

“Extreme Negotiations” with Suppliers

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In November 2010, Jeff Weiss and Jon Hughes of Vantage Partners along with Aram Donigian published an article in Harvard Business Review titled “Extreme Negotiations” that highlighted some lessons in effective negotiation under extreme pressure from the US Military that also apply in the business world. The following article is a companion to the original Harvard Business Review piece and explores how the recommended strategies play out in high-stakes negotiations with suppliers.

Negotiation behaviors tend to be deeply ingrained and are often reactive rather than deliberate, especially in high stakes and stressful situations. The *Harvard Business Review* article titled “Extreme Negotiations” outlines and explores five strategies that can help negotiators not only respond quickly at the bargaining table, but also reshape their thinking and strategies in advance of formal “negotiations.” Following are examples of how these strategies can be utilized by Procurement and Supply Chain professionals and leaders to deal with their toughest negotiations.

Strategy 1: Get the Big Picture

Start by soliciting the other person or group’s point of view; use that understanding to shape the objectives of the negotiation and to determine how you’ll achieve those goals.

One hallmark of the “dangerous negotiation” is a feeling of pressure to act fast (and thus reduce the level of perceived threat). In the face of this pressure, negotiators often begin acting before they fully assess the situation. They act and react based on gut feel and initial perceptions, and given the added pressure to look strong and gain or remain in control, they tend not to test or revisit their initial assumptions even as the negotiation progresses. As a result, they often negotiate based on incomplete or incorrect information — which often leads to conflict, impasse, or an incomplete solution that addresses only a part of the problem or opportunity at hand.

The head of Strategic Sourcing for the research division of a major pharmaceutical

company approached Vantage a year ago for assistance with a complicated, high stakes negotiation. The company had a contract with a single source supplier that comprised hundreds of millions of dollars in annual spend. While they wanted to use the upcoming contract renegotiation to improve service and reduce cost, they felt the supplier had most (if not all) of the leverage. The supplier was the largest in its industry, and one of only two suppliers that conceivably had the scale and capabilities necessary to meet this company’s needs. Additionally, through various strategic projects and initiatives, the supplier had become deeply embedded in the customer’s organization and the negotiation team did not believe they had any option other than to continue working with the same supplier.

| To do this . . . | |
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| Avoid | Instead, try |
| ■ Assuming you have all the facts: “Look, it is obvious that...” | ■ Being curious: “Help me understand how you see the situation” |
| ■ Assuming that the supplier is biased (but you’re not) | ■ Being humble: “What do I have wrong?” |
| ■ Assuming the supplier’s motivations and intentions are obvious (and likely nefarious) | ■ Being inquisitive: “Is there another way to explain this?” |

Despite the extreme pressure to move quickly and decisively, the sourcing team decided to conduct a series of focus groups internally to identify what worked well in the relationship with the incumbent supplier, and what they would like to see changed and improved under a new contract. To

their surprise, the team discovered great dissatisfaction with the incumbent supplier and a high degree of receptiveness to considering alternative solutions for both day-to-day delivery, as well as the strategic supply chain initiatives projects underway with the current supplier.

In a significant deviation from their original plan, the sourcing team decided to conduct a non-traditional RFP process — one consisting of a series of working sessions with both the incumbent, and potential alternate supplier, to explore their unique capabilities and alternate approaches to meeting the company’s needs. The customer discovered that not only could the other supplier deliver significant cost-savings, they were also better positioned to assist with several ongoing strategic projects because of investments they had made (e.g., in technology) that the incumbent had been delaying for years. After careful “apples-to oranges” analysis of two very different proposals from the suppliers, and extensive consultations with internal stakeholders and end-users, the company moved the business to the new supplier.

As a result of slowing down, re-evaluating the marketplace, consulting extensively with internal stakeholders, and engaging in collaborative “what if” discussions with both the incumbent and the other supplier, the company achieved millions of dollars in immediate savings, with projected total savings over the life of contract in the double digits (compared to a continued relationship with the incumbent supplier).

Strategy 2: Uncover and collaborate

Uncover motivations and concerns; take responsibility for proposing multiple solutions; invite the other side to critique or improve on those ideas.

Danger (a high level of proximate risk) not only creates a desire to act fast, it also produces a perceived need to look strong and take control. This, in turn, often leads negotiators to quickly put a stake in the ground, and to negotiate primarily by making demands. Unfortunately, this almost always triggers or exacerbates resistance from the other side. As a result, such an approach tends to produce contentious and inefficient negotiations, and runs the risk

that no agreement will be reached, even when one was possible.

| To do this . . . | |
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| Avoid | Instead, try |
| ■ Asking: “What do you want?” | ■ Asking questions: “Why is that important to you?” |
| ■ Making unilateral offers: “I’d be willing to...” | ■ Proposing possible solutions for critique: “Here’s a possibility; what might be wrong with this?” |
| ■ Simply agreeing to, or refusing, the supplier’s demands | |

The CFO and Chief Procurement Officer of a large company recently faced negotiations with a single-source supplier of critical components upon which a large percentage of their business was highly reliant. The supplier was demanding a significant price increase — and one which the company could ill afford to pay. However, any disruption in supply of these components would jeopardize their largest manufacturing unit for a number of quarters. Feeling considerable pressure, they decided they could not let the supplier push them around, and attempted to take control by making a counter-demand for a substantial price concession. The supplier refused to even meet to discuss this, and the CPO, in turn, dashed off an e-mail offering a small price increase, and declared the concession to now be a “take it or leave it” offer. The negotiation quickly became all about price, and as the risk of losing the supplier increased, the posturing became worse. Ultimately a deal was struck at a split the difference price. Unfortunately, the negotiation never turned to precisely why the supplier demanded the price increase in the first place.

As it turned out, they had underlying supply problems with *their* suppliers, and were also encountering complex and costly testing issues. Since these were never addressed, within six months they were unable to provide the volume and quality level required by their customer.

Strategy 3: Elicit genuine buy-in

Use facts and the principles of fairness (not brute force) to persuade others: arm them with ways to defend their decisions and create useful precedents for future negotiations.

Danger often produces a temptation to use force, leading negotiators to negotiate primarily on the basis of threats. Unfortunately, such an approach breeds resentment and sows the seeds for future conflict, even as it makes future negotiations that much more difficult.

| To do this . . . | |
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| Avoid | Instead, try |
| ■ Threats: “You better agree, or else...” | ■ Appeals to fairness: “What ought we to do?” |
| ■ Arbitrary demands: “I want it because I want it” | ■ Appeals to logic and legitimacy: “I think this makes sense, because...” |
| ■ Being close-minded: “Under no circumstances will I agree to, or even consider, that proposal” | ■ Considering constituent perspectives: “How could we each explain this agreement to our colleagues?” |

We advised a major utility on a negotiation with a single source supplier for a major capital construction project a couple years ago. (They were the only supplier with the capabilities and available resources to deliver the project in the required timeframe.) The supplier was demanding a huge upfront payment. Paying it would jeopardize the economics of the entire project, but the utility felt like they had no leverage, and thus no choice but to pay it. We advised a very simple strategy — rather than agree to pay it, or refuse, or haggle over the number — simply ask the supplier why they are asking for such a large up-front payment, before completion of any key milestones. The utility did so, and was told the payment was needed so the supplier could place orders with its own suppliers for expensive, long lead-time items. This was very useful information. We then conducted our own research as to what these items cost. We came up with an estimate of about 20% of what the supplier was demanding. So we went back to them with our analysis, and we said, “We agree in principle that we should cover your costs to purchase equipment you need to deliver this project. That said, here’s our estimate of what those costs should be. What are we missing here?” The supplier asked for a few days to review the numbers, then came back and said they

had done a very rough estimate, and failed to catch a couple math errors, and that they agreed with our figure.

Afterwards, our client shared their surprise that when we asked the supplier what was behind the upfront payment they were demanding, that they gave a reason other than “Because that’s what we want.” And even more so that they then agreed to our figure. But that’s the power of fairness to persuade. It’s a foundational human motivation. Be fairly treated, and be able to justify your actions so that other people perceive you as dealing fairly. We did not get the supplier to reduce the upfront payment by 80% by bargaining, haggling, or threatening — we used basic arguments of fairness.

Strategy 4: Build Trust First

Deal with relationship issues head-on; make incremental commitments to build trust and encourage cooperation.

Negotiating in a high stakes, high risk context frequently produces a temptation to buy cooperation. In order to build a relationship, or rebuild trust, many negotiators choose the quick and easy path of attempting to trade resources or make concessions in order to reach agreement. Taking the time to build understanding and to develop or fix whatever is getting in the way of a good working relationship with one’s counter-parts is perceived as time-consuming and likely to cause more problems than it solves. Unfortunately, making substantive concessions in an effort to buy a relationship almost never works. At best, it appeases the other party enough to get on with negotiating the near-term issue at hand. Often, however, such an approach does not even do that. Moreover, it almost always creates a perverse set of expectations and incentives for the other side — that is, it invites future extortion, and breeds disrespect or even outright contempt.

Recently, a large multi-national was renegotiating a half billion dollar agreement with their IT outsourcing provider. The negotiation was extremely high-profile within the company and the negotiation team faced two pressures: (1) to improve service levels and reliability (from unhappy constituents who had recently experienced

two outages); (2) to cut the overall IT outsourcing budget by at least 15% (from executive leadership who were facing their own pressure from Wall Street to improve the bottom line). Reacting quickly to these two pressures, the team informed the supplier that trust had been broken by the recent outages and went on to explain that if the supplier cared about them as a partner and wanted to rebuild trust, they should grant a 20% price concession. Not surprisingly, the supplier pushed back (some), but facing an unhappy customer and an important contract renewal, they granted a price decrease very close to the 20% demand. At first glance, the negotiation seemed very successful from the customer’s view point.

| To do this . . . | |
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| Avoid | Instead, try |
| <ul style="list-style-type: none">■ Asking suppliers to “buy” a good relationship (or trying to “buy” one yourself)■ Demanding concessions to repair breaches of trust (actual or perceived) | <ul style="list-style-type: none">■ Exploring where and why a breakdown in trust may have occurred, and how to remedy it■ Requesting (or making) concessions only if they are a legitimate way to compensate for losses incurred due to non-performance or broken commitments■ Always treating suppliers with respect, and always acting in a manner that will command theirs |

Within nine months of renewal, however, both the customer and supplier were in trouble. When a set of new, complex delivery problems arose — which were quite clearly caused in large part by the customer — there was no real trust or mutual respect, and hence no ability to jointly diagnose and solve the problem. Furthermore, the supplier’s margins were so thin after the renegotiation that they had no ability to make investments that would have significantly reduced the probability of future problems. Finger-pointing ensued, blame was attributed and defended against, conflict escalated, and ultimately the customer triggered a clause that led to

termination of the agreement — forcing them to go through the pain of finding and negotiating with new IT outsourcing providers, and managing a costly transition process.

Many end-users in the customer organization were left wondering how differently this might have turned out had they addressed real issues head on during the contract renegotiation. Might they have been able to build real trust, a truly collaborative relationship, and thereby find better ways of solving problems and improving performance? If they had done so and then negotiated the price issue separately (based on market standards, not demands), might they have been able to negotiate a far better deal that would enable actually meeting their critical business needs at a fair and reasonable price?

Strategy 5: Focus on process

Consciously change the game by not reacting to the other side; deliberately take steps to shape the negotiation process as well as the outcome.

Danger produces a strong desire to avoid harm to oneself or one’s constituents. This in turn often leads negotiators to give in on critical issues to avoid or minimize immediate threats. The result, unfortunately, is often an agreement that create enormous future risk exposure.

A senior executive at a leading technology company’s largest division committed to enter into a new set of markets, and recruited “the perfect strategic supplier” to work with on new product offerings, as well as joint sales and marketing efforts. Unfortunately, the alliance with this supplier was announced before the agreement was fully negotiated, and expectations within the company and among the analyst community quickly grew. As the negotiation entered into its final phases, the (prospective) supplier company demanded a number of large payments for hitting various research and development milestones, as well as a minority investment in their company, as part of the deal.

| To do this . . . | |
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| Avoid | Instead, try |
| <ul style="list-style-type: none"> ■ Reacting, without deliberate consideration of how any action might advance, or impede, progress toward your objectives ■ Acting without considering how the supplier is likely to perceive your actions, and how they are likely to respond ■ Ignoring the future consequences of a given action (later in this negotiation, as well as other subsequent negotiations) | <ul style="list-style-type: none"> ■ Talking not just about the issues, but about the process: “We seem to be at an impasse; perhaps we should spend some more time exploring our respective objectives and constraints.” ■ Slowing down the pace of negotiations: “I’m not ready to agree, and I’d prefer not to walk away either. I think the issues warrant further exploration.” ■ Issuing warning, without making threats: “Unless you are willing to work with me to search out a mutually acceptable outcome, I cannot afford to spend more time negotiating.” |

The senior executive was caught by surprise, and time was now of the essence. Neither he nor his team had considered such an arrangement to analyze potential risks, nor had they given any thought to how such a contract might best be structured, including when and under what specific conditions milestone payments should be made. When the senior executive tried to push back, his counterparts at the prospective supplier not so subtly threatened to walk away from the deal. Fearful that the potential relationship was in jeopardy, and the executive accepted the proposed terms “as is.” Two years later almost to the date, tens of millions of dollars had been paid to the supplier, almost no sales had been made, new product development was way behind schedule, and the larger company found itself with little recourse in practice, or in the contract they signed.

Conclusion

As it turns out, many of the strategies for dealing skillfully with “dangerous negotiations” with suppliers are not new — they are grounded to a significant degree in the basic ideas interests-based negotiation laid out more than 30 years ago in *Getting to YES: How to Reach Agreement Without Giving In*. Often, the interests-based approach is dismissed as a “soft” or even naïve approach to negotiation with suppliers. It is symptomatic of how easy the traps we describe are to fall into, and how deeply engrained are certain assumptions about negotiation, that so many people mentally edit out the sub-title of *Getting to YES* (the part about not giving in) and/or fail to act on the advice this book provides on how to be assertive in negotiations without being adversarial.

At core, perhaps the most fundamental lesson when negotiating in high stakes, high risk (“dangerous”) situations is that in the very context where one feels the most pressure (either because of the supplier, customers, or internal pressures) to act fast and emphatically stake out an unwavering negotiating position, it is best to do neither. Control and power can most effectively be asserted by slowing down the pace of the negotiation, actively leading counterparts into a constructive process, and demonstrating a genuine openness to learning about, and even being persuaded by, the views of others. The in extremis negotiator recognizes that this is not giving in. It is being strategic rather than reactive. It is thinking several moves ahead about how one’s actions in a negotiation are likely to be perceived by the other side, and making tactical choices that elicit constructive responses and help move the negotiation toward achievement of one’s ultimate objectives.

If you would like to download a copy of the article “Extreme Negotiations” published in *Harvard Business Review*, please [click here](#).



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