

Understanding and Using Leverage in Procurement Today

Jon Maxim, President
Maxelerate
(847) 691-3299; jmaxim@maxelerate.com

John Todesco, Contracts Manager
Zurich North America
(847) 605-6726; john.todesco@zurichna.com

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Abstract. Who has the most leverage in a negotiation? A vendor or the client? Conventional wisdom says that it is the client. Why? Because the client has 1) the requirements, 2) the money and 3) the decision capability to say yes or no. When we ask, most vendors agree. Interestingly, when we ask, most clients agree too. Why is it then that we observe in most large organizations (both commercial and public sector) that the opposite is true? This presentation is designed to show you why this occurs and some ideas on what can be done for clients to get and maintain leverage.

What Is Leverage? Leverage can be defined in many ways. One way is to equate leverage with power. Who has the most power in a negotiation is presumed to be able to get a better deal. Our observation is that in the vast majority of cases this is true. The exceptions tend to be when people have the leverage but do not realize it.

A number of conventional negotiating concepts tend to interact and sometimes confuse people when it comes to leverage. Consider:

- Positive Bargaining Zone – this is the area between what the minimum the seller is willing to accept and the maximum the buyer is willing to give. In this area a deal is possible. Commonly, leverage is achieved when one of the parties can credibly start offering above or below this area.
- BATNA – the best alternative to negotiated agreement is a well understood concept. Intellectually it is easy to understand that we should have a fallback position if we cannot come to agreement. However, in large organizations we rarely find that people formally develop a BATNA. Usually the pressure to make a deal happen overrides due process. If a BATNA is not developed, having leverage in the negotiation really helps.
- Relationships and Styles – this is the focus of traditional negotiation training. How do you respond to a negotiating ploy? Where and how do you hold a negotiation? What negotiation techniques should you use? Our experience is that all the techniques that you may learn, while somewhat useful to gain the last inch, are no match for the negotiator that has the leverage and knows it.
- Norms and Standards – this is a particular focus of supplier salespeople. They want you to accept that what they are proposing is the industry norm or standard in order to avoid

bargaining. We will discuss this further below when we discuss the seller vs. the buyer.

- Consistency Principle and Reciprocity – by using seemingly “consistent” and “logical” arguments and then springing a trap. We observe that people have a need to have reasons that appear to hang together logically and objectively. This technique itself can add leverage to the person using it.

How to Create Leverage. What kind of deal do you want to strike? Does the negotiation have to be adversarial? When asked these questions we find that most people believe that negotiation does not have to result in a “Zero Sum” deal – i.e. a deal where what one side gains is lost by the other. They believe that it is possible to strike a “Win/Win” deal in which both sides can get a benefit and nobody has to lose anything. It is worth reflecting on the practicality of this.

If it is to be a “Win/Win” deal, the seller must win and the buyer must win. The operative word is “must”. Otherwise the deal should not be struck and each side should walk away and resort to their BATNA. In practical terms how often will your organization allow you to walk away from a deal? Usually there is some pressure to come to an agreement within some defined timeframe. And usually on or other of the sides ends up giving up on something that they would rather not.

The other mythical deal is one usually described by a salesperson as a “Partnership”. True partnerships have at least one major characteristic – sharing. Partners share benefits and share risks in a formally defined manner. If it is going to be a partnership, the sharing of the benefits and risks needs to be formally documented in a legal partnership contract. Very few deals involving procurement would fall in this category.

Probably the most useful concept to use in these situations is that of leverage. And probably the most useful concept for procurement to obtain leverage is competition. We routinely see that, when clients are backed into a corner and they are not obtaining good deals from their suppliers, the introduction of competition instantly improves the deal that the supplier is willing to offer. Any competent procurement professional already knows this fact. Then why is it still the case that so many acquisitions are done without requests for competitive offers?

One reason is that many people are unable to conceive an effective BATNA. In other words they perceive that the acquisition must be done from a sole source. They believe there is no competition. Our belief is that there always is an effective BATNA alternative. For example:

- Other Sources – the buyer may not have done enough research and there are in fact other effective alternative suppliers
- Modify or Repair – you may not need to buy a new solution. If the cost of a new solution is too high you could repair existing equipment or modify some existing solution or software.
- Do It Yourself – often services that are performed by outside contractors can be performed by your employees. You could choose to manufacture something yourself

rather than buy finished product.

- Do Nothing – this is often the BATNA with which many people have the most problem. They feel there is a pressure to make a deal happen and that doing nothing may be perceived as a failure on their part.

What all of these alternatives have in common is this: The vendor must be made to believe that you will indeed invoke one of these BATNAs if they do not give you a good enough deal. Take the last alternative – Do Nothing. Vendors are powerfully motivated not to lose the business. It does not matter to them that they did not lose the business to a competitor. All that matters is that they lost the business. And it especially hurts when they are made to understand that they could have won the business if they had made a better offer.

The other reason people do not go for competitive bid is what happens when you pit The Buyer vs. the Seller.

The Buyer vs. the Seller. We started off this presentation by asking who has more leverage - the buyer or the seller. While logic suggests that the buyer should have the leverage, our observation is that in reality, most of the time, before the deal is done, the seller has most of the leverage. The buyer may start off with most of the leverage but through a series of factors the seller gains leverage over time to the point where they are ultimately able to obtain a better deal. Factors such as:

- Vulnerability – clients are often very vulnerable because salespeople will often “backdoor sell”. They will avoid skilled procurement professionals and go to end users, technicians, administrators, etc. to obtain information that will benefit them in the negotiation.
- Skill Level – salespeople usually get sales training - a.k.a. negotiation training. The larger the seller the more the sales training the salesperson gets. It is not uncommon to see corporations give salespeople 3 – 6 months (and even more!) of sales training. Even skilled procurement professionals rarely get that amount of negotiation training... let alone the other people in the organization that salespeople routinely call on.
- Responsibility – salespeople are full time negotiators. Their singular responsibility is to get the best deal possible. Contrast that to the fact that the people they call on are, at best, part time negotiators.
- Tactical Advantage – salespeople spend a large amount of time cultivating relationships with senior corporate decision makers. The senior decision makers’ own staff often don’t have as close a relationship as the salesperson. This can give the salesperson a perceived air of authority over the same people with whom they are negotiating.
- Access – in many instances vendor’s personnel have free access to the facilities, systems and amenities of their client. They are resident vendors. This gives them many opportunities to overhear conversations, see presentations, read what is left on desks, which can later be used to help them in the negotiation. As a side note: When a vendor

says that they want to partner with you, ask them if they will give you the same access to their premises as they require from you.

- Incentive – a salesperson is very driven to obtain the best deal possible for their company by their commission plan. Few, if any, people on the buying side are similarly incented to do a better deal.
- On The Same Side – sales teams organize themselves to share information that each of their staff members have gathered from their contacts with the client. Clients rarely obtain that amount of information about their vendors.
- Timing – salespeople are excellent at creating a sense of urgency for the client to make a decision through their extensive training. This can put the client at a disadvantage by not allowing enough time for the negotiation.

There are many other ways the vendors use to gain leverage that will be discussed in the presentation. One of the major effects of these techniques is that information transfers from clients to suppliers while the suppliers carefully control theirs. This information eventually gives the vendor more leverage in the negotiation.

Deadlocks. When a client is proficient at obtaining and maintaining leverage in a negotiation with an equally competent vendor, one of the outcomes can often be deadlocks. This can happen because of brinksmanship or the use of negotiating techniques such as good cop / bad cop. To deal with these deadlocks the following concepts are useful:

- Avoid emotion in the negotiation
- Similarly, avoid ego
- Use a problem solving approach
- Use mediation techniques such as focusing on interests not positions
- If necessary use a competent intermediary

Keys to Success. Without a doubt the major way a buyer gains and maintains leverage is through the use of competition. By forming a team of stakeholders in the project to communicate carefully with the vendor you will foster the correct relationship of mutual respect -- not one of familiarity. Cooperation amongst the team will help it avoid ploys and speak with one voice to the supplier. This will ultimately give the procurement negotiating resources the leverage they need to obtain a better deal.