



“Best Practices” Newsletter Volume 14, May - 2003

About This Issue - This May 2003 edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm specializing in advanced Strategic Sourcing, Training, and Organizational supply management services. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are senior partners in the firm, and lead teams of professionals in supporting our clients. Visit our web site at www.StrategicProcurementSolutions.com for more information.

You are invited to upcoming presentations we're making at:

- *I.S.M. International Conference in May – Nashville TN (“Navigating Through Mergers, Acquisitions, and Re-Organizations”). We'd also enjoy meeting you in person in our booth at the Educational Exhibit Hall (Booth #727).*
- *N.A.P.M. Orange County Educational Forum – June 7th. (“Building Internal Customer Relationships”). To register, contact Chuck Ayres at info@napmoc.org.*

Combating “Salespeak”...by Mark Trowbridge, C.P.M.

Sales professionals are remarkably gifted in positively wording their communications (proposals, contracts, oral dialogs) so as to swing the buyer's perception in a favorable manner.

While some of this is a healthy approach to marketing, occasionally it can become misleading to the other party...and detrimental to the business relationship.



Prudent business people need to drill into “salespeak” to understand the real issues inherent in the communication. *This article discusses several helpful techniques to do this.*

I found some great examples of “salespeak” at www.plainlanguage.gov:

- *“A number of different approaches are being tried” = “**We are still clueless**”*
- *“An extensive report is being prepared on a new approach” = “**We just hired three kids fresh out of college**”*

- “Major technological breakthrough” = “**It works only so-so, but looks very high-tech**”
- “Please note and initial” = “**Let’s spread the responsibility for the screw-up**”
- “All new” = “**Parts not interchangeable with the previous design**”
- “Rugged” = “**Too [heavy] to lift**”
- “Lightweight” = “**Lighter than rugged**”
- “Low maintenance” = “**Impossible to fix if broken**”

So how should procurement professionals position themselves to deal with “salespeak”? The following five principles may help:

Principle #1: Document Important Communications in Writing. It is amazing how quickly exaggerated oral claims become realistic when the sales executive is asked to put their claims in writing. Even better, ask the supplier to “represent” and “warrant” performance in their proposal. These two terms are often used together, but have different meanings *that can be clarified by your own counsel*. Simply stated,

- “**Warranty**” is a form of guarantee, for which the supplier is willing ensure performance through either corrective (A) action, or (B) compensation.
- “**Representation**” is committing to the truthfulness of a statement. If the statement is found to be false, and the representing party can be shown to have known of the mistruth, they can be shown to have acted fraudulently. So when a salesperson says “the new hardware can process 10,000 items per hour”, ask them if they are willing to “represent” this in writing.

Principle #2: Ask Probing Questions. Don’t allow salespeople to make *generalized statements*. Whenever you suspect that “smoke & mirrors” are in play, start asking specific questions that probe into the details. Don’t stop asking questions until you are satisfied that the truth is fully understood.

Principle #3: Shift the Spotlight. If one person is making overstatements, seek clarification from another representative of their organization. This is another good reason to negotiate with multi-person teams from a selling organization...preferably including the supplier’s operations personnel that are responsible for delivering upon the promises made by their sales team.

Principle #4: Get the Facts. Don’t rely upon only what a salesperson says or proposes. Take time to research & validate the facts. Sources like company websites, product brochures, company references, etc. can provide a foundation for evaluating the credibility of sales claims. Also turn to third-party organizations that perform objective evaluations (Gartner Group, Meta Group, etc.)

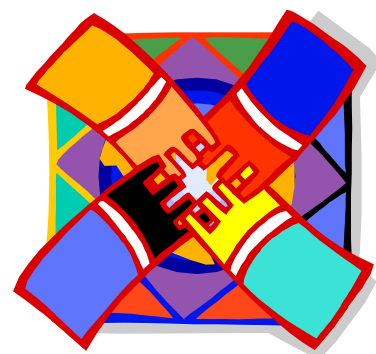
Principle #5: Get a New Account Representative. If it becomes difficult to have meaningful dialogs with sales representative for a particular company, consider asking the firm's senior management to assign another person. Explain the nature of your request, so that the company doesn't just shift the offending party to other accounts without seeking to help them improve. *A great representative can make a mediocre company look great in the customer's eyes. A poor representative can make a great company appear terrible.*

Just last month, on behalf of a large health management firm, Strategic Procurement Solutions was completing a strategic sourcing initiative for one of our areas of specialty...commercial printing. This project was to save our client 38% of their annual commercial print expenses. Only one issue prevented the inclusion of a well-qualified printing company in the final printer pool...their account manager had previously made "exaggerated claims" to the client's print buying staff. A discussion with the printing firm's executive management resulted in another account manager being assigned to this client's account team. This simple action allowed this firm to be part of an \$18 Million multiple-contract award, and gained outstanding performance for our client.

Before we assume that only salespeople engage in "salespeak", it should be noted that sometimes people in the procurement trade use unhealthy communication practices to achieve an advantage. The first requirement for members found in the Institute for Supply Management's (U.S.A.) ethics statement says this, "*Avoid the intent and appearance of unethical or compromising practice in relationships, actions, and communications*". Unfortunately, some purchasing employees use exaggerated statements to solicit concessions from suppliers.

In defending against "salespeak", top procurement professionals must take time to ensure they have detailed & documented understanding of the issues at hand. Failure to do so can have terrible consequences.

The Importance of Supplier Diversity Outreach...by Joyce Tabak – President of Tabak & Associates, past Director of Bank of America's Supplier Diversity Program, Executive Board Member of the Southern California Regional Purchasing Council, Board Member with National Minority Supplier Development Council (NSMDC), and recipient of many awards... including the Asian Business Association's 1997 Corporate Advisor of the Year, the State of California's Small Business Administration 1995 Advocate of the Year, & the National Association of Women's Business Owners' 1993 Advocate of the Year.



Today's corporate supply management organizations groups are aligning their procurement behavior so as to support their firm's marketing & revenue targets. Public sector purchasing groups must also maintain quality outreach to small & diverse

businesses to address the well-being of their constituents. A pro-active Supplier Diversity program is becoming a key ingredient in procurement's business success.

Ask yourself these questions:

1. Is your company ready to beat the competition with products and services that will meet the needs of this diverse population?
2. Do you use this diverse population to help you create these products and services?
3. *Most important, do you have a Supplier Diversity Initiative?*

Statistics show that the population in the United States is growing at light speed and is becoming more diverse. Here are some statistics that make a strong business case that our population is changing and our future suppliers/customers will be more diverse.

From 1990 to 2010, the US Census Bureau predicts:

- Hispanic Population will increase by 82%
- Asian Population will increase by 89%
- African American Population will increase by 31%

Analysts predict the minority population will surpass the non-minority population between 2055 and 2060, representing over 50% of the total US population.

The purchasing power of the minority population is increasing:

- There is approximately \$1.3 Trillion in Minority Purchasing Power
- Over 3.1 Million U.S. Minority-Owned Businesses
- The growth rate of Minority Businesses is four times the average national rate, AND
- These numbers will increase significantly in the next two decades.

Source: Diversity Inc. Magazine 2002

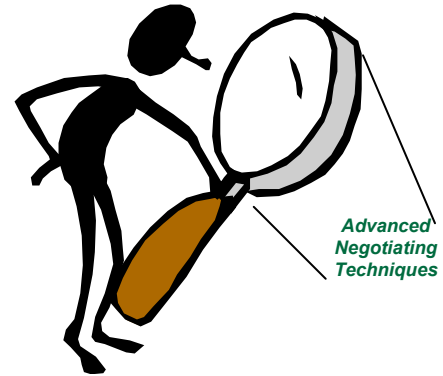
The U.S. Department of Commerce published the following figures that show the significance of minority purchasing power in the next 20 years.

<u>Year</u>	<u>Total Purchasing Power</u>	<u>Minority Purchasing Power</u>	<u>Percent</u>
2000	\$6.5 Trillion	\$1.3 Trillion	20.3%
2010	\$7.8 Trillion	\$1.8 Trillion	23.2%
2020	\$9.2 Trillion	\$2.4 Trillion	25.8%

As you think about the growth trends of our population, what does your organization look like? Does the ownership of your suppliers reflect the make-up of your own customers? Do your company & procurement organization reflect the diversity of your organization's targeted marketing demographics? If not, you may be behind others in your industry sector.

Preparing for Negotiations (Part Two)...by Robert Dunn, M.B.A., C.P.M.

Analysis of advanced techniques used by skilled negotiators shows these experts place great emphasis upon Preparation, Strategy Development, and Detailed Planning.



We began to discuss Strategy Development in the last edition of this newsletter (March 2003 – Volume 13), so we shall concentrate in this issue upon helpful preparation & planning steps needed prior to a productive negotiation session. “The more thorough the preparation & planning, the better the outcome”.

Good preparation is critical to the success of any negotiation. Remembering that “knowledge is foundational to power”, our first priority should then be to gain a full understanding of the needs/requirements of the internal customer(s), and to the greatest degree possible, about the supplier with whom we will be negotiating.

Preparation includes the following key activities, which need to be completed prior to starting the negotiations:

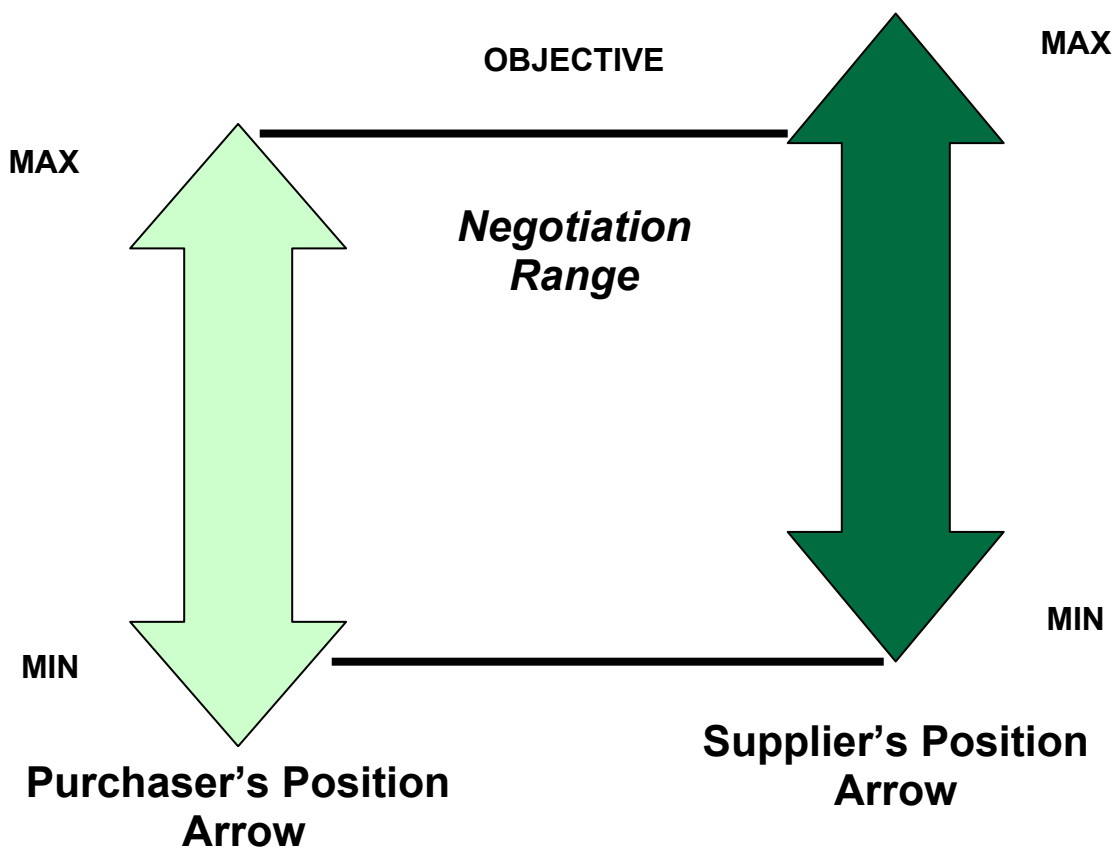
Step 1 - Situational Analysis:

- What is the history of the supplier relationship? Is this a strategic alliance partner? A preferred contracted supplier? A qualified non-contracted supplier? An unknown provider? *The nature of the supplier relationship will play a large role in the style of negotiation we will take.*
- Are there current contracts in place? *The existence of a current written commitment will shape the strategy for negotiation.*
- What are the current market conditions? *Prices rising or falling? Supply increasing or decreasing? Market conditions are very important to understand prior to selecting a negotiating approach.*
- Business risk. *Is this commodity a core part of your firm’s business? Are there other providers? What would a disruption to the supply chain mean for this product or service?*
- How complex is this commodity to source? *Make sure your negotiation strategy considers a fall-back game plan.*

- Understanding the total cost is critical to success. *We're amazed at how many procurement professionals negotiate unit prices without understanding volumes and other cost factors, to understand the Total Cost of Ownership.*
- How does this negotiation fit into our overall sourcing plan? *Is our plan to have one source for this product or service? A sole source or single source? Multiple sources? Fit the negotiation strategy to your corporate sourcing strategy.*

Step 2 – Formation of Objectives:

- First, identify your firm's objectives for the negotiation session.
- Categorize each these objectives as **Primary** (i.e. "must have") vs. **Secondary** ("nice to have").
- Identify the range of acceptable results for the negotiation, realizing that the supplier will have a different range for their own objectives. *All negotiations consist of three basic positions; a minimum, a maximum, and an objective.* The starting position for the purchaser and the supplier is not the same:



- Finally, decide what the "fall back" plan is, i.e. "B.A.T.N.A." (Best Alternative to a Negotiated Action).

Step 3 – Organize & Prioritize Negotiation Stages:

- Identify the starting point for the negotiation, by first establishing what agreement already exists between the supplier and the buyer.
- What are the issues to be negotiated? *Prepare for those your team wishes to negotiate and those the supplier may wish to address.*
- What are the “needs” behind the “positions” the supplier may take? *What may be motivating them to take these positions? True negotiation addresses “needs” not “positions”.*
- How far apart are the two parties, prior to the negotiations?
- In what order should issues be discussed? (see also “Building Momentum in Negotiations” – August 2001)

Step 4 – What is Our General Negotiation Strategy?

- How will our case be presented?
- What atmosphere do we want for the negotiations?
- What role will our team assume?
- What will be the composition of our negotiating team? Where will the negotiations be held? (see also “Setting the Stage for Successful Negotiations” – September 2002)
- Are there options we are willing to entertain?
- What concessions are we willing to make to accomplish our objectives?

Step 5 – What is the Supplier’s Likely Negotiation Strategy?

- From what we know about the supplier, what is their likely approach? Prior to the actual discovery phase of the negotiations, it may be difficult to determine the supplier’s strategy. Information may be gathered from the following sources, however, that can help us to “guess” at the factors motivating the supplier’s personnel.
- A supplier’s proposal may have helpful information about their business, pricing strategy, and pre-negotiation position. It is even more helpful if their proposal was in response to a Request for Proposal that solicited thorough baseline information.
- A meeting agenda can be used a clever learning tool, if the supplier’s input is solicited to put the agenda together.

- Recent press releases, financial results, and analyst ratings can usually be gathered on the Internet through sites like Hoover's, CorporateInformation.com, Google, etc. Your own personal online brokerage account may also provide tools that allow you to gather insightful information about a firm.
- A list of names and titles for the people, who will attend the negotiation, can be very helpful to understanding the supplier's strategy. Make sure you have a team prepared for all eventualities (for example, if the supplier will have their legal counsel present be sure your team is prepared to respond to legal issues...).

Remember that preparation and planning should represent around 85% of the total time required for an "Advanced" negotiation. The more "what if" questions and scenarios we have addressed in the preparation phase, the closer one moves towards an excellent result from the negotiation process.

Editor's Note: **Strategic Procurement Solutions'** objective is to provide top quality supply management services to client organizations in the private & public sector, and to enable those clients to exceed their internal users' expectations regarding promptness, price, and quality. One means of doing this is through this educational newsletter, which provides quarterly articles about "Best Practices" in procurement. Contact us at www.StrategicProcurementSolutions.com for more information about our services, or if you do not wish to receive this newsletter in the future.