



MAXIMIZING VALUE FROM YOUR SUPPLIER THROUGH SUSTAINABLE NEGOTIATIONS

 **LeanLinking**

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The Covid-19 pandemic, global warming, the war in Ukraine and other recent global events have changed the way we conduct business. The purpose of this whitepaper is to explore the implications of these major global events for supplier negotiations, offering the reader advice on the inherent opportunities and how to capture them best. The focus is on “sustainable negotiations”. This means maximizing value from your negotiations and at the same time preserving the supplier relationship. The structure of the whitepaper is as follows:

- What is new in supplier negotiations?
- What opportunities do supplier negotiations offer today?
- What makes you successful in your supplier negotiations today?
- What are the 5 key steps of supplier negotiations excellence?
- What does this mean for you as a world-class negotiator?
- How should you leverage technology in your supplier negotiations?

What is new in supplier negotiations?

World-class negotiators could raise EBIT by **3%** or more¹

World-class negotiation capabilities are a great asset to any business. **World-class negotiators generate up to 3% more EBIT across all functions¹**, according to a recent McKinsey survey among C-level executives.

Realizing the full **potential of supplier negotiations and management is more challenging today**. A paradigm shift has taken place in supplier negotiations towards “sustainable

negotiations”. Supply shortages, raw material and energy price hikes dominate the discussions with suppliers. Nearshoring and reducing single sourcing are elements of every supply chain strategy. Other aspects are tougher regulation and tighter ethical and sustainability standards.

Getting a good price is not good enough anymore. Sustainable supplier relationships are a top priority. **High performance suppliers are a pre-requisite for the success of a business**. The container ocean freight market is a good example. Customers with longer term contracts and relationships have a clear advantage. Customers who have bought spot have had to pay high prices. Similar scenarios are prevalent in other markets. Examples are EV batteries and their raw materials, computer chips and LNG.²

Top negotiators balance **the relationship angle with getting the best deal**. They must be masters of stakeholder management. They must be able to pursue a variety of objectives, some of which may be contradicting. Supply diversification, CO₂ reductions, volume flexibility and supplier innovations, etc. are top priority. This is in conjunction with managing costs.³

The **progress in science and technology offers new opportunities**. Elements such as behavioural economics and game theory are a core element of negotiations today. Negotiators can use sophisticated supplier relationship management and negotiation solutions. Most negotiations are virtual now. Zoom, MS-Teams or Google Hangout make interactions with suppliers easier and more effective. Analytical tools provide more insights into suppliers, supply market developments, cost structures and technology trends. Top negotiators use technology to be more efficient. Technology helps them to create more value for their organizations.

What opportunities do supplier negotiations offer today?

Battery and minerals supply chains will have to expand

10-fold
to meet government
EV ambitions⁶

Supply chain management and procurement face a paradigm shift.⁴ For many years, suppliers had ample capacity. New Asian suppliers created competition within the field, and security of supply was not a big concern. Today many industries face supply chain interruptions and **shortages of material and services**. Today's headlines are testimony to this. The US military is flying in baby milk powder. Car factories reduce their output due to semiconductor availability. Construction sites are

on hold due to lack of building material. Containers are congesting ports, because they are not picked up. **Security of supply and favourable commercial terms are equally important in supplier negotiations**. Navigating these markets and still making good deals has become more challenging. Yet, it still offers exciting opportunities for skilled negotiators.

Supplier consolidation has exacerbated these shortages. One or a few players dominate certain supply markets. ASML has a unique position in the market for lithography machines.⁵ The EV battery market consists of a few Asian players.⁶ Google and Meta have a dominating position in digital advertising.⁷ Thus, negotiators face **increasing dependency on just a small number of players**. Replacing a supplier - if there is an alternative - is difficult. Technology choices and internal resistance from stakeholders do not often allow it. Negotiators who have optionality, whether inhouse or external, have a clear advantage.⁸

“ In my professional career I've never seen anything like this inflationary crunch. ”

— Wendell Weeks, CEO of Corning, regarding shortage of fibre optic cable in the world

The **volatile macroeconomic and political environment** are other significant factors driving the paradigm shift. After many years of low interest rates and zero inflation, the tide has turned. Interest rates are going up and inflation is at a record high. Political sanctions have contributed to volatility in energy and commodity markets. They have cut off capacity and aggravated supply shortages. Suppliers confront negotiators daily with demands for price increases.⁹

Finally, **internal business requirements have changed as well.** Negotiators must pursue multiple, sometimes contradicting negotiation objectives. They must secure capacity and avoid shortages of material and services. They must keep costs down despite high inflation. They must track and meet the developments and demands of the regulatory environment. They must pursue ethical and sustainable objectives like compliance with COP targets.

In a nutshell, **skilled negotiators can take advantage of this volatile environment.** They have adopted a sustainable negotiation approach. They are pro-active and know how to react to market developments. They have superior insights. They know when a request for a price increase is reasonable and when to ask for a price reduction. They have strong supplier relationships, and they can rely on them to mitigate supply shortages.

What makes you successful in your supplier negotiations?

Successful negotiators have adapted their negotiation style and strategies. They focus on sustainable negotiations. They are able to take advantage of this volatile environment, but have had to discard some of the “fundamental beliefs” in procurement.¹⁰ If you want to be a successful negotiator, you should:

Be aware that the power balance has shifted and is now often in favour of suppliers. Relationships are much more important. Adjust your negotiation style. Think about how you can become an attractive customer for the supplier. Manage the relationship angle with care. This does not mean being soft. Be tough on the content but avoid antagonizing your counterpart. Build a relationship to explore the best possible deal. The current environment causes a lot of stress to individuals. It makes a notable difference, if you can show empathy and try to understand the needs of your counterparts.

“ Tesla will give you a giant contract for a long period of time if you mine nickel efficiently and in an environmentally sensitive way. ”

— Elon Musk in 2020 earnings call on Nickel

Be **open to joint problem solving in the negotiations and explore all options of a deal.** This can help unlock capacity across all tiers of your supply chain. Discuss all potential options with your supplier. Start with a blank sheet and figure out what works best for both parties. This includes insourcing, joint ventures, co-investments or firmer volume commitments and demand forecasts. Large automotive players have set up joint ventures with leading EV battery suppliers. Examples are Tesla with Panasonic or Volkswagen with Northvolt. Volkswagen has also bought a stake in the start-up Quantum cape. This goes far beyond their collaboration with traditional suppliers. Tesla as the industry benchmark is even getting active upstream. They negotiate with mining companies to get direct access to raw materials. They buy stakes in new mines to secure capacity.¹¹

“ Today is not only a great milestone for Northvolt, it also marks a key moment for Europe that clearly shows that we are ready to compete in the coming wave of electrification. ”

— Peter Carlsson, Northvolt's CEO regarding USD 1bn investment by Goldman Sachs and Volkswagen

Be well prepared for your negotiations, gather all the intelligence you can get.¹² Invest in supplier and supply market information. Develop a perspective on the evolution of the supply and demand balance. Assess the impact of investments into new capacities and the emergence of new suppliers. Understand the impact of major cost drivers and changes in exchange rates. Given the dynamics in the supply markets, you will reach surprising insights.

Be more efficient. The number and complexity of negotiations are increasing. The setup of future supply chains requires close attention to the value of negotiation skills. The market volatility causes more frequent price adjustments, and the need for re-negotiation is higher than ever. Ensure that you can cope with the workload. Ensure that you prepare and execute each negotiation with the right diligence.

What are the 5 key steps of supplier negotiation excellence?

First the good news: the **best practice principles of negotiations are still valid**. They are perhaps more important than ever before for sustainable negotiations. You will not get away with “just winging it” or “muddling through”. The performance gap between mediocre vs. best practice negotiation is increasing. The downside of not getting it right is even more severe, and no organization can afford this.

“ In a mental hospital, we do not want psychotic doctors. ”

— Roger Fisher, *Getting to Yes: Negotiating Agreement without Giving In*

The core of negotiation best practices is a five-step approach with a strong focus on preparation. Some organizations might have 6 or 7 steps and might use different terminologies. However, the underlying best practice principles are the same:

Step 1 - Determine the facts, build a comprehensive fact base with superior insights to

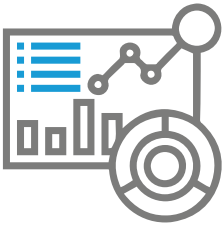


- Determine the **value at stake**: Estimate current spending, future demand and profit margins for the respective suppliers
- **Stay ahead of the curve**: Understand the market dynamics and drivers of change. Estimate the current and future supply and demand balance of the supply market. Assess the impact of supplier capacities and investments, cost structures and margin expectations. Understand how the other customers or your "supply competitors" are behaving
- **Put yourselves in the shoes of your opponents**:
 - Understand the perspective of your suppliers. This might be at an organization or individual (account manager) level
 - Understand your business. What do your stakeholders want, and how is the demand likely to evolve going forward? What is the impact of new product launches or entries into new markets? How does this affect your supply base?

“ When the pressure is on, you don't rise to the occasion—you fall to your highest level of preparation. ”

— Chris Voss, former FBI negotiator

Step 2 - Evaluate your position externally and internally



- **Assess your position** and determine the kind of negotiation archetype you are in. Decide on how to approach your supplier¹³
- Understand the **power balance or bargaining power**. How much leverage do you have over your supplier, or vice versa? This should happen short term at a deal level as well as long term at the relationship level. Consider the entire portfolio which you could source from this supplier¹⁴
- Set **aspirational targets** which are still credible. Use these targets as anchors for the negotiations, which will strengthen your position. This has become more difficult due to the volatility of input factor costs and the tight capacity¹⁵

Step 3 - Align your negotiation strategy. Consider how you will approach negotiations and practice this approach:



- Understand your **internal stakeholder needs**. Create alignment on negotiation objectives, your approach and the roles within the team
- Develop a **game plan** and practice how to execute it. Despite the lack of time, do not sacrifice negotiation preparation sessions. Internal dry runs are essential before meeting your counterparts
- Create a **compelling storyline** and have your opening move ready. Agree on the communication strategy with your supplier. Ensure that it is in line with the key messages of the corporate communication
- **Practice, practice, practice**, conduct dry runs. Ensure that you have all your ducks in a row before meeting your supplier

“ Good stories surprise us. They make us think and feel. They stick in our minds and help us remember ideas and concepts in a way that a PowerPoint crammed with bar graphs never can. ”

— Joe Lazauskas and Shane Snow, *The Storytelling Edge*

Step 4 - Lead the execution of your negotiations,



- Open the negotiations by **setting a strong anchor** if possible. Stick to your plan and your storyline. Be open to change as you gather new insights on your opponent during the negotiations¹⁶
- Be **straightforward, professional** and careful when applying your tactics. Do not use too many. Focus on tactics which enhance the deal value and strengthen the relationship with your counterpart. Prepare yourself to counter tactics which your opponents might use against you¹⁷
- **De-brief after each negotiation round** and adjust your approach and messages. Each negotiation is a great opportunity to gather more intelligence on your counterpart. Take advantage of that

Step 5 - Secure the impact of the deal



- **Capture the results of each negotiation round in writing.** Share minutes of the negotiations with your counterparts. Let them confirm them to avoid any misunderstandings. In many virtual negotiations, information might get lost or be misunderstood
- **Cross all your T's and dot all your I's.** Ensure that all details are in place to close and implement the deal. Do not let the deal fall through because the lawyers cannot agree on minor contract terms¹⁸
- **Set a clear implementation plan.** Ensure that all internal stakeholders commit to making the deal work

While these fundamentals have not changed, **applying them successfully is more challenging.** Building a comprehensive fact base has not become easier. Supply markets are much more volatile. You will have to consider supply chain bottlenecks, stoppages due to Covid-19, changing trade patterns, sanctions and regulatory requirements, changes in cost structures and input factor costs. Your supplier counterparts are likely to be under more pressure. They must push through a price increase to cover higher energy and raw material cost. At the same time, you are under pressure to protect your bottom line.

As mentioned earlier, this also requires a **significant shift in every negotiator's mindset**. They have to deal with a shift in power balance. They must be flexible in terms of their approach and style. They must be efficient in executing an increasing number of more complex negotiations.

They have to get creative and spend more time exploring alternative options. They have to overcome the "fixed pie" mindset and think about how to nurture the pie before distributing it.

What does this mean for you as a world-class negotiator?

Successful negotiators today must change their style, approach, and strategy. However, a top-notch negotiator applies a different mindset. This is less likely to be the "Rambo type" personality, and more so a "Merlin type". This is a person who has wits and power but uses them wisely with least "collateral damage".

“*He who burns down his house knows why ashes cost a fortune.*”

— African Proverb

Future top negotiators are unlikely to be hard-nosed dealmakers. Ideally, they offer a much more **balanced personality, placing equal emphasis on building a lasting business relationship as well as getting the best deal.**

If you want to be a top-notch negotiator you should be:

Aware that the **power balance has shifted** often in favour of suppliers. There are less supply options available. This requires a type of negotiator who can apply the full range of styles. He/she can build a sustainable, professional relationship with the supplier counterparts. He/she must find common ground on how to maximize the deal value. He/she must ensure that the supplier has enough incentives to invest in the relationship. This means investing into capacity expansions, access to innovations, new market entries, etc.

“*He who has learned to disagree without being disagreeable has discovered the most valuable secret of negotiation.*”

— Chris Voss, former FBI negotiator

Open to problem-solving with the supplier in the negotiations to understand all the options and to maximize the deal value. The negotiator must create the atmosphere and forum for problem-solving without antagonizing the supplier. This requires a strong relationship, a certain level of trust and a focus on the big picture. Negotiators might even consider sub-optimal commercial deals to preserve a strategic relationship. They will do that to keep the supplier engaged and motivated to stay in a certain region or market.

Masters of internal stakeholder management. Keeping stakeholders informed and involved, and ensuring that they support and buy into the deal.

Diligent, fact-based, and well prepared. The main success factor is a superior fact base and insight into your counterparts. This still requires some desktop research, interviews and meetings. Yet, there are a lot of information providers who have automated the research. They screen the internet and offer market and supplier insights.

Open minded to questioning their own beliefs and challenging themselves. As mentioned earlier, securing capacity was in many instances not a great priority. Volume commitments used to be a “no-go”. Today’s top negotiators adopt a more practical approach and consider all options.¹⁹

How should you leverage technology in your supplier negotiations?

Procurement is a **stepchild in terms of technology investments** in many organizations. Technology budgets for sales are usually 10 times the size of procurement budgets. Still, there is a catch-up happening. Supplier relationship management and negotiations are a core part of this catch-up.

“CPOs now work at the center of the organization, helping to drive its technology and transformation goals.”

— GEP-ProcureCon: CPO study 2022

There are four main areas where technology can support negotiations:

Collaboration and communication platforms such as MS Teams, Zoom and Google Hang Out. They facilitate virtual negotiations and reduce the number of physical meetings

Information platforms and portals to search for supplier or market information and benchmarks, for example supplier profiles, supplier news, raw material indices and benchmark of labour costs and rates. Beroe and Craft are two examples of providers which create supplier profiles²⁰

3100 SKUs negotiated for Oil-and gas supplier with

15% savings

1400 SKUs negotiated for aerospace company with

20% savings²¹

Analytical tools which help to analyse and summarize key information for your negotiations. This includes analytical tools on spending such as data warehouses and BI tools, cost analytical tools, digital supplier negotiation days, etc.

AI enabled negotiation tools, which help to prepare and execute negotiations. They cover five main functionalities:

- **Expertise-enabled workflow** with real-time guidance in preparation and execution of the negotiations
- Generation of **fact sheets with analytics and insights automation**. This might include the integration of other analytics solutions
- **Benchmarking and guided target setting**
- **Negotiation academy** with best practice toolbox and knowledge repositories
- Orchestrated **stakeholder engagement** and feedback

AI enabled negotiation tools are the key to **unlocking the opportunities in procurement**. They **boost efficiency and effectiveness of the negotiators**, enabling them to conduct **more negotiations** in a **shorter time**, with **improved preparation and a better outcome**.

This is a **great investment to boost the morale of your negotiators**. It will keep your most gifted negotiators in the organization. Good negotiators are hard to find and can command a salary premium. Maximizing productivity of top-notch negotiators should be a priority for each organization. Technology offers a lot of exciting options in this space with a very positive business case.

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