



Negotiation Tools Guidance Notes

The document outlines the CIPS Negotiation Tools created to help you to plan your negotiation and drive more value for your organisation.



This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard



CIPS members
can record
one CPD hour

CIPS Negotiation Tools Guidance Notes

Negotiation is communication between two or more parties with the desired outcome of reaching a mutually satisfactory agreement.

Negotiation can take place between a procurement professional and parties within the supply chain for a variety of reasons. Negotiation is used with the intension of all parties reaching an agreement. The ideal outcome is win-win but this is not always achievable. Negotiation can involve a number of ploys and tactics but regardless of the approach taken, preparation is key.

You can also access further CIPS Negotiation [guidance here](#).

This document will cover the following tools which CIPS members can [download here](#).

Tools

- Reasons for Negotiation
- Stages Of Negotiation
- Negotiation Preparation
- Negotiation Check List
- Negotiation Styles
- Win-Win
- Negotiation Ploys
- MIL
- MIL Template
- BATNA
- If Negotiation Fails

1. Reasons for Negotiation

The need for negotiation within procurement can present itself in a number of ways. This model explores the reasons for which negotiation may become necessary. The reduction of cost is a major reason for negotiation when a procurement professional has an objective of saving an organisation money.

Achieving value add is another reason. It may be that the price of a procurement cannot be reduced but by negotiating value add such as enhanced quality or reduced lead time, the proposal may appear more attractive.

Performance is an area which may generate a need for negotiation in the supply chain. If a procurement professional identifies that KPIs or SLAs are not being met a negotiation may become necessary to help understand the concerns and change the indicators or agreements.

Should conflict occur within the supply chain, negotiation may be required to try and resolve it. If negotiation cannot resolve the conflict and the negotiation fails, other forms of conflict resolution may be required.

Should a problem present itself, for example a supplier is unable to deliver on time or there is a shortage of raw materials, negotiation will take place to try and reach a satisfactory outcome to resolve the problem.

If quality is not as per the agreed specification a negotiation may be needed to understand the reasons why and reach an outcome to resolve the issue.

At the end of all negotiations, ideally there will be agreement. This is the desired objective of all types of negotiation and when all parties are satisfied this is known as a win-win situation.



(Source: Jarvis-Grove, 2020)

2. Stages Of Negotiation

The negotiation process comprises seven stages.

The first stage and arguably the most important is **preparation**. Without thorough preparation including research, knowing the objectives, understanding the concessions and having a BATNA, the negotiation is unlikely to reach the optimum outcome.

Once in the negotiation the second stage is the **opening** phase. This is where both parties explain what they want as a result from the negotiation.

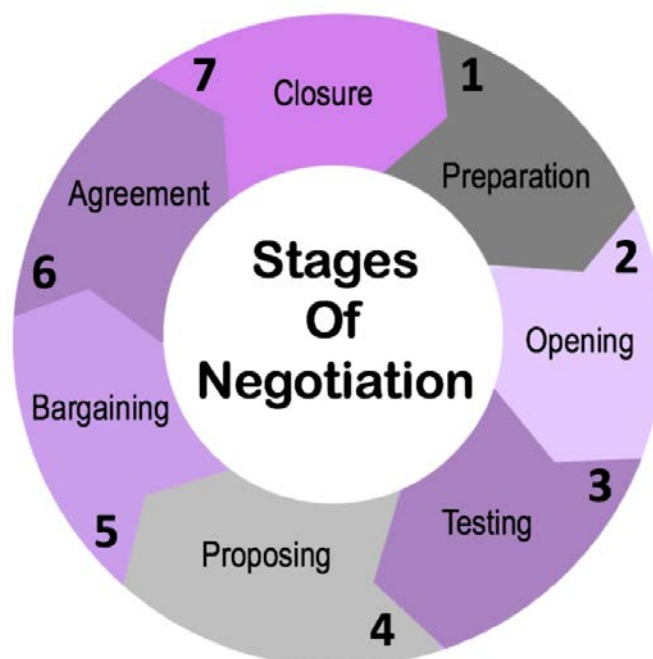
After opening is **testing**. This stage is where parties try and understand what is really important to each other and where concessions could be made. Effective communication is very important at this stage, ensuring that good listening skills are put into play to gather as much information as possible as well as reading body language from the other parties.

Proposing follows testing. This is where each party puts forward their proposals of what they would like to achieve having heard the opening stage and been involved in the testing.

Bargaining then takes place where each party offers to give up something in return for something back i.e tradeables. If one party has to give something up but receives nothing back in trade, this is known as a concession.

Once bargaining has been completed it is expected that an agreement can be made. **Agreement** has to have acceptance from both parties to be legally binding.

The final stage is closure. This stage includes the documentation of what has been agreed, whether that is a contract or minutes from a meeting. **Closure** is an important stage – without the documentation the agreement is open to interpretation.



(Source: Jarvis-Grove, 2020)

3. Negotiation Preparation

This model shows how much resource should be used with negotiation preparation.

Good preparation will help in achieving the required outcomes from the negotiation.

Preparation should be done surrounding the price that the procurement professional is willing to pay based on the available budget and volumes of product or services being negotiated.

Research should be conducted into the market to understand the structures, levels of competition, external factors (STEEPLE) and supply and demand.

Evaluation of the supplier's financial position should be conducted to understand their cash flow and potentially how much the supplier needs the buying organisation's business.

Plans should be created should an agreement not be reached. A BATNA should be created, fall back positions arranged and a walk away point agreed.

Achieving the desired objectives is important and preparation can help this happen. By preparing the ideal cost, lowest price or highest quality that is required, a buyer can be in a strong position to be able to present facts and negotiate their preferred terms.

Relinquishing some aspects of the "ideal" is not failure. In order to achieve a satisfactory outcome, something may have to be conceded by either party. Thorough preparation can ensure that the areas that may need to be conceded are known as well as the areas that absolutely cannot be relinquished.

Exchange is the final aspect of the preparation model. Understanding what can be exchanged can ensure that the supplier always believes that they are getting something in return for giving something to the buying party.

Without the time spent on preparation a negotiation attendee is more likely to be caught unawares and not have the knowledge to be able to get the best possible outcome.



(Source: Jarvis-Grove, 2020)

4. Negotiation Check List

This template should be used as part of the negotiation preparation.

To ensure thorough preparation has taken place, it should be possible for all the boxes (should be able) to be ticked.

This check list will enable a buyer to be certain that all generic aspects that could present themselves in a negotiation have been thought about as well as research prior to the negotiation itself.

This should help to mitigate the risk of agreeing to something that is not in the best interest of the procurement organisation.

Negotiation Preparation Check List

Check	Yes √	No X	Notes
A BATNA is in place?			
At what stage is the professional relationship?			
Awareness of tradeables?			
Awareness of budget?			
Awareness of concessions?			
Can the buyer afford to walk away?			
Can the specification be amended?			
Does the buyer have the required authority?			
Does the supplier's representative have the required authority?			
Have KPIs and SLAs been reviewed (if appropriate)?			
How has the supplier performed (if established relationship)?			
How important is the contract to supplier?			
Is the negotiation a team or sole process?			
Is the specification performance/conformance?			
Is there a time limit for the negotiation?			
Are the "must haves" known?			
Market research has been conducted?			
What approach will be used?			
What are the exchange rates?			
What is the minimum/maximum order quantities?			
What is an acceptable lead time?			
What type of pricing mechanism is preferable?			
What volumes are required?			

(Source: Jarvis-Grove, 2020)

5. Negotiation Styles

Negotiation styles vary depending on the relationship that a procurement professional has with their supplier.

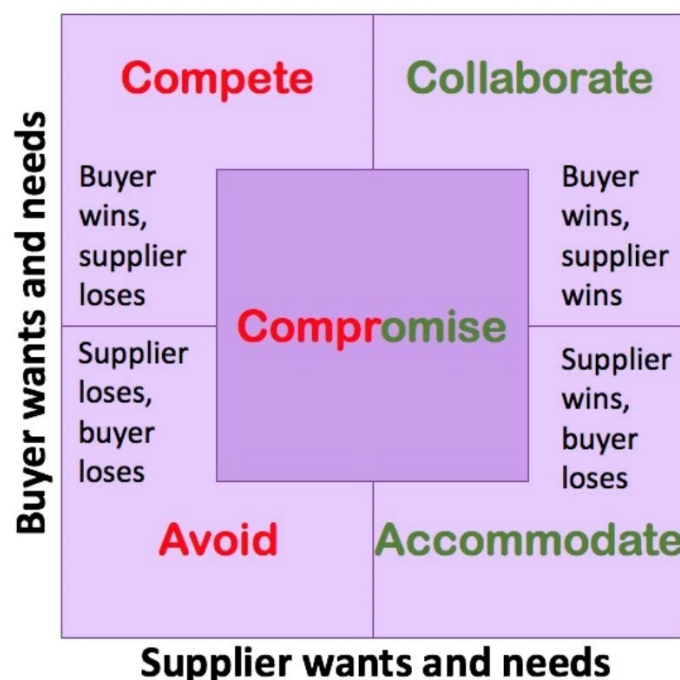
The style also depends on the categorisation of the product or service, according to Kraljic's Matrix.

If a product or service is strategic, the relationship is likely to be one of collaboration and as such the style used to negotiate would benefit from being collaborative. The ideal outcome using this style is win-win. All parties come away from the negotiation feeling satisfied that the best solution has been achieved.

In a situation where there is monopoly supplier situation the supplier will hold the most power and as such a style of accommodation is most likely to be used. The buying party needs the supplier more than vice versa and as such may come away from the negotiation having had to give away some concessions and accept something that is far from the ideal objective.

The avoid style is when neither party has a lot of respect or desire to work with each other. As such in these situations it is not unusual for both parties to leave the negotiation feeling like they have lost.

In a competitive style the outcome is that the procurement professional feels like they have won and the supplier is defeated. This style would be used when the relationship is not valued by the procurement professional. This could feature in a situation whereby routine items are being discussed and where there is a perfect competition market structure.



(Source: Jarvis-Grove, 2020. Adapted from Copyright 2009-2018 by Kilmann Diagnostics.

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<https://kilmanndiagnostics.com/overview-thomas-kilmann-conflict-mode-instrument-tki/>)

6. Win-Win

This model outlines the four potential outcomes of any negotiation.

In relation to procurement the outcomes are:

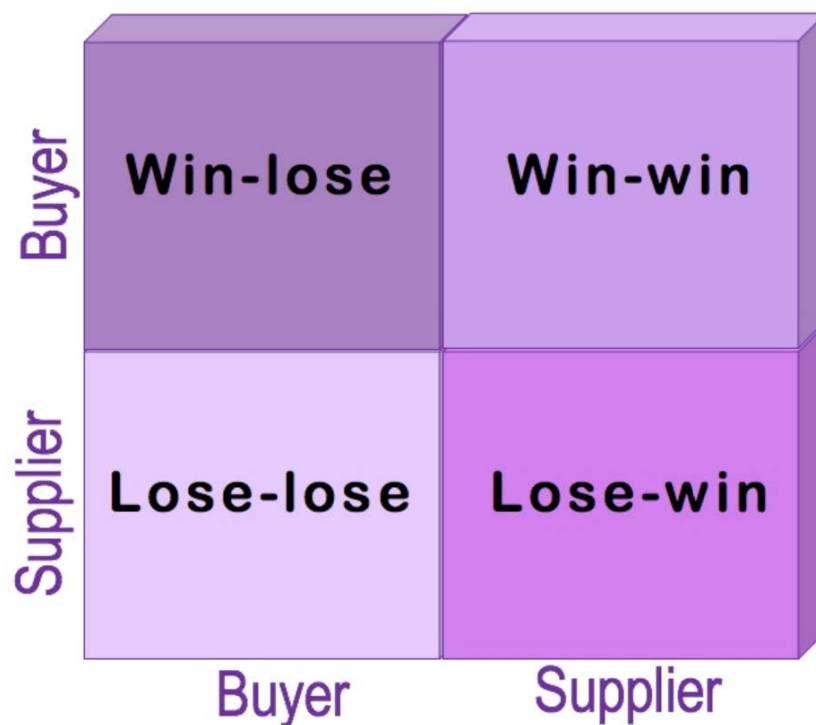
Win-win – both the supplier and the buyer feel like they have achieved their objectives

Lose-win – the supplier feels that they have lost and the buyer feels that they have achieved their ideal outcome

Lose-lose – both the supplier and the buyer feel that they have lost – neither party has achieved what they set out to gain

Win-lose – the buyer feels that they have accomplished their goals but the supplier feels defeated.

The ideal outcome for any procurement professional trying to establish a strategic, long term and valued relationship is one of win-win.



(Source: Jarvis-Grove, 2020)

7. Negotiation Ploys

Negotiation ploys/tactics are often used but can be subject to risks. Ploys/tactics have to be carefully researched prior to introducing them into a negotiation.

The use of ploys/tactics does take away from the open, honest and transparent approach that should be promoted within a strategic or core relationship.

The model outlines the different types of ploys/tactics that a buyer could be presented with by a supplier.

Good Cop Bad Cop involves two individuals from the same organisation. One person shows empathy and one is a harder character. The ploy is that the party being negotiated with will veer towards the Good Cop and this party will have already been prepared to negotiate their ideal.

Mother Hubbard is a ploy where one party states that there is nothing left they can do – they have nothing else left to offer. That may or may not be the case!

Take It Or Leave It is a harsh ploy often used when relationships are not strategic. One party will state that the offer is final and there is no movement. If agreement is to be finalised the offer has to be accepted as is.

Lack Of Authority may be used as a ploy whereby one party states that they cannot approve a deal over a certain value or agree to sell at such a low rate. The thinking with this ploy is that rather than go away and seek approval from somebody with supposed authority, or reschedule the meeting, the party being put in the situation backs down and accepts the offer to reach agreement.

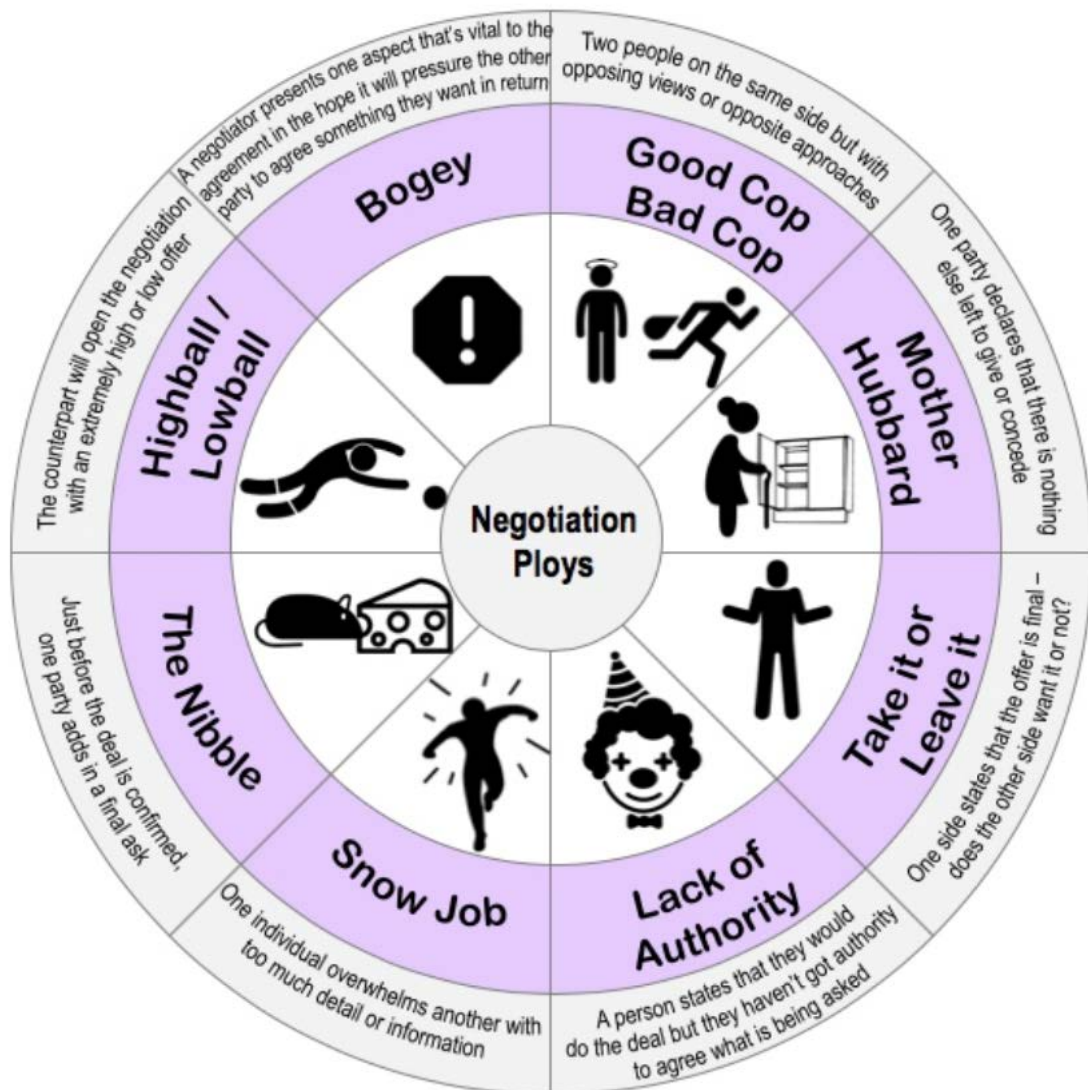
Snow Job is used when one party wants to bombard the other with information which may then force them into agreeing something they would not if they had time to digest and absorb the information.

The Nibble occurs when just before agreement happens, one party asks for one more thing to benefit them. As the negotiation is so near to conclusion the party being asked to trade or concede something usually obliges.

High Ball Low Ball is used when one party opens the negotiation with an offer that is way beyond what is expected. The negotiation takes place and it appears that one party has made the other make some significant concessions when in reality this has not actually happened.

Bogey is when one party focuses on one aspect of the negotiation heavily in the hope that the other party will agree more easily to something else they want or need.

Ploys/tactics should be engaged with using a level of caution as they can often cause confusion or generate a far from ideal outcome.



(Source: Jarvis-Grove, 2020)

8. MIL

This model outlines the goals that the parties within a negotiation can achieve.

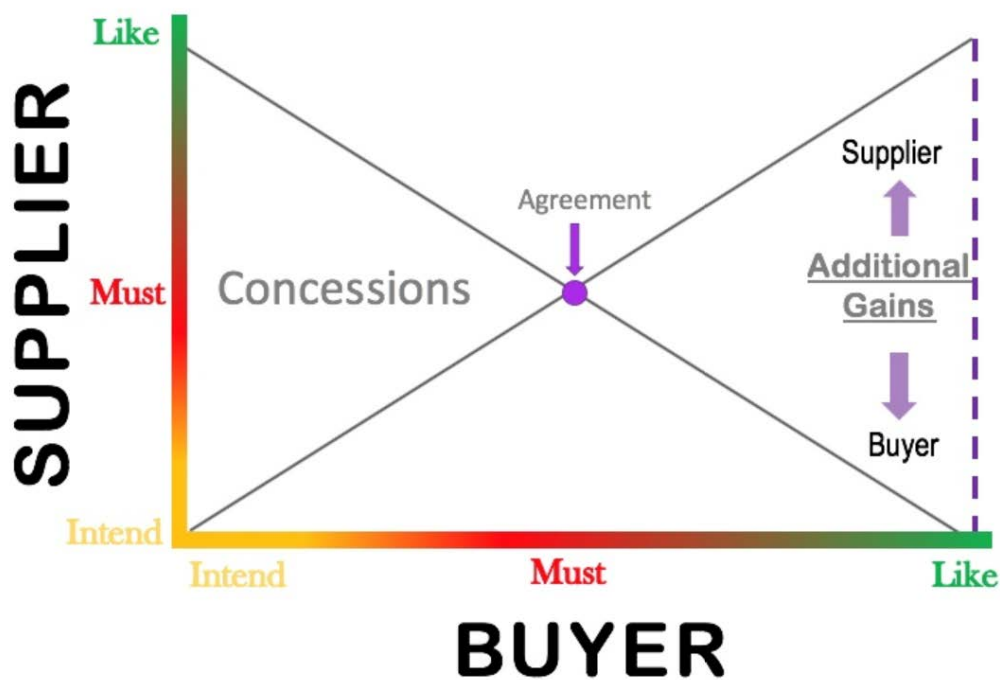
The three goals comprise things that:

- Must be achieved
- Intend to achieve
- Would like to achieve

The “must” haves are integral to an agreement being made and as such the model shows where the supplier and buyer’s “must haves” cross as the point of optimum agreement.

If any of the “intends” or “likes” are achieved that suggests that the owning parties of those goals gets a slightly favourable outcome from the negotiation.

These three areas can be recorded on the MIL Template prior to entering a negotiation to aid with the preparation.



(Source: Jarvis-Grove, 2020)

9. MIL Template

This template is designed to be used prior to a negotiation as part of the preparation.

By recording what has to be achieved, what would be beneficial and what would be an added bonus, a procurement professional can have a full overview of the areas that they are able to trade or concede on.

<u>ACHIEVEMENT REQUIREMENTS</u>	
Must (must gain buy in and agreement to these terms, values, or deadlines) Without these the contract cannot be finalised.	<ol style="list-style-type: none"> 1. 2. 3. 4.
Intend (would like to gain buy in and agreement to these terms, values, or deadlines) Gaining these would be beneficial to the contract.	<ol style="list-style-type: none"> 1. 2. 3.
Like (buy in and agreement to any of these would be welcomed but not a necessity) Gaining these would be a bonus.	<ol style="list-style-type: none"> 1. 2.

(Source: Jarvis-Grove, 2020)

10. BATNA

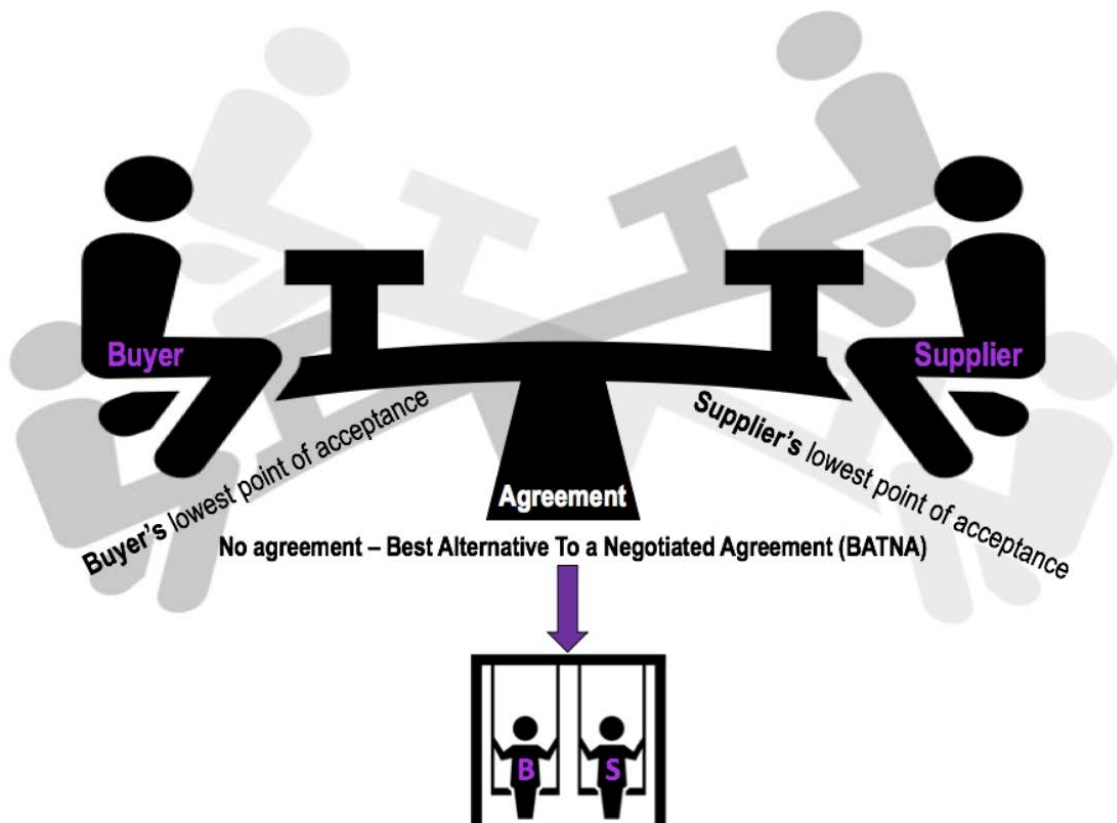
This model shows the importance of having a BATNA – a Best Alternative To A Negotiated Agreement.

The diagram suggests that if the seesaw is balanced, then both parties have reached an agreement.

The lowest point of acceptance i.e. the giving of all concessions and/or tradeable is shown by the seesaw reaching the ground on either parties' side.

If there is no agreement when the party is on the ground then the BATNA comes into play – this is represented by showing a change of activity which suggests one party going and seeking a different contract or agreement.

Without a BATNA or back up plan either party could find themselves being forced into agreeing something that does not benefit their organisation or at worse causes additional costs or risk.



(Source: Jarvis-Grove, 2020)

11. If Negotiation Fails

Whilst in industry parties enter into negotiation with a view of generating a satisfactory outcome, it is not always possible to reach an agreement.

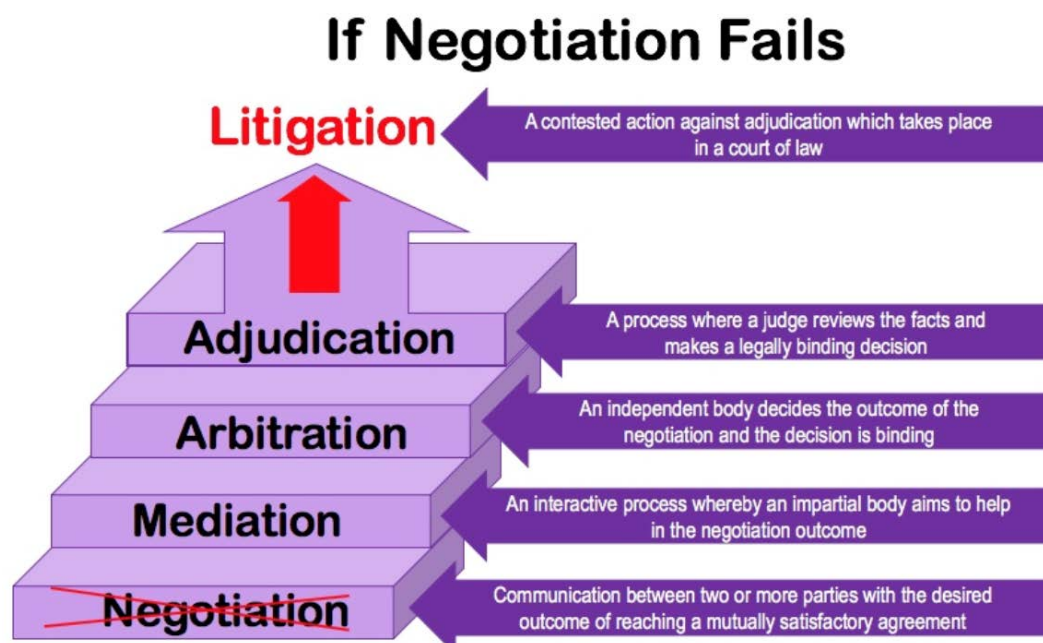
If the negotiation cannot conclude in an acceptable manner there are options for escalation.

Mediation can occur where an impartial person tries to help the parties reach an agreement through interacting with them.

Should mediation fail the next stage is arbitration. In this situation an independent body listens to both sides and makes a decision on the outcome.

If the outcome of arbitration is not accepted the final stage before court is adjudication. If this occurs a legal representative reviews the facts and makes a legally binding decision.

Should this decision need to be contested the only remaining option is litigation which is a costly process involving court action.



(Source: Jarvis-Grove, 2020)

You can access further CIPS Collaborative Working [guidance here](#).

CIPS members can download the tools [covered here](#).

