

Negotiation

Negotiation is a key skill of the purchasing and supply management professional. The ability to negotiate effectively is so fundamental, that without it, an effective purchasing and supply management service cannot be provided.

Negotiation can be defined as:

"To communicate with the objective of reaching an agreement by means, where appropriate, of compromise."

CIPS believes that negotiation is a key skill of the purchasing and supply management professional. The ability to negotiate effectively is so fundamental, that without it, an effective purchasing and supply management service cannot be provided. Although some people have a natural flair for negotiation it is a skill which not only needs to be learned through professional training, coaching and experience but requires refresher training at, at least, five year intervals.

Purchasing and supply management professionals should undertake, or lead, any significant negotiation with suppliers required by their organisation. Where someone else is to undertake a negotiation, it is the responsibility of the purchasing and supply management professional to ensure that they are properly trained and prepared for the experience.

CIPS believes there are reputational risks for the organisation when an untrained individual undertakes a complex commercial negotiation. Negotiation should be part of most procurement exercises especially those which are of high value, high risk or are complex. In some cases, negotiation with approved suppliers is preferable to inviting bids such as when the requirement is difficult to specify.

Advantages and disadvantages of negotiation

The advantages of negotiation include:

- It is a relatively expedient method of obtaining a value-for-money solution
- It is a useful method of maintaining value for money in a single source situation i.e. where there is no real competition
- It is useful when the requirement is difficult to specify
- It is relatively inexpensive to undertake
- It is flexible and not prescriptive
- It should be confidential

Undertaking negotiation

Purchasing and supply management professionals often lead cross-functional teams when undertaking complex procurement negotiations. It is imperative that those parties undertaking the negotiation are empowered to make decisions so as to bring discussions to an effective conclusion.

- CIPS encourages purchasing and supply management professionals to understand and appreciate the importance of the use of emotion and body language in negotiations, in order that all messages given directly or indirectly by the supplier(s) can be interpreted appropriately.

To be successful, the purchasing and supply management professional should ensure that the negotiation is properly planned. The extent of the planning should be a function of value and risk. The planning process should include:

- A diagnosis of the situation
- An accurate appraisal of the buying organisation's expectations
- An assessment of both parties' bargaining power

- The setting of objectives for the negotiation e.g. the ideal, realistic and fall back positions need to be identified and agreed
- The development of a strategy for the negotiation i.e. approach, style, communication, concessions, baseline even venue e.g. a neutral venue may prove more appropriate than the offices of one of the parties to the negotiation
- The factors to be traded need to be identified i.e. those things which the buying organisation can trade for things they would like to obtain from the supplier and those things which can be conceded etc. It is advisable to try to anticipate the suppliers' perception of such factors.

During the negotiation, the strategy must be implemented and in addition:

The needs of both parties should be explored

- Movement needs to be maintained
- Objectives may need to be reviewed
- Tactical ploys may need to be used
- Concessions may need to be given from both sides
- Settlement needs to be recognised and agreed
- Closure needs to happen
- The agreement needs to be documented

Issues to consider

CIPS believes that purchasing and supply management professionals should aim for a mutually acceptable solution for both parties where appropriate. There will rarely be occasions when the benefits of the negotiation are equally balanced but if suppliers feel they have "lost", this may adversely affect their attitude to the relationship making any negotiated gains by the purchasing and supply management professional short-term triumphs.

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In some cases e.g. when negotiating with an ad-hoc supplier, as opposed to one with whom the buying organisation is to have a longer term relationship, it is appropriate for the buyer to drive as hard a bargain as possible.

Negotiation is particularly difficult where there is little competition in the marketplace. This strengthens the supplier position and correspondingly weakens that of the buyer. The purchasing and supply management professional must identify alternatives as part of the negotiation strategy and have a position with which they are prepared to walk away from the negotiation (for this position Fisher and Ury coined the term "Best Alternative to a Negotiated Agreement or BATNA").

Conclusion

Negotiation is a skill which must be learned, and refreshed periodically. Purchasing and supply management professionals should be responsible for determining when negotiations with suppliers are appropriate and ensuring that these are undertaken.

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