"Best Practices" Supply Management Journal...

September/October 2009, 42nd Edition

Over 10,000 Supply Chain Leaders Now Receive This Bi-Monthly Journal. Please feel free to forward it to a colleague, or have them join the distribution by clicking the link at the bottom of the page.

Strategic Procurement Solutions, LLC is a niche professional services firm dedicated only to the advance practice of Supply Management.

Key Services include…

- **Procurement Staffing Services (Temporary, Project, Contingency Search)**
- **Online Supply Management Skills Testing**
- **ProfessionalDevelopment Services (Training, Coaching, Org Development)**
- **Expertise in Strategic Sourcing of High ROI Spend Categories**
- **360 Degree Efficiency reviews**,
- **Outsourcing Project Expertise (LCC & BPO), and**
- **Supply Management Consulting Services**

Strategic Procurement Solutions' clients range from Fortune 100 to Russell 2000 in size; and include numerous Global enterprises as well. We also work with leading Public Sector supply chain groups.

New articles in this Edition:

"Techniques for Different Modes of Negotiations...In-Person, Phone, & Email" - by Mark Trowbridge, CPSM, C.P.M., Principal

Today's procurement professionals often find themselves conducting negotiations in a variety of mediums. Some complex negotiations take place in the same room as the supplier's representation (in team or individual forums). Other negotiations take place remotely via telephone or email. Each of these modes has unique variables which the procurement practitioner must consider…otherwise they may hand over an advantage to a skilled opponent.

This article presents a brief outline of variables to consider for each mode of negotiation:

Mode 1 - Negotiating "In Person"

Negotiations are generally most-productive when conducted in person. This is because the participants have the advantage of both verbal and non-verbal indicators from the other party. And they do not suffer from the technical limitations (discussed later) inherent in telephone or email communications. Factors which help make "In Person" negotiations most-beneficial include the following:

In-Person "*Team*" Negotiation Benefits:

- Group Synergy - The benefit of team negotiations is based upon the well-known principle that "The whole is greater than the sum of its parts". More-simply stated, a group will usually make better decisions together than would any of the individuals who comprise the group, working alone. This is extremely true in negotiations, as a well-prepared team can almost always achieve better results than a sole negotiator.

- Strength in numbers – As participants in our firm's negotiation onsite role-playing workshops learn quickly, a team will nearly always have an advantage over a single opponent. That's because different members of a negotiation team can play key roles that make their approach highly-effective.

- In-person team negotiations are the optimal format for multi-element, high-value, and sole/single source negotiations. These negotiations are more-effective when conducted in-person by a group of people.

- Team negotiations are particularly-important when decisions must be made during the actual negotiation process. A team comprised of key stakeholders can use quick "caucus" or "breakout" discussions to make decisions which can immediately be re-introduced into the negotiation dynamic with the other party.

In-Person Individual Negotiations:

- Many of our negotiations are one-on-one. This is especially true for standard procurement transactions. It's just not practical to pull stakeholders out of business operations for standard negotiations. Having the procurement professional represent stakeholders in standard transactions optimizes staff time and resources.

- The downside to one-on-one negotiations is that the mode increases responsibility of sole negotiator for preparation, success, and failure.

- This format also may require greater communication time in advance (with stakeholders, internal customers, etc) to gain consensus.

- Inefficient for multiple changing negotiation issues, as it may take too long to communicate concessions with decision makers.

- Being the sole negotiator may put the buyer at a disadvantage if supplier brings multiple negotiators.

<u>Mode 2 - Negotiating "by Phone"</u>

Many of today's B2B negotiations occur over the telephone. But it's important for the procurement professional to remember that things happen more quickly on phone (than in person). Small talk is minimized, and participants are more-willing to take extreme positions (people are less-inclined to take extreme positions in person). So be prepared!

Some other important factors to remember are:

- You lose 80% of the communication content (non-verbal) when speaking over the phone.

- Telephone negotiations make it very important to focus on everything said. A poor connection (cell phone) may further complicate the clarity of communication. So be ready to ask the other party to repeat themselves when they've said something critical. It is also a good idea to take notes, and confirm key discussion points via email to the other party.

- Conference calls allow the other party to have advisors in room (on mute, etc). You may never know the other people are there, until it's too late.

- Conference call services also allow the host to record the conversation (sometimes without your knowledge). If that is a concern, use your own conference service and be the host.

- Don’t be caught by surprise by an unplanned phone call. Phone interaction allows the supplier to call you without an appointment. If a supplier calls you on phone without warning, you may not be prepared to negotiate. Instead, ask them if a later time would be acceptable…and schedule a later time which allows you to be prepared.

- Do catch the supplier by surprise. Calling by surprise can work to your advantage. The person who initiates the call is often at a distinct advantage. They have time to prepare, are not taken off guard, can prepare a checklist, and can organize support data and materials. You can also use the surprise to “set the agenda” and thus control the issues being discussed.

- Don’t multi-task while negotiating via phone!

Mode 3 - Negotiating “by Email”

Email is frequently used today to negotiate pricing and key points. Complicating this is the increased use of Blackberry’s etc. and texting via cell phones (in which cases the communications are often truncated singnificantly). Here are some things to remember when negotiating via email:

- Email negotiations may go even faster than those on the phone, because there is less “give and take”. The medium also makes interaction more “positional” because the parties are putting everything in writing. This means there is less ability to change your position once the other party has seen your position in writing.

- Email does allow exact details to be proposed and received with a good amount of certainty.

- Email allows the negotiator to bypass "gatekeepers". If you can't get past lower level sales people or an administrative guard dog, email can allow you to interact directly with a decision maker.

- Email encourages prompt and direct response, and can be utilized 24/7.

- Some people get in trouble because they answer too quickly via email. This is especially true in the new "texting" universe. Don't reply without thinking.

- An opponent choosing to use email can be a clue that they're not comfortable negotiating in person (and may be escalating points to a senior decision-maker before replying).

- Even more so than in telecommunication negotiations, emails lose the advantage of <u>both</u> body language <u>and</u> auditory clues.

- You may technically have a legally-binding "contract" if you agree to something the other party offers in an email. That's because a court can interpret a contract being formed by a written offer and acceptance.

- Contentious subjects or complex elements are much-better handled in person. If things aren't going well in an email exchange, pick up the phone to speak directly with the other party.

- And lastly, <u>always</u> be aware that email communications <u>may not</u> be kept confidential (forwarding, bcc, etc)

Visit www.StrategicProcurementSolutions.com if you'd

like more information about our onsite Advanced Procurement Negotiation™ training workshop (or other training programs).

INDONESIA TRAINING - Mark Trowbridge will be making a conference presentation in Kuala Lampur on the combined topics of Advanced Procurement Negotiations™ and Strategic Contracting™. The three day workshop will take place on October 6th, 7th, and 8th. Registration spaces are still available, and interested persons may attend by contacting Carolyn Lau, Conference Producer, UNI Strategic, Phone (Singapore) , 65-6825-9579, Carolyn.L@UniStrategic.com

***New Website*! Strategic Procurement Solutions has a new website, designed to provide more content to our customers. The site also provides a page full of SCM informational website**

"*Nearshoring - A Strategy to Minimize Supply Chain Risk*", by Robert Dunn, M.B.A., Principal

There is an old expression that "Everything that goes around comes around again". For nearly a decade now, many countries have outsourced manufacturing processes to suppliers in Low Cost Countries (LCC) around the world. This was enormously-beneficial because of savings from inexpensive labor in such countries. And sourcing from LCC providers will certainly continue to be a major trend in the future. In the United States alone, the number of companies that have established offshore procurement strategies has more than doubled during the last five years.

But the cost models used by many buying organizations were quite challenged in 2008 when the doubling of fuel costs upset the algorithm. With increased costs to ship products from LCC producers back to the buying organizations (via ship, airplane, truck and rail), all of a sudden the low production costs were more than outweighed by transportation expenses. Buyers around the world took notice, and realized that they were very exposed. Fortunately, fuel costs did decrease due to the economic downturn that began in November 2008. Fuel prices have remained relatively low since then (although they have begun creeping up over the last three months).

There are many other factors which can easily upset the cost models for outsourcing decisions. Transportation costs are just one example. Other examples are:

- Currency exchange rates
- Country-specific taxes & tariffs
- Import/Export regulations

Smart buyers around the world have begun to restructure their offshoring strategies to defend against a changing algorithm. One of the methods embraced by some leading companies has been to develop "nearshoring" supplier relationships. Nearshoring is a blended approach to LCC

links. Visitors can download any of forty-two PDF copies of the <u>Best Practice Supply Management Journal</u> (our bi-monthly publication which is distributed to around 10,000 procurement professionals). Please do take a few minutes to visit Strategic Procurement Solutions' new website.

sourcing, which identifies and nurtures supplier relationships in lower cost locations which are geographically closer to the buying group. Examples might be:

- US and Canadian organizations buying from manufacturers in Mexico and South America.
- European companies buying from suppliers in previously Eastern Bloc countries.
- Asian entities establishing primary and secondary supplier relationships in different countries.

What are factors to consider in developing a "nearshoring" strategy?

- Should we use a single supplier, or utilize a blended primary/secondary sourcing strategy?
- Calculate costs in a variety of scenarios, utilizing the full range of possible variables.
- What countries offer potential benefits as nearshoring partners?
- What products have greatest exposure to changes in fuel costs (typically larger/heavier products)?

Visit us at www.StrategicProcurementSolutions.com for more information about "offshoring", "nearshoring", or operational types of Business Process Outsourcing (BPO).