversion such as the introduction of a wisecrack or an irrelevancy can take the heat out of negotiations and make 'thinking time' available.

**Use questions wisely.** This is a most important point. Questions which demand an explanation rather than a one word 'yes' or 'no' type of answer are normally to be preferred, though there is scope for the latter type of question if the negotiator considers that the 'opposition' is ready to give a concession.

**Answer questions well.** In this context this does not mean answer them promptly or fully. Evasiveness may be a virtue. Politicians seem to be able to provide miniature speech on whatever subject they deem to be appropriate in response to a quite unrelated question. Without suggesting that negotiators could go as far as that, it is a skill worth cultivating.

**Listen.** This is difficult to do well but careful listening does pay dividends.

**Develop empathy.** The negotiator should try to understand his/her counterpart, his/her needs and aspirations. This understanding will help him/her choose the right way to direct negotiation.

**Be impersonal and calm.** Anger breeds anger, insult leads to insult. The good negotiator keeps a cool head; any displays of emotion should be calculated rather than uncontrolled outbursts.

## 6. Negotiation Outcomes

### Lose-Lose

This can occur if negotiations breakdown or when a deal is reached which is so poor that neither party finds it workable or both parties have no intention to make it work and will circumvent it.

The latter situation will exist because of fundamental flaws in the negotiation process. This will occur because both parties have not thought through their real objectives or the importance of each and have therefore traded issues and arrived at positions that are just not workable.

### Win-lose

This is characterised by the situation where one party achieves a much better deal than the other. This position might be acceptable in the short-term eg: a supplier who wants to gain the benefit of a long-term relationship with a buyer and therefore was happy to suffer a short-term disadvantage. On a long-term basis, it is not usually sustainable. The obvious response from the loser is to get even next time. Type of attitude will create negativity and will not encourage harmonious relationships.

### Win-Win

This is the classic description of a good negotiated outcome. Both parties feel that they have gained from the negotiation, that they have enhanced their relationship and are committed to delivering the negotiated outcome which they find satisfactory and reasonable to mutual advantage.

One of the skills alluded to previously was that of the negotiator who can make the other party feel that they have achieved something. This is the so-called Win-Perceived Win. As satisfaction is both perceived and subjective, this might be the ideal situation for the winner, who may have achieved this by giving little away. The motivation for the perceived winner to undertake the agreement will still remain high.

**It is achieving the Win-Win scenario that we should all aspire to in all our negotiations.**