Negotiating a purchase

Negotiating a purchase can often be more critical than negotiating an individual sale. Apart from price, you may need to secure strategic essentials such as component quality and continuity of supply.

Good preparation, clear objectives and an awareness of common pitfalls are all you need. They will remove the need for inspiration or dazzling technique and provide the basis for purposeful, successful negotiation.

This briefing covers:

- Setting your objectives.
- Understanding the seller.
- Making concessions.
- Getting the right price.

1 Know what you want

1.1 Decide **how much** you want the deal. For example, you may have a problem that you need the supplier's product to solve.

- Calculate how much money the product or service may save you in the long run.

1.2 Set your negotiating **objectives**.

- Define what you would see as ideal, expected and unacceptable prices.
- Decide how much time you are prepared to spend negotiating.
- Work out what your response will be to different proposals the supplier may make.
- If you are keen to buy regularly from this supplier, you need a deal that will last.

1.3 Decide which areas are **negotiable**.

- Cost out negotiable areas and consider the implications.
- Decide whether it is more important to you to get the price down or get added extras at the same price (see **5.3**).

Making concessions to get what you want is an important part of negotiation.

It is equally important to be ready to walk away from an unacceptable deal.

2 Understand the seller

2.1 Find out how much the supplier **needs** your business.

- Establish how urgently your order is needed.

- Find out what you can about the state of the seller's order book. For example, there may be spare capacity that the supplier needs to fill.
- Identify the supplier's likely objectives. For example, a company moving into a new market may set out to build market share initially, rather than make profits. This may give you more bargaining power on price issues.

2.2 Determine the supplier's negotiating **strengths**. Define what the supplier can offer that you value. This may include:

- Availability — for example, time-sensitive or immediate delivery.
- Quality — for example, a product with a track record or recognised brand name.
- Other factors, such as exclusivity, after-sales service or flexible payment terms.

What leverage have you got?

The power you have in relation to the supplier will depend on the range of options each side has.

A Research the possibility of using **alternative suppliers**.

- Look specifically at what the supplier's competitors are doing.
- What could other sources offer that would be as good as, or better than, this supplier's product or service?
- Is there anything this supplier offers that you cannot get elsewhere? If so, how much do you need it?

It is generally unwise to go into negotiations without having alternatives.

B If you are a small supplier's **main customer**, be aware that pushing too hard may not be in your best interests.

- You can lose the goodwill of dependent suppliers if you squeeze the price down. If they drop unprofitable products, or even go out of business, because they cannot get a decent price, this may create problems for you.

C Think about what you can **offer** that costs you little but means a lot to the other side.

For example, it may suit you to collect goods from the warehouse, and it means the supplier does not have to organise and pay for delivery.

Be aware that the supplier's negotiating strength increases in direct proportion to your need for the product (see **1.1** and **1.2**).

2.3 Establish what the supplier will **value**.

This may include factors such as:

- Immediate payment.
- Larger volume purchases.
- A commitment to repeat orders.

2.4 Be alert to clues about what the supplier **cannot concede**. For example, if cashflow is tight, the supplier may be unable to offer you the flexible credit terms you would like.

2.5 Anticipate the supplier's **approach**.

- Assess what you think the supplier's negotiating strategy will be.
- Find out what the supplier knows of any weaknesses in your negotiating position.

3 Your negotiating strategy

3.1 Develop your strategy for buying.

The details may only come into focus when you write it down.

- Decide on the overall approach you will adopt.
- Decide the type of deal you want and the priority you will give it.
- List your strengths and the ways you might use them in the negotiations.
- Plan how you will defend the weaker aspects of your position.
- Give a written copy of your strategy to anyone who is negotiating on your behalf.

Stick to your strategy till the deal is done.

3.2 Get the right negotiating **team**.

- Where possible, match the seniority and style of those you are negotiating with.
- Include the relevant specialists. For example, contract, commercial or production.
- Bring together complementary skills. For example, choose one team member for his or her ability to get on with people, and another to focus on the details.
- Use an agent to negotiate in areas outside your expertise. For example, when sourcing from overseas suppliers.

3.3 Aim for a deal that works for you, and keeps the seller **happy** (see **7**).

- Be firm but fair. You may need to deal with this supplier again.

- Even if negotiations are going your way, keep drawing attention to the specific benefits for the other side.

3.4 Negotiate at the **right time**.

For example, renegotiate a tenancy when other tenants have moved out and the landlord needs you to stay, or negotiate the purchase of a new copier before your old one breaks down.

- Find out what time constraints affect the seller. For example, sales people's bonuses often depend on meeting quarterly quotas. You can use this type of information to help you get a better deal.

4 Controlling the negotiation

4.1 Establish **negotiating points**.

- Try to get the supplier to state a starting price before discussing other points.
- For important purchases, suggest written heads of agreement, setting out the key points of the deal you are proposing. For instance, when buying database software, detail what you want from the supplier, eg functional requirements, installation procedures and training for your staff. Set out the timescales involved.

4.2 Work with the right **information**.

- Get the seller to restate the spec in the offer to supply and include specific details of discounts and payment terms.
- If you have enough power in relation to the supplier, insist on your own terms and conditions of purchase (see **8**).
- During negotiations, keep key facts and figures from competitors' quotes to hand.
- Keep a suppliers file, containing all the information you hold on them. Log any problems you have had in the past.

4.3 Do not **reveal** your negotiating position.

- Answers like 'We are keen to do the deal' give the other side no useful information, sound positive and allow you to go on asking questions yourself.

4.4 Confirm **understanding** each time a key point is agreed.

- Summarise the state of negotiations before and after each meeting.
- Ask for a break if you need time to think before agreeing a point.

4.5 Be aware of common negotiating **tactics**.

- If the seller keeps referring to urgent deadlines or abruptly raises the emotional temperature, there may be some gamesmanship involved.

  If both sides know what is going on, negotiating manoeuvres are effectively cancelled out. But if you use tactical ploys that the seller becomes aware of, this may make it harder to get the deal you want.

5 Looking for trade-offs

Do not indicate at the start that you are ready to concede. Make concessions only if they are necessary to help you get the things you want.

5.1 Make any concessions **real**, and insist on real trade-offs from the other side.

- Standard terms are sometimes dressed up as concessions. Expose them.

5.2 Offer concessions the supplier **values**.

- For example, agree long-term supply contracts or guarantee a minimum annual volume, in return for lower prices or other factors that are important to you.

5.3 **Restructure** the deal. If the supplier will not budge on price, ask for other improvements.

- Ask for better payment terms, delivery or extra features. Any of these may bring you better value than a slightly lower price.
- If appropriate, suggest paying with your

Protecting yourself

A Shift **legal responsibility** onto the seller.

- Tell the supplier in writing how you intend to use the product and get written confirmation that the product is suitable.
- Keep a record of all assurances offered by the seller.
- Ask for explicit statements about hidden dangers, limitations or quality changes.

B Make sure you get what you **wanted**.

- Insist that the product supplied must match the specification.
- Ask who will supply the service. For example, you may find that training is to be provided by inexperienced tutors.

product instead of cash.

5.4 Link the deal.

- For example, 'I will pay your price if it includes delivery' or 'I will drop my claim for the faulty goods you supplied last month if you give me a 5 per cent discount.'

6 Lowering the price

6.1 Do not accept the supplier's **first offer**.

- Make a low counter-offer.
- Ask 'What can we add in at this price, to make it easier to sell to my boss?'
- Do not be tempted by offers of a long payment period.
- Beware of 'bargains'. Ask the supplier why the price is so low. Work out whether this is the real reason.

6.2 Undermine the asking price.

- Ask what-if questions. For example, 'What if you go bust and I have no-one to support the machinery?'
- Lower the price by focusing on features you do not need.
- Expose the total cost of ownership. Ask about expenses and consumables, service and repairs, including parts.
- Query the price by putting it into a wider context. For example, 'Is this reasonable when the market price is falling?'

6.3 Use your negotiating **power** to get what you want. For example, ask for discounts in return for making a larger order.

- In some industries, such as the building trade, prices are 15 per cent higher because trade buyers expect discounts.

Everyone wants to get a cheaper deal. But you should never buy on price alone.

7 Building a relationship

Being straight, pleasant and easy to deal with can be a critical factor in getting a good result.

7.1 Build **rapport** with the seller.

- Where possible, get to know someone before serious negotiations start.
- Make it easy for your opposite number. Find out what information he or she needs to be able to justify the deal.

7.2 Build **partnerships** with regular suppliers.

- Visit suppliers and get to know the people who deal with your account.
- Invite regular suppliers to meetings and keep them informed.
- Give regular suppliers direct telephone numbers for their key contacts.

8 Contract issues

A contract exists whenever two parties agree to a deal. So it is vital to discuss all the key issues before you agree to buy.

8.1 Document the negotiations **in writing**.

- Verbal contracts are legally binding but difficult to prove in court.
- When a key point has been agreed, always put it down in writing. Write afterwards to confirm what was agreed.

8.2 At the start, agree with the supplier what **type of contract** will be used.

The contract may refer to the terms and conditions of either side, or a mixture of the two. Standard terms may include:

- Details of price, payment date, payment method and delivery.
- Guarantees covering a specified period.
- A clause giving the seller the right to retain legal ownership of the goods until fully paid for, or to delay delivery when hold-ups occur due to circumstances beyond his or her control.
- Clauses limiting the seller's liability (taking into account the buyer's statutory rights).

8.3 Agree **payment terms**.

- Avoid advance payments, unless you have a relationship of trust with the supplier.

8.4 Agree what will happen if **problems** arise.

For example, if goods are faulty, agree whether the supplier will replace individual faulty items or the whole batch.

- Agree whether replacement supplies will be delivered immediately or whether you will be given a credit note.
- Establish if replacement goods will be free, and who must pay for delivery.
- Agree penalties for infringements of critical delivery dates or quality standards.

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