



Session Code: GE

Negotiations: *Advanced Techniques for  
Sole & Single Source Situations*

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Tuesday, May 8<sup>th</sup>  
2:30 to 3:30 p.m.

# ISM International Conference - 2007



## Negotiations: *Advanced Techniques for Sole & Single Source Situations*

# Presented By



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- **Strategic Procurement Solutions – A specialty firm providing advanced supply-management Consulting, Staffing, Training, & Outsourcing Support to Fortune 1000 & Progressive Public Sector Clients.**
- **Clients Have Included...** *Apple, Entergy Services, Limited Brands, Intel Corporation, MetLife, State of Oregon, Delphi Automotive, Fireman’s Fund Insurance, NASPO, WSCA Newmont Mining, State of Massachusetts, Johnson & Johnson, Mirant Services, Baltimore Gas & Electric, Nationwide Insurance, Newmont Mining, State of Illinois, Allstate Insurance, Adobe Systems, PacifiCare Health, Vision Service Plan, Colgate-Palmolive, State of Washington, Sprint-Canada, Sybase...*

**What's Different?**

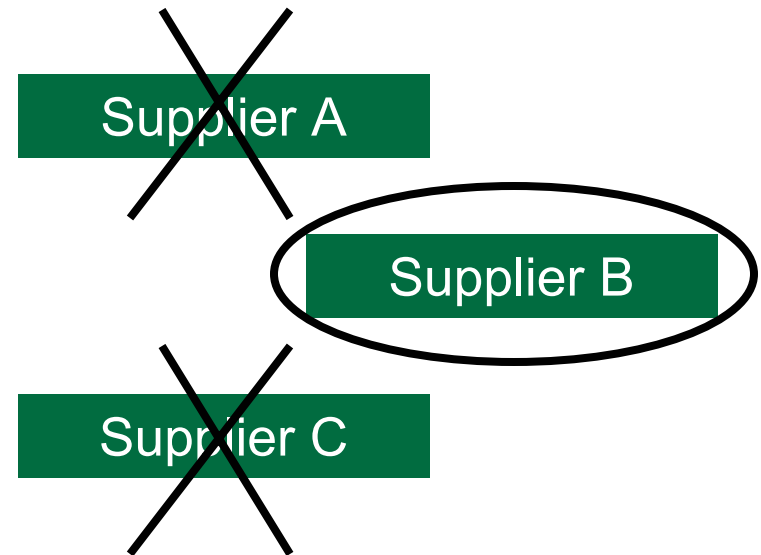
**Sole & Single Source  
Negotiations**

# What is a Sole Source Acquisition?

- There is only one known supplier of this product or service...
- No close substitutes are available.
- May vary by level in distribution chain (MS Office...retail, wholesale, “Select”, etc)
- Examples...
  - Electricity in regulated location.
  - Purchase of a proprietary product or design.
  - Public utilities.
  - Audience Examples...

# What is a Single Source Acquisition?

- When there is more than one supplier of this product or service, *but competition is not viable* for legitimate business reasons.
- Examples...
  - AR software module to be added to an existing ERP supplier suite.
  - A subcomponent of an assembly needs to be warranted by the primary supplier.
  - Audience Examples...



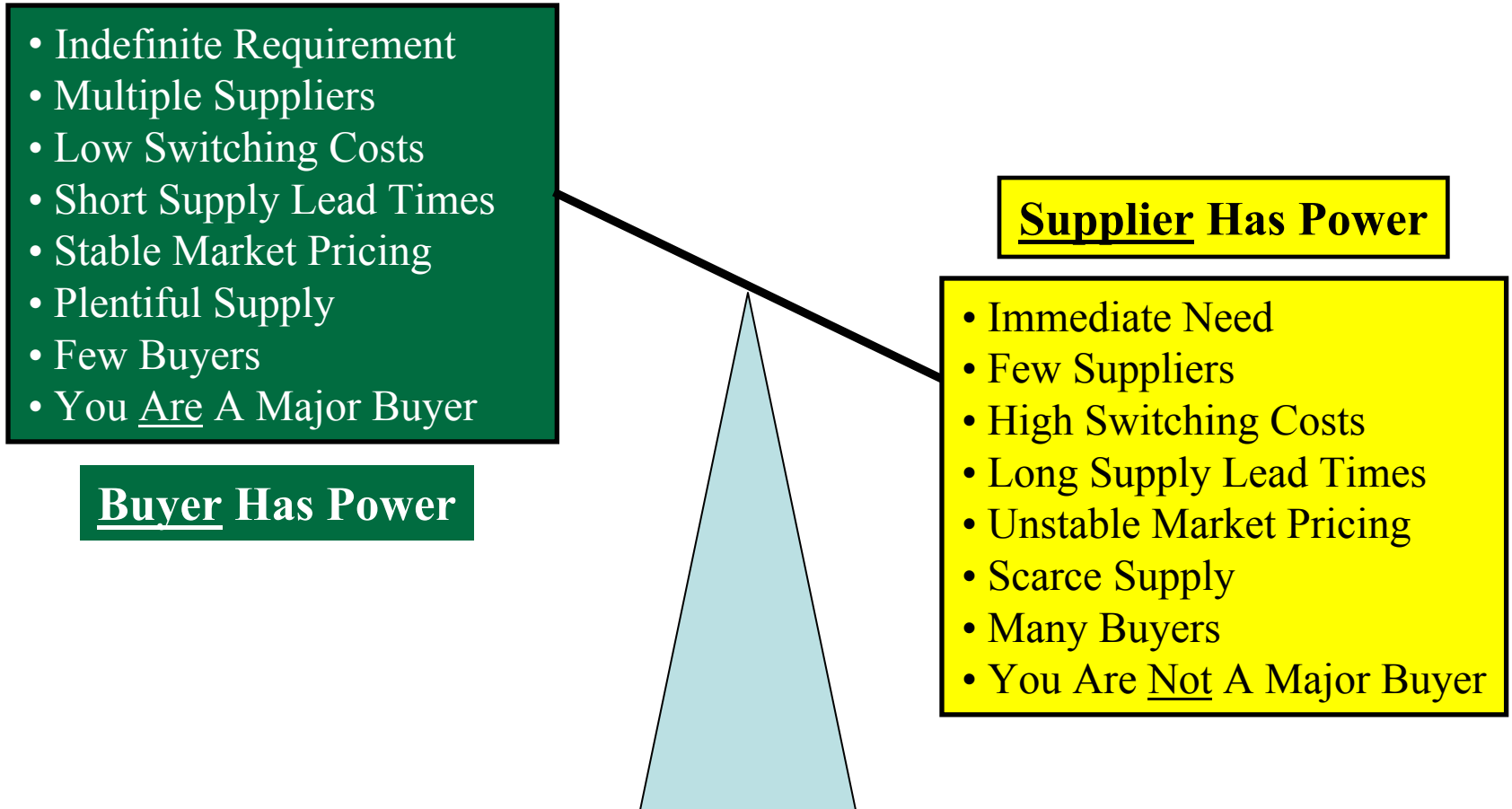
# Progression in Supplier Relationships

| Commodity Provider   | Qualified Supplier  | Preferred Supplier  | Alliance Supplier  |
|--|---|---|--|
| <ul style="list-style-type: none"> <li>• Little Differentiation in Products or Services</li> <li>• Focus on Lowest Price</li> <li>• Transactional Business Relationship</li> </ul> | <ul style="list-style-type: none"> <li>• Longer Term Relationship</li> <li>• Trust has to be earned</li> <li>• Specific Products or Services</li> <li>• Quality Programs Implemented</li> <li>• Typically Under Contract...Non-Exclusive</li> </ul> | <ul style="list-style-type: none"> <li>• Multi-Year Relationship</li> <li>• Negotiated Comprehensive Pricing</li> <li>• Established Level of Trust</li> <li>• Mutually Advantageous</li> <li>• Top Management Interchange</li> <li>• Continuous Exchange of Ideas</li> <li>• Business Process Re-Engineering</li> <li>• Focus upon Significant Value Added</li> </ul> | <ul style="list-style-type: none"> <li>• Mutual Dependence</li> <li>• Multi-Year Contract In Place (5+ Years)</li> <li>• Strategic Framework in place</li> <li>• Increased Capability / Capacity</li> <li>• Enhanced Business Opportunities</li> <li>• Improved Shareholder Value</li> </ul> |

## •Questions...

Which Suppliers Are Most Likely Sole & Single Source?  
Which Are the Highest Dollar Relationships?

# The Balance of Power In Negotiations



## 7 Techniques

**Helpful to  
Sole/Single Source  
Negotiations**

# Seven Techniques Helpful to Sole/Single Source Negotiations

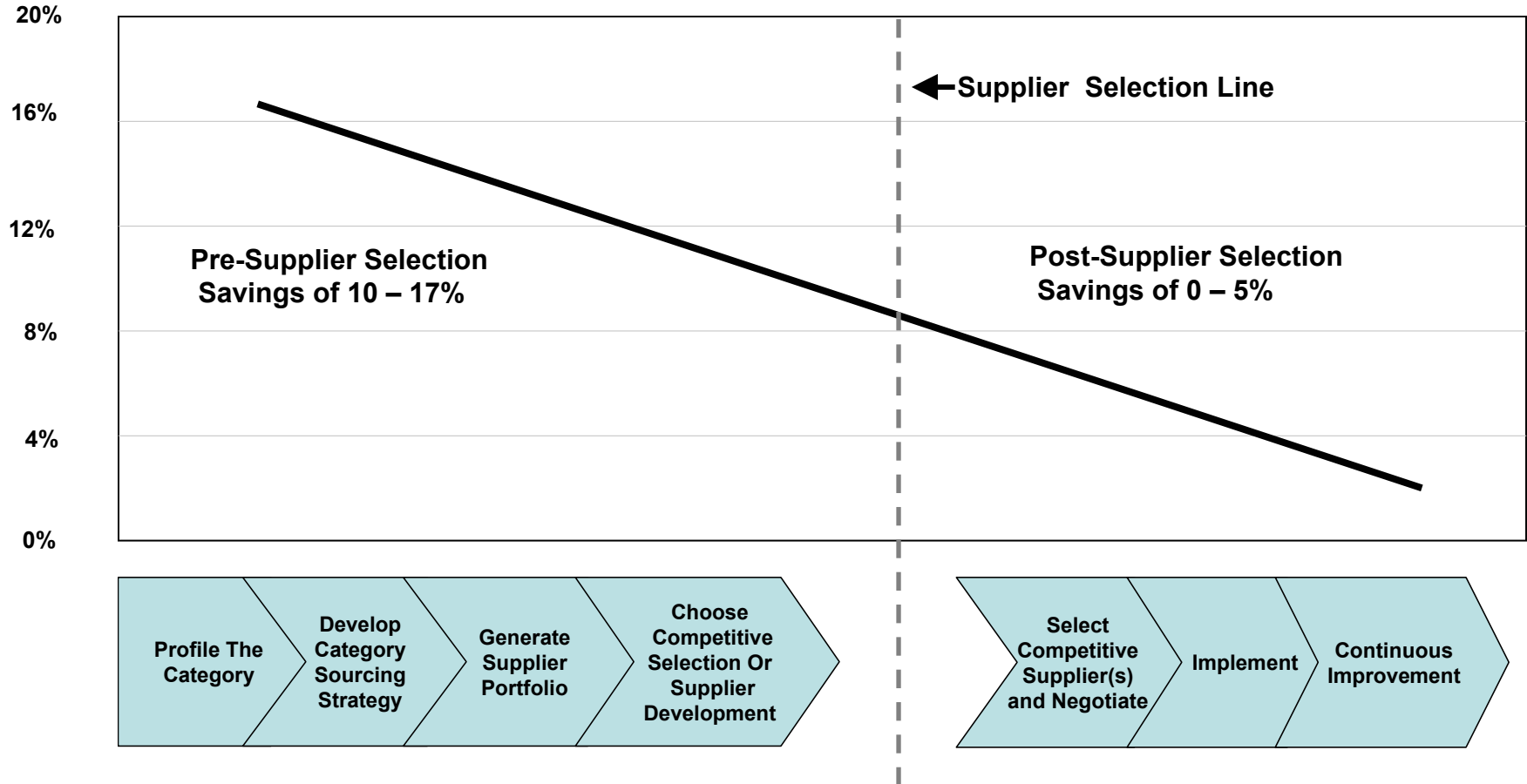
1. Early Involvement of Supply Management
2. Differences between Collaborative and Competitive Negotiation Approaches
3. Make vs. Buy Options (Short & Long Term)
4. New Supplier Development
5. Empowerment of Negotiations Through Factual Data:
  - a) Utilizing 'Should Be' Costs
  - b) Knowing the Supplier and Future Marketplace Trends
  - c) Past Supplier Performance
6. Negotiate All TCO Elements Before Beginning Relationship
7. Shifting the Paradigm in Sole Source Negotiations

# Technique #1

## Early Involvement Of Supply Management

# Savings Opportunity

(Avg Savings Percent)



# Ways to Get Early Supply Management Involvement



- Avoid “PTD” by;
  - Building strong relationships with key internal customers.
  - Building strong relationships with key suppliers.
  - Building reputation for “Value Added Contribution”  
(Example: Sponsorship Agreements)
  - Involving procurement personnel in budgeting/forecasting  
(Example: Capital Budget Committee).
  - Ensuring supply management is responsible for solicitation of supplier proposals.
  - Stop “Around The End Runs”

## Technique #2

**Differentiate Between  
Competitive &  
Collaborative Negotiations**

# Negotiation Strategies

- Collaborative Negotiations:
  - Problem Solving
  - Non-Confrontational
  - Develop Multiple Options
  - Yield to Principle not Pressure
  - Two Winners...Often Leading to Successful Partnership
- Competitive Bargaining:
  - Hard Bargaining Based on Concrete Facts
  - Appropriate in Many Situations
  - Not an Equal Outcome
  - Win...Break Even
  - Price Driven Based on Benchmarks...Cost Modeling...etc.
  - May Result in a Walk-Away Position

## Technique #3

**Explore “Make” vs. “Buy”  
Options**

# Three “Must Know” Positions Before Entering Any Negotiation

- MSS = Most Supportable Solution
- LAS = Least Acceptable Solution
- BATNA = Best Alternative to a Negotiated Action

## Insource vs. Outsource Options

- Some Sole & Single Sourced Services Can be Internalized.
- “Make” vs. “Buy” analysis can help determine options.
- Vertical integration of a Supplier may be an option.
- Examples: Transportation; Local or Regional Deliveries... “Stickers” for Logging Client.

## Technique #4

# New Supplier Development

# Developing New Suppliers

- Trend in Single Source situations is to “not” buy from non-competitive sources.
- Long term & strategic solutions though, may require short term expense.
- Example; Mfg Company with 49% of all direct material expense through Sole Source supplier.

## Technique #5

# Empowerment of Negotiations Through Factual Data

# Utilizing “Should Be” Costs

- Develop an Industry Cost Profile:
  - From similar Non-Sole/Single source supplier relationships;  
or
  - From published sources like:  
U.S. Bureau of Labor Statistics, U.S. Bureau of Census (Economic Census), Dun & Bradstreet, Purchasing Business Intelligence Center, Producer Price Index (UK & EU), etc.

| <u>Cost Factor</u>   | <u>%</u>     |
|----------------------|--------------|
| Direct Labor         | 25.6         |
| Service Overhead     | 23.4         |
| <b>Cost of Sales</b> | <b>49.0</b>  |
| GSA & Other Expenses | 31.7         |
| Profit (Pre Tax)     | 19.3         |
| <b>Price</b>         | <b>100.0</b> |

# Knowing Supplier & Future Marketplace Trends

- Understand the Supplier before beginning negotiations.  
Sources:
  - *Personal Brokerage Research*
  - *Buy Stock for Better Access*
  - *Daily News Clips*
  - *Interview Key Officers*
  - *Track Key Cost Drivers (Supplier's Major Costs)*
  - *Use Industry Sources, like: D&B, Austin-Tetra, Industry Publications, etc.*
- Understand Marketplace Trends. Sources:
  - *CAPS*
  - *Producer's Price Index*
  - *Specific Category Benchmarks & Indexes*
  - *Industry Publications, etc.*



## Technique #6

**Negotiate All TCO  
Elements Before  
Entering Relationship**

“T.C.O” =

Cost of  
Acquisition  
+

Product/  
Service Cost  
+

Cost of  
Use  
+

Cost/Benefit  
At Disposal



# No 2<sup>nd</sup> Chances To Negotiate In Sole/Single Source Relationships

- Try to Negotiate All Key Cost Elements Up Front (Exercise to Follow).
- Example: Application Software Maintenance.
- Sole/Single Source Savings Usually Occur in Non-Price Cost Elements.
- If Certainty Is Lacking About Requirements, At Least Negotiate Price Model for Calculating Future Costs.
- Gain Long Term Concessions In Exchange for Long Term Commitments.
- Avoid Letters of Intent, Trial Period Agreements, Beta Test Arrangements, etc.

# Class Exercise – TCO

## Capital Equipment



### Cost Elements

| Cost Elements |
|---------------|
|               |
|               |
|               |
|               |
|               |
|               |
|               |
|               |

# Negotiable T.C.O. Elements

## Raw Material Example

- Product Price
- Quality (PPM)
- Lead Time
- Freight
- Storage
- Cost-of-Funds
- Other Transportation
- Ordering/Expediting Overhead
- Payment Terms
- Taxes

## CapX Example

- Equipment Price
- Future Purchase Price Disc.
- Spares
- Warranty
- Maintenance
- Right-to-Copy
- Training (User & Maint)
- Payment Timing
- Transportation
- Installation
- Payment Terms
- Taxes

## Technique #7

# Shifting the Paradigm

# Definition...

## American Heritage Dictionary:

**Par·a·digm** (pār'ə-dīm', -dīm') - *A set of assumptions, concepts, values, and practices that constitutes a way of viewing reality for the community that shares them, especially in an intellectual discipline.*

# Shifting the Paradigm

- Few Suppliers
- High Switching Costs
- Long Lead Times
- Unstable Market Pricing
- Scarce Supply
- Many Buyers
- You Are Not A Major Buyer

- Lengthen Business Relationship
- Start Negotiations Early
- Increase Volume
- Acquire Other Products & Services from Supplier
- Joint Product Development
- Beta Testing of New Products
- Joint Marketing
- Form Consortium...Leverage
- Vertically Integrate (Acquire the Supplier)
- Reduce the Supplier's Costs (Move Upstream)
- Gainsharing

# Questions & Answers...



More information is available from...

[www.StrategicProcurementSolutions.com](http://www.StrategicProcurementSolutions.com)

