

The Art & Science of Supplier Negotiations

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The love of negotiating is deep in the DNA of most materials managers. They master the art through years of going back and forth with suppliers, learning the right techniques along the way, and grinding through long bargaining sessions to secure that last bit of savings for the hospital.

But over the years suppliers have turned negotiations into a science as much as it is an art. They have gained a distinct information advantage, creating a playing field that slopes decidedly in their favor.

Given the chance to compete on a level playing field, materials managers can be very effective negotiators. And, with access to the right information – and the tools to manage that information – materials managers can also become masters of the science of supplier negotiations.

First, Let's Lay Some Groundwork.

Manage your data effectively. Your suppliers invest in having good data, and so should you. Don't launch expensive cleansing initiatives for the sake of having a pristine item master file. The goal here is to have functional data that provides an accurate, on demand view of your purchasing activity. This is the basis for effective spend analysis, and it is critical information to bring into supplier negotiations.

Equip yourself with the right spend analysis tools. How much have you purchased of the supplier's products versus competitive offerings? Which departments utilize the most of the supplier's products? How much market share does Supplier A have versus Supplier B? The market is full of spend analysis programs, and many of them provide value. Materials managers should use the tools that provide the quickest access to your data for the most



up-to-date analysis. The less current your data, the less tactical value you get from the analysis during negotiations.

Audit your savings. Savings promised during negotiations are not valid until you can demonstrate that you reached the targets you projected. All too often we tell our CFOs about the great deals we negotiated, but they don't see the savings reach the bottom-line. Sometimes we're slow to convert from the old supplier's product. Sometimes our utilization of the product goes up. And sometimes the new pricing doesn't make its way to the item file and purchase orders go out with the older, more expensive price. Use available technology to audit your actual savings, track your progress towards defined savings goals and report results back to your leadership team.

Equip yourself with the capabilities above, and you're closer to mastering the science of negotiations. You're making a more level playing field.

Here's a Brief Illustration.

A large, metropolitan hospital, was buying exam gloves from six different suppliers at a wide range of price points. The materials

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manager recognized an opportunity to consolidate to fewer suppliers and negotiate lower pricing.

The materials manager was seasoned and effective at negotiating with suppliers to save extra dollars. But over the years he noticed that suppliers had become more prepared. They seemed to know his purchasing statistics better than he did, and they used this to their advantage to hold the line on prices.

For the exam glove project, he began with data-centric due diligence. Using the spend analysis tool, the materials manager identified glove utilization by department for the preceding 12 months. Then, with data in hand, he assumed the role of diplomat, meeting with the using departments. He shared with each department their glove utilization by brand, and used this as the basis to explain his goal to save money by consolidating suppliers. He asked detailed questions about their product preferences, and he earned their support for the initiative.

He then selected the two suppliers with products most preferred by the high-utilization departments and invited their sales representatives to the hospital for individual meetings. The materials manager explained to each representative that the hospital would be consolidating to a single supplier for exam gloves, that his departments did not see meaningful differences in quality between the suppliers' products and that two companies were being invited to participate in a bid where the lowest price would win.

Through his system, he used his spend analysis tool to generate a bid spreadsheet that listed, by item number and quantity, all the

exam gloves the hospital purchased in the previous 12 months. He asked the two suppliers to provide their best price assuming the winner would receive at least 90 percent market share of the hospital's future glove purchases. He also said that the winner would be shown proof of the market share shift.

Soon afterwards, the representatives emailed back their responses and the materials manager automatically loaded them into his spend analysis system. The system displayed three columns for his review: the current price he was paying for each item, the price from bidder one, and the price from bidder two. The side-by-side comparison showed that both suppliers provided full coverage for his exam glove market basket, which supplier offered the best price for each individual item, and which supplier submitted the best overall bid. In all, his review showed that (provided his utilization levels remained the same as they had over the previous 12 months) he could expect to save over \$500,000 by going with the best bid.

The materials manager updated his item master with the new pricing as soon as he accepted the winning bid, and he kept a running audit of the project to make sure his savings were tracking to his estimates. He streamlined the process.

By excelling in the art and science of supplier negotiations, this materials manager was able to secure the best deal for his hospital and verify that the savings met his projections. He established a level playing field with his suppliers by investing in his data and using the right spend analysis tools. And he tracked his progress and verified his ultimate success using a project management and savings audit application. More importantly, he mastered the negotiation game and saved valuable dollars for his hospital. ■



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