

# **Can't Pay? Won't Pay!**

## **Strategies and Tactics to Avoid Price Increases**

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If you're like most businesses – under pressure to provide ever greater returns to your stockholders – you can bet that your suppliers are too. And you can bet that many of them aren't putting much thought into how they'll achieve that return. Most of them will go for the easy option – raising the price they charge you, their customer, for their product or service.

Consulting firm McKinsey & Company reports that, all other things being equal, a one per cent increase in price translates directly to a ten per cent increase in profit. No wonder pricing is a tempting target for your suppliers. But as the customer, you're the one who suffers. Worse, you're faced with the temptation – and the risk – of putting up your own prices to cover the increased cost you're incurring.

### **Five Strategies for Avoiding Price Increases**

#### **1. Negotiate on the points that matter**

While the simple answer to resisting price increases is to just say no, there is a smarter, more contemporary way of going about it, which involves understanding the level of importance of each supplier relationship – that is, the business risk associated with the money you spend with suppliers. The lower the risk, the easier it is to just say no – to your paperclip supplier, for example. But with higher risk categories and suppliers, it's important to understand the total cost of ownership. When you know the true cost of doing business with a supplier, you can avoid price increases without jeopardizing a valuable relationship.

In any negotiation, you should understand what the trade is worth to you and to the supplier, the variables and what both sides really want. Actual price paid may be less important to you than, say, favorable payment terms or speedy delivery. Understanding the total cost of ownership allows you to factor in all the costs of doing business with a supplier, not just the price tag.

#### **2. Understand who has the power in the supply relationship**

That power depends on the nature of the product or service being purchased. Around 80% of transactions are non-critical – small items with a high number of low-value transactions. In these cases, power is shared between customer and supplier. The best way to fight price increases will be through reducing the administration or logistics costs, standardizing, and electronic commerce. Strategic purchases – those that are critical to the business operation, and whose quality and reliability is critical – account for around 80% of the dollar value of purchases. Again, power is shared in these relationships, which tend to be stable and long term.

In negotiations for specialty products and services, the customer has the power, and can search for the lowest cost option through competitive bidding situations. Suppliers have the

power in negotiations for “bottleneck” products and services – where availability is critical, and bulk purchasing creates buying power. In such cases, the customer must secure supply, or else search for substitutes.

When you know who has the power in a negotiation, you can choose the best tactics to avoid a price increase (see below).

### **3. Change the approach to the relationship**

Win/win negotiations make the whole cake bigger, rather than both sides fighting over the size of the slice. For example, if they were negotiating over a loaf of bread, win/win negotiators would add value to the bread for both parties – they’d slice it, toast it and spread peanut butter on top. In a win/win negotiation, you’ll develop a range of options, considering the problems, opportunities, common ground and “what if?” questions. You’ll end up inventing options for mutual gain, and trading options or variables to reach agreement.

### **4. Understand your personal power in negotiations**

Your power is affected by presentation, personality, profiles, position and placement, at both conscious and subconscious levels. More importantly, your power can depend on the type of negotiator you are – soft, hard or problem-solving.

The soft negotiator will yield to pressure – make concessions and offers and try to avoid a contest of wills – all in the interest of agreement and staying friends. The hard negotiator sees participants as adversaries, and the goal is victory. This person is likely to demand concessions and make threats, and to distrust others, applying pressure to achieve the desired outcome.

The problem-solving negotiator has the goal of a wise outcome, reached efficiently and amicably. He or she is soft on the people, hard on the problem, and focuses on interests, not positions. Problem-solving negotiators will develop multiple options to choose from. They will be open to reason, yielding to principle, not pressure.

### **5. Recognize common negotiating tactics – use them, or defuse them!**

There are a few common tactics you might encounter from your supplier, and you need to know how to deal with them. Alternatively, you may choose to use them yourself.

**High ball / low ball** – the supplier makes a ridiculously high opening offer. To counter this tactic, the purchaser might laugh, counter lower than the original figure, or ask for a price breakdown. As the customer, you can use this technique in reverse, with a low offer.

**Good cop / bad cop** – one negotiator presents a tough position, punctuated with threats and obnoxious behavior. He leaves to cool off, and the other negotiator tries to reach a quick agreement. Recognize the tactic – and “bad guy” the good guy.

**Red herring / straw man** – Your supplier might make a big deal of something that is not really important to him, then later trade it “reluctantly” for concessions. Try to gather the other party’s real motives.

**The nibble** – when negotiations are almost concluded, the supplier might ask to include a clause that has not been considered earlier – the amount is too low to break the deal, but enough to upset the purchaser. Recognize this tactic, and offer to reopen negotiations and review the agreement on the new terms. Alternatively, agree to include the clause in return for something you want.

**Create time pressure** – suppliers invent deadlines to bring the negotiations to a close (“Orders must be submitted by the end of the month”, “For a limited time only”). Ignore them, and don’t be rushed.

**Bringing reinforcements** – bringing an unannounced colleague to the negotiation can upset the dynamics. Know who will be at the meeting before you arrive.

**Lack of authority** – claiming the need to defer to a higher authority allows time to think and a base for further negotiation (“The boss says no way...”). Ensure the person you are dealing with has the authority to make the decision before you start negotiating.

**Walk away** – If you have no interest in an ongoing relationship, or progress has stalled, walk out. But beware, you can’t go back in without losing power. If your supplier tries this, let them walk – don’t lose power by chasing them out the door.

The bottom line is, you don’t have to accept overt or covert price increases. By working smarter with your suppliers, your costs will reduce and your suppliers’ margins will grow. What supplier wouldn’t be interested in a deal like that?