



“Best Practices” Newsletter

About This Issue

This August edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm dealing with Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn & Mark Trowbridge are general partners in the firm, and lead teams of professionals in supporting our clients.

Visit our web site at www.strategicprocurementsolutions.com for more information or to contact us.

Momentum in Negotiations...

by Mark Trowbridge, C.P.M.

Top negotiators are extremely conscious of *momentum* in negotiations. Just as *momentum* helps climbers surmount obstacles while climbing a mountain, it also helps procurement professionals to achieve excellent outcomes.



Failure to build *momentum* stops many negotiations in their tracks, often because of obstacles that could have been surmounted with proper planning. Premiere negotiators facilitate *momentum* in various ways, including:

- **Don't Keep Returning to Issues** - Skilled climbers don't scale down to alter the position of pitons previously secured. In the same way, negotiators should not continue to re-open agreed negotiation points (unless a credible change has occurred in business conditions). To do so just undermines their credibility and weakens their position on other issues needing resolution.
- **Progress From General to Detailed Subjects** – Just as a mountain narrows from a wide base to the pinnacle as the climbers progress, well-planned negotiations should progress from general to detailed issues. Details are easier to resolve, if first general concepts are agreed upon by the parties.

- **Put “Scores On The Board”** – If you speak to a climber, you may learn that their confidence builds as they progress up the face. Switching sport analogies, Bob Dunn often describes the psychology of *momentum* using the baseball expression of putting “scores on the board”. It can be very helpful to arrange negotiating issues sequentially so as to reach agreement on several before the difficult issues are reached. Crowds stay in the ballpark when the baseball teams begin to put *scores on the board*. In negotiations, “win-win” resolution of initial issues builds a spirit of partnership and cooperation, and positions the parties for positive solutions for difficult issues. Sometimes, it is helpful to begin negotiations with issues upon which your firm is willing to compromise, establishing *momentum* for solving larger issues later in the discussion process.
- **Organize Negotiations in “Attainable” Portions** – No climber tries to scale El Capitan without taking rest breaks. Why do some negotiators try to resolve all issues at once? Time can be a great ally in negotiations. Schedule negotiations so each party can regroup around issues. Take overnight breaks to allow the other side to prepare revised proposals.
- **Commit to Resolving Issues** - One of the unwritten rules of successful negotiators is to resolve issues before moving to another. In mountain climbing, the analogy is the metal pitons that are inserted as a climber progresses upwards. Failure to place pitons while climbing only increases the severity of a fall. Moving from one negotiating point to another without resolution only increases the probability that the business discussions will fail.

Last week, I supported a client in negotiating a \$20 Million capital equipment agreement. We organized the week-long negotiations using the advice above, putting general issues first (including business issues before contract wording), getting “scores on the board”, resolving simple issues early in the process, resolving issues in a timely manner, and trying not to return to previous decisions. The negotiations were highly successful, and the supplier openly praised the professionalism and efficiency of the process. They confided later that our process was more productive than one-sided and confrontational approaches taken by some other purchasing customers.

When *momentum* is achieved, the parties surmount difficult issues and can move strongly towards agreement...and that’s what successful negotiations are about.

Optimizing Your Procurement Training Budget...by Robert Dunn, C.P.M.

Given the current economic downturn, many companies have been forced to cut costs, and to “do more with less” resources. Procurement organizations are not excused from this constraint.



Simultaneously, however, they are often vested with the responsibility to institute strategic sourcing initiatives to achieve major savings across a multitude of corporate products & services.

In many cases, procurement professionals need additional training to succeed in today's complex supply management environment. Training budgets are one of the initial areas of to be cut when companies review their major discretionary expenses, requiring procurement organizations to re-think their professional development requirements and options, i.e. to maximize the training opportunities with a limited amount of budgetary funds. Given this dichotomy, supply chain organizations must work within budget constraints while providing employees with professional development opportunities.

One should remember that all things are negotiable and knowledge of the individual training cost elements can enable procurement executives to provide their organizations with high-quality yet affordable training alternatives:

- **Price** – Cost per student/day is a key benchmark in evaluating the Return-On-Investment (R.O.I.) on training dollars. An average of \$250 per student/day is a good target. Your Human Resources organization can validate this against targets for other types of professional training.
- **Number of Students** – The optimal number of trainees is predicated upon the course content and the degree of participant interaction; however, a class-loading factor of 15 to 20 students is acceptable to most training program providers.
- **Location** – Unless your procurement organization is extremely small, every effort should be made to conduct training on-site at your company location. This is because travel expenses (airfare, lodging, meals, and incidentals) for each of your employees will far eclipse the student/day cost of training. It is more economical to bring the trainer on-site and pay travel costs for just that one person.
- **Intellectual Property Rights** – It is sound “Best Practices” to negotiate the rights to use the training “Work Product” for internal purposes. This allows for replication of materials and/or later dissemination of the training program in-house to new employees.
- **Printed Materials** – Negotiate for the rights to print the training materials yourself, at a discount from the standard training fees. Your own reprographics center or external print supplier can probably produce the materials at a lesser cost than the training firm would charge.
- **Content** - All training should provide the participants with practical tools, which can add value at the job site. Utilization measurements are key indicators of the practicality of any training program. Professional competency can also be assessed through pre and post-training examinations (an approach which also gives your participants incentive to pay full attention to the training content).

- **Expenses** – Many training programs are priced at a fixed fee plus expenses. Be sure to negotiate a cap on expenses. An acceptable range for a trainer who must fly to the engagement is between 15% and 25% of the base fee.
- **Multiple Program Discounts** – Always request volume discounts for multiple training engagements, especially if the fixed cost of developing or customizing materials can be allocated over a greater number of sessions.

Professional development is critical to the success of any progressive procurement organization. Resources are often limited, and the goal is to derive the most benefit for your training dollars. Remember that training and developmental services are negotiable. Every effort should be made to ensure all elements in the final arrangement have been acquired at the lowest cost & highest potential value.

What's In Your Toolbox? ...by Patrick Soller.

Some purchasing organizations are like an auto-mechanic who only has a hammer in his toolbox. They just keep hammering away and don't make any progress down the path of strategic sourcing. The hammering is very much like attending to tactical issues in purchasing.



To the mechanic that doesn't know better, they feel like they're making progress. Their day is filled with highly visible (and noisy) activity. For some mechanics that had some success pounding out a dent, the hammer is a wonderful tool and they feel they have documented success.

But hammers don't work very well on modern Anti-Lock Braking Systems, Air Bag Safety Devices, or on Electronic Fuel Injection Systems. How much more progress might be achieved using the right assortment of tools?

In today's procurement environment, we must continue to safeguard from using the same tool through habit or ignorance. Let me clarify this point through the following examples:

- In manufacturing, sending individual RFQ's with part specifications is often the norm. However, the use of a master purchasing agreement versus individual contracts for each part is an example of "Best Practices". Moreover, in this environment, high volumes often warrant the effort of combining requirements, grouping similar parts for preferred suppliers, and leveraging the procurement dollars...often yielding better cost-savings, improved product quality, and more efficient delivery.
- Office supplies are often attacked with a big hammer by "mechanics" who focus only upon unit prices. Our firm has found that a true strategic approach is to combine tools to efficiently source & negotiate an optimal blend of "net priced" core items, margin-floor cost basis for ancillary purchases, and specific performance

guarantees. We consistently achieve superior results that surprise those with “hammer-only” toolboxes.

- Strategic Procurement Solutions frequently engages in sourcing initiatives for non-traditional commodities like Employee Benefits, Professional Services, Creative Agency Services, and Technology Products. Hammers just don’t work in these environments. Instead, surgical instruments like creativity, partnering, efficient contract development, consortium procurement, and finesse are appropriate tools. Try entering an operating room carrying a sledge hammer, and see what occurs.

Where can procurement professionals find additional tools to round out their toolbox? Continuing education, developing mentoring relationships with skilled colleagues, volunteering for new & challenging assignments, and being willing to experiment, all are keys to successful professional development.

In addition, don’t get in a rut by trying to fit the same sourcing technique for all situations. By thinking “outside the box” for your next strategic sourcing initiative, you will find creative ways of reducing overall costs.

Editor’s Note: **Strategic Procurement Solutions’** objective is to provide top quality supply-chain consulting & training services to clients 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 periodic educational newsletter, which provides quarterly articles about “Best Practices” in procurement. Contact us through our web site at www.strategicprocurement.com for more information about our services, or if you do not wish to receive this newsletter in the future.