

Negotiation Excellence

Interim research
findings

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Presentation agenda

- **Research objectives**
- **Methodology**
- **Initial findings**
 - **Changing negotiation environment**
 - **Challenges**
 - **Improving negotiation performance**





Research overview

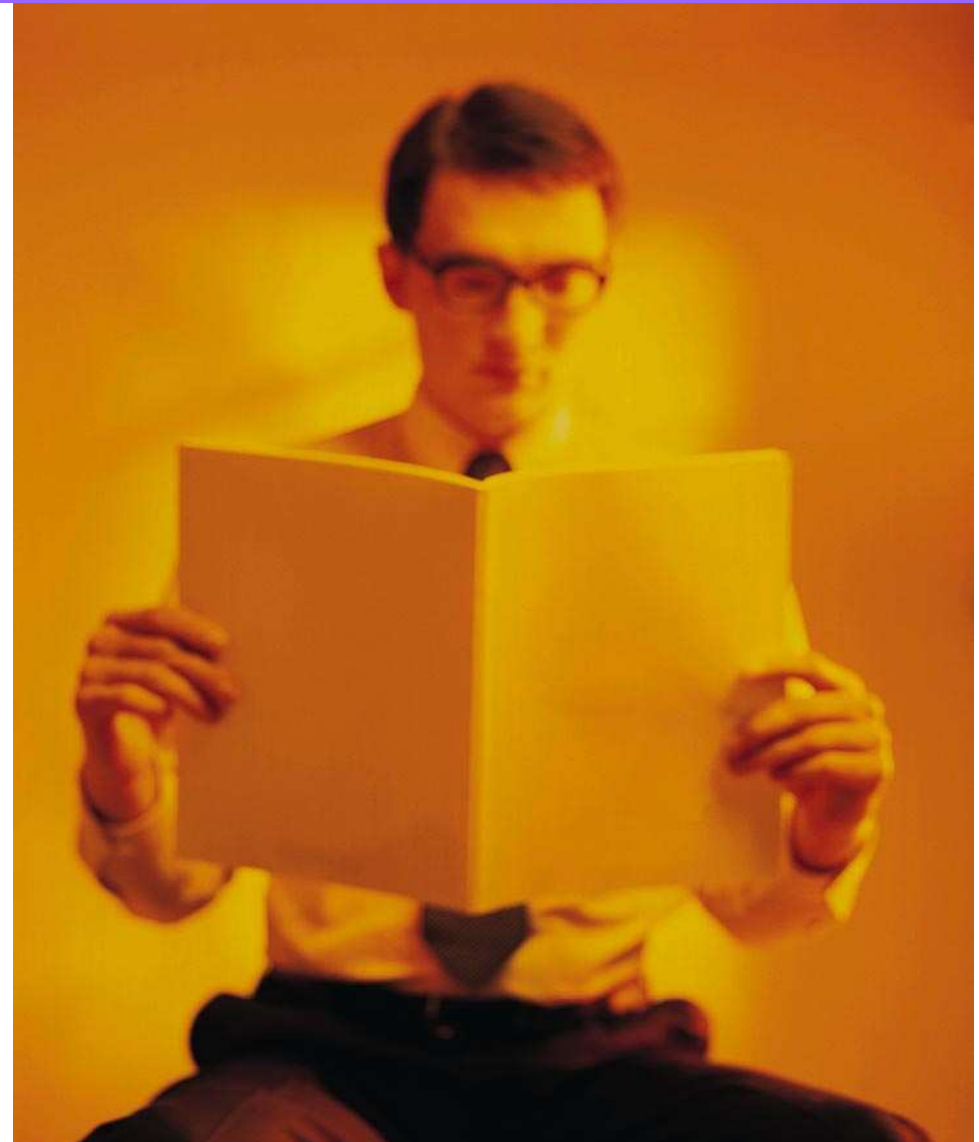
Research objectives

- Identify the challenges of 21st Century negotiation environment
- Determine how organisations are adapting
- Insights how firms are improving negotiation performance
- Deliver best practice recommendations to IACCM community.



Research methodology

- 120 in-depth face-to-face or telephone interviews
- Large scale global study
- 95% participants have revenues > \$1bn
- 100 hours of recordings and 1100 pages of transcripts analysed
- Rich and deep insights not normally captured in a questionnaire.



Named research participants

Alcatel-Lucent, Allianz, Allied Irish Bank, Avaya, BP, Broad Run Consulting Group, Clondalkin Group, Commitmentor, Computacenter, CSC, Domino Coding, Frigoglass, General Motors, Honeywell, HP, IMI plc., Invensys, Johnson Controls, Joy Mining, Microsoft, Ministry Health Care, Nexor, Oracle, Orange Business Services, QinetiQ, Rockwell Automation, Sara Lee, Schneider Group, Sealed Air Europe, Siemens, Teradata, The Contract Team, TNT, Western Services Corporation, Wheelabrator and Xerox.



Initial findings

The changing negotiation environment (Sell side)

Change	Frequency
Increasing use of onerous terms: Shift of risk	85%
Customer is better informed and more savvy	62%
Increasing use of external procurement consultants	38%
Restrictive and standardised processes for bidding	36%
Consolidation of trade: deals getting bigger	27%
More price pressure and drive for concessions	24%
Shift to email / phone / WebEx negotiation	23%
Rigour of procurement: more objective approach	23%
Shift to collaborative negotiations	15%
Negotiation shift from post-tender to pre-tender	12%

Increasing use of onerous terms: Shift of risk to sell side



Global Director: Contracts and Pricing. \$5bn firm

"I'm seeing a tendency for buyers to try to shift more and more risk to their vendor base, so there's a lot more unreasonable demands being placed in the negotiation on vendors to accept more risk.

What we're finding is more and more buyers who basically are saying, "We want you to cover consequential and incidental damages and we don't want any cap whatsoever." And to me that's an unreasonable position.

I had one buyer actually admit, that they're restructuring their entire insurance portfolio and they're planning to use vendors as an insurance policy!"

Onerous contract terms : a common response

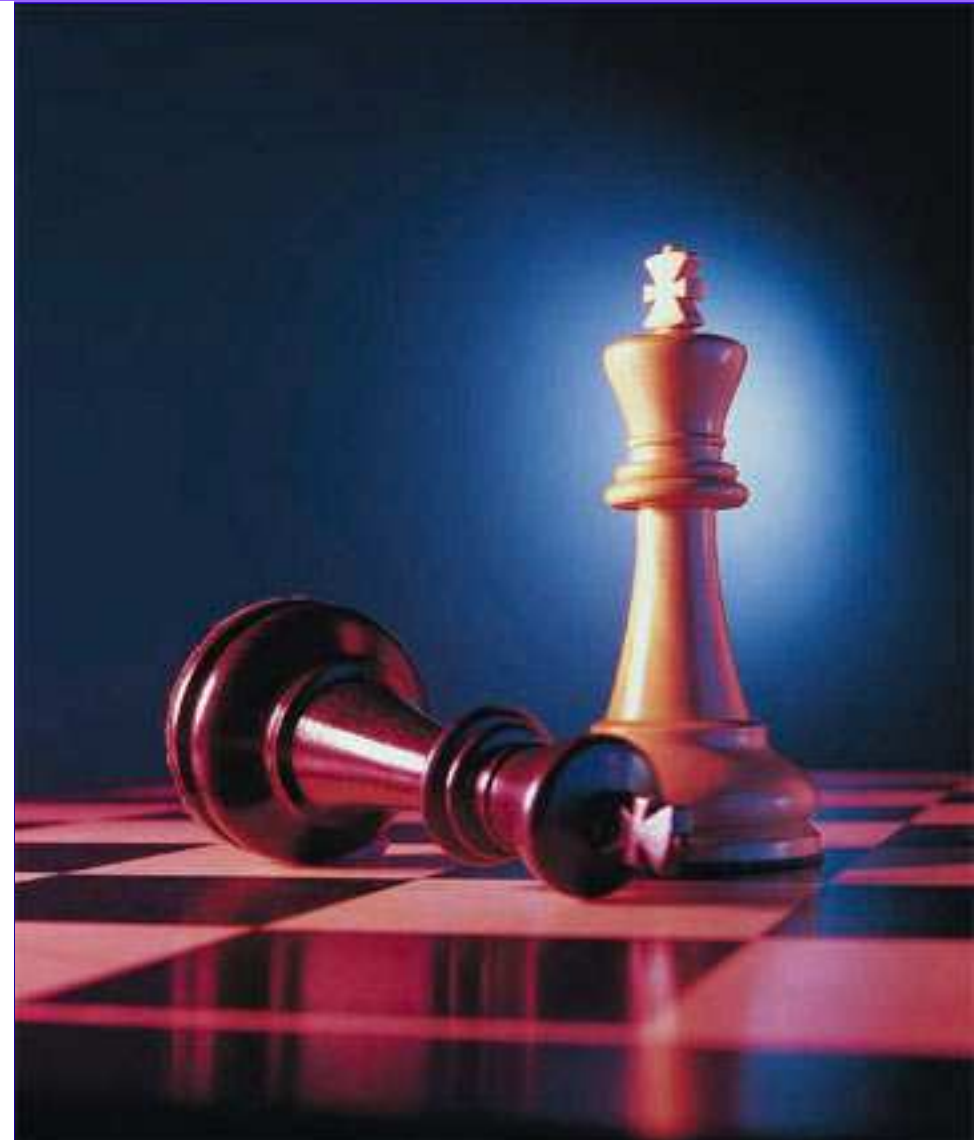
National Sales Director, FTSE 100 firm

“These terms are self defeating, ludicrous and a farce. Do you want us to bid or not? If you want a market leader to participate, get rid of them”

How do you deal with onerous terms?

Dealing with onerous online contract terms

- Click to accept and try to renegotiate later
- Click to accept but submit offline exceptions (often no force in law)
- Submit non-compliant bid and circumvent eProcurement system
- Reject participation entirely.



Sr. Director, Strategic Sourcing and Procurement. Fortune 100 Firm

“We understand that our pendulum swung to very onerous terms. But as this approach drives huge costs into our supply chain, we are working feverishly to have some flexibility.”

“Historically we were not applying the right level of risk to the deal: we can’t expect the same level of risk mitigation in a \$1 million deal as \$1 billion.”

Competitive advantage via less onerous terms

Head of Customer and Partner Experience, Legal Department. Fortune 100 Firm

“We are typically seen as having a take it or leave it approach but our reputation was being damaged. But one way to differentiate between companies is to have less onerous and draconian terms. Our shift to more friendly terms seems to be working looking the measure of customer / partner satisfaction from our surveys.”



Improving negotiation performance

The challenges in improving negotiation performance

- Negotiation viewed as a personal skill
- Problems measuring negotiation success
- Problems motivating negotiation success
- No process - Informal negotiation strategy
- Lack of time for planning
- Ensuring use of planning template
- Keeping track of information
- Contracts team not involved early enough
- Lack of integration between sales and contracting.

Head of Legal, Fortune 100 firm

“What does concern me is that a lack of negotiation skill from a corporate enterprise level is a lot like primer under paint – you don't know it's lacking until all of the paint falls off.

Man, if we could pick up all the money we are spilling in negotiation...it's a huge number.

Our failure to develop the skill of our negotiators across the company will not be evident until it's too late.”

How are firms improving their negotiation performance?

Response	Frequency
Embed formal negotiation process	59%
Cross functional planning	52%
Sales & contracting alignment (early involvement)	29%
Embed use of negotiation planner	27%
Invest in training	22%
Centralised approval system	9%
Incredibly high level of analysis	7%
Measurement of negotiation effectiveness	6%
Global consistency on negotiable issues	4%

Asia Pacific Contract Manager, global consulting firm

“There is a very fixed process for the entire sales, negotiation and contract closing. There are various stages and it's very, very comprehensive. There are many, many people involved. I mean, you really have a very long checklist of the items that need to be completed, who needs to complete it, who needs to approve it and it just moves throughout the entire sales process from the time that you decide that your customer to the time when you close the contract.

A success factor is ownership of the process. the person who decided this is the client that we want, has ownership to complete the entire process.

Global contract director, Fortune 500 firm

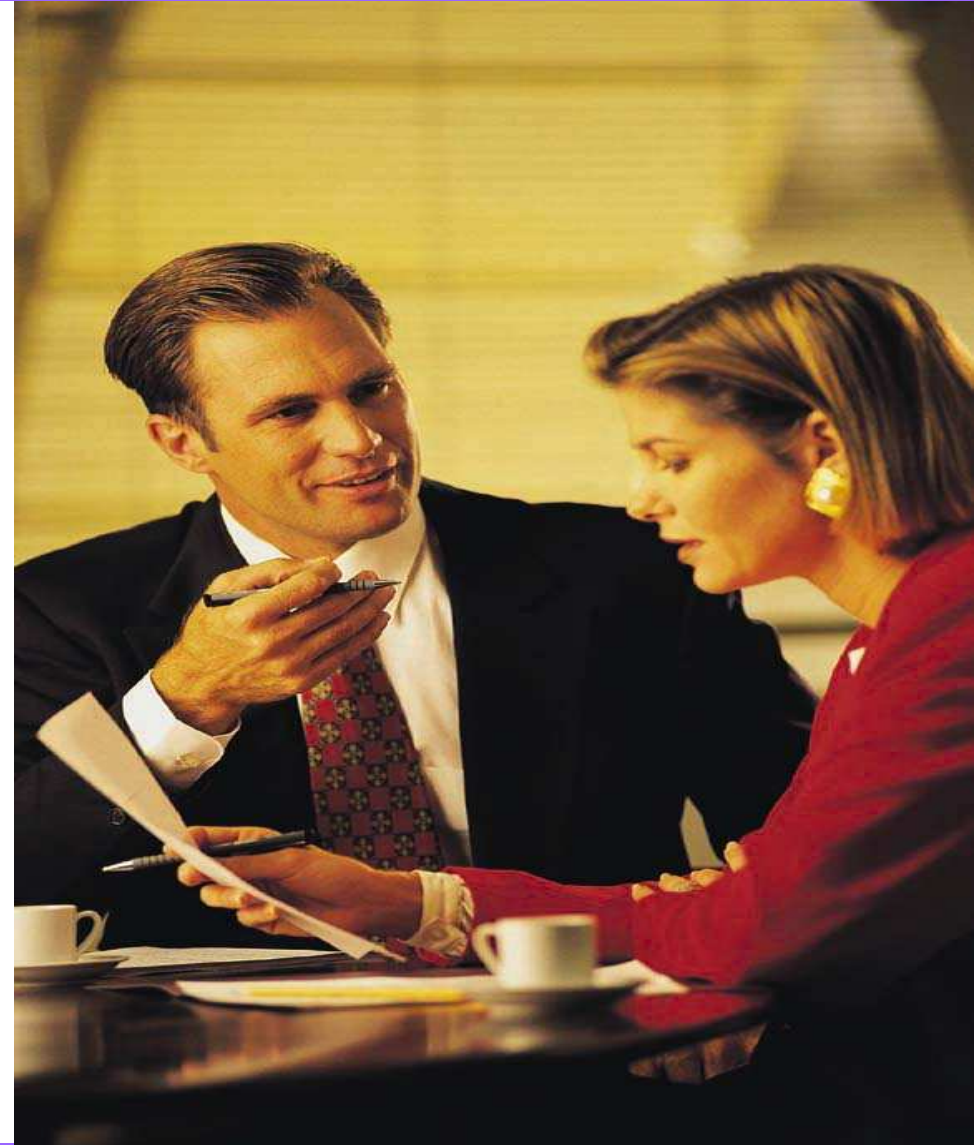
“Standardising the process is not just, you know, an isolated incident. It is making sure you have a disciplined process around the act of negotiating

What has worked very effectively for us is approaching each negotiation with the same key principles, steps, responsibilities and rules

Then after the fact, once that contract is signed, it's not just about, “Did you get the deal done,” but monitoring it after the signature is in place to make sure you continue to deliver the benefit's that you anticipated.”

UK Sales Manager, FTSE 250 firm

- *“We are bidding for a very big customer right now. I mean, it would be our biggest ever win if we won it.*
- *I can recall, six weeks ago, fifteen of us standing in a circle, in an office with every single part of our business represented.”*



Driving cross functional teams via a bid review

Global Director: Contracts and Pricing. \$5bn firm

A cross functional bid review is not rocket science. It's a one page form that identifies what you're bidding on. You engage your people in developing the negotiation plan. Then at the end of that whole process you present it to the appropriate level of management for approval.

Which is extremely empowering, because when a senior level leader says, "Yeah, I approve this negotiation plan," he's basically saying go out and settle this thing.

The biggest issue previously without a negotiation plan, is that when the customer said "no" to something, we could spend weeks, if not months internally to us trying to figure out how to respond mid negotiation.

As a result of this process we are negotiating 75% of those deals in less than 8 weeks!

Sales and contracting alignment - getting contracts engaged early

- Formalised '**risk review**' before any response to the RFP
- Agree a cross functional team strategy for dealing with the risk
- Try to use methodology on all contracts greater than a million dollars
- **The people who've used it, swear by it**



Use of negotiation planning documents

- Range of documents shared in confidence
- No significant variation
- ‘Bland’ when viewed in isolation
- *“Can we really say – thou shalt always have a negotiation-planning document? Probably not.”*

The Negotiation Problem			
Our Interests			
Their Interests			
Our Wants	Priorities	Entry	Exit
Their Wants	Priorities	Entry	Exit
<u>Tradables</u> - anything over which the negotiators have discretion relating to the issues on the table, or to other negotiable issues not on the current agenda. It is what the tradable is worth to them that counts.			
Levers (If you give me...then I will give you)			
Our Roles: Summarizer: Negotiator #1: Negotiator #2:			

Next steps in sharing research insights

- Buy side findings
- Quantitative SPSS analysis
- 'Best practice' negotiation planning document
- Negotiation Maturity Model and diagnostic tool
- Full report due May 2009



Thank you!

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Global contract director, Fortune 500 firm

“If you are in a negotiation and you are asked to concede on a term and you say 'No'

For the customer to get the answer of, “Well that's just policy” is just a very unsatisfying answer both intellectually and practically.

At the very least we need to make sure the people that are negotiating for us, and what the customer is seeing is a well-reasoned justification for that position.

Not to say we can't ultimately disagree but at least it is a rational disagreement not an irrational disagreement.”

Director of Global Contracts, Fortune 50 Firm

“The art of assessing the effectiveness of our contract negotiations is not a project that has an end date, it's a process

I have a portfolio of contracts that I'm constantly measuring and monitoring and making sure that 12 months, 18 months 24 months after we've signed the paper, am I still delivering the benefits from the contract that I negotiated up-front when I signed the deal?

If somebody asked the question, you know 'how is it going? You know, how're the contracts doing?' I can answer that with precision as opposed to a number of unfounded anecdotal comments.”