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A Guide to Successfully Negotiating with Vendors



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It has often been said that the art of negotiating is one of the single most important qualities to master if a business intends to maximize their bottom line while adeptly serving their customers' needs and meeting or exceeding their expectations. In an era when virtually all businesses are looking to cut costs and increase their annual earnings, this skill is perhaps more important than ever. For most companies, the road to better earnings and a better record of fiscal decision-making all begins with vendor contracts, which typically must be re-negotiated on an ongoing basis so that both sides of the deal are making money, reducing their expenses, and maximizing their ability to build value.

Negotiating these contracts is often one of the toughest things that businesses do, and they've long been known for outsourcing the duty to a group of purchasing professionals who make their living negotiating, benefitting the company, and securing a good deal. The skills needed to secure that deal, though, are tough ones to learn. Even those with a strong education in business can find themselves at a loss when it comes time to negotiate the price of certain goods or services so that the deal is beneficial to both sides. For that reason, purchasing professionals and those who aspire to negotiate vendor deals should adhere to a few basic principles that will result in better negotiations, better deals, and a better chance at earning a healthy profit while providing unique benefits to the vendor themselves.

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1. Know the Difference Between Price and Value, and Then Negotiate the Deal's Value

One of the most important things to understand when entering into a vendor negotiation process is that there is a very clear difference between the price of a product and its inherent value. Many vendors are eager to negotiate only on price, assuming that their business clients will see the lowest overall price per unit and immediately seize on the good deal. That might be true in some cases, and it might work for companies that don't need support for their contact or support for the products being sold. In other cases, though, the standalone product and its price are actually a very small part of the deal that should be negotiated.

Most people need to enter a negotiation determined to extract a great deal of value for the price that is being set. That means, in essence, paying a price to the vendor for the privilege of selling their products and the peace of mind that comes from their support or their ability to work with the business. A vendor may be completely unwilling to negotiate the price per unit of a given item, and that's fine. Vendors are businesspeople, too, and they need to make a profit just as much as anyone else. But they may be willing to maintain the stated price of an item while providing extra benefits for signing the contract.

Many vendors will work with their counterparts to develop flexible payment terms, or to provide customer support for products once they have been sold. While this will not eliminate the cost associated with the initial vendor contract, it will allow the vendor to spread out some costs for the business, and reduce others that might otherwise require a great deal of hiring and overhead. This is a value proposition, not a price negotiation. Businesses come out ahead in the long-term, while paying a bit more for the initiation of the contract up front. When the time comes to negotiate the same contract again, these value-added services and considerations can be crucial ways of maintaining relatively level costs and expenditures.

2. Understand the Different Benefits of Long-Term and Short-Term Contracts

Conventional wisdom in the business world can easily convince purchasing professionals to go almost uniformly after either short-term or long-term contracts. The truth, though, is that the decision between longer agreements and shorter ones is full of individual considerations and plenty of nuances. Each of these contracts presents a set of benefits and disadvantages, and each type of contract has a different kind of negotiating power that can actually help purchasers secure a better price per item, a greater amount of overall value for the deal, and a healthier relationship with the vendor that keeps control in the purchaser's hands.

Short-Term Vendor Contracts

The benefits of short-term contracts are actually pretty numerous, though there are some key disadvantages as well. Many people in the purchasing industry use short-term contracts as a way to instill just a bit of fear in their vendor counterparts. They might offer a 6-month contract, or something even shorter, as a period used for getting to know the vendor, getting to know their products, and coming to more suitable contract terms in the future. This essentially communicates to the vendor that they'll need to prove themselves, justify their prices, and add a great deal of value, in order to earn a longer-term contract and a deal that lasts well into the future.

Short-term contractors are also the common-sense option for smaller businesses that simply do not have the financial ability, or the staying power, to afford or negotiate long agreements with vendors. In this case, these contracts are as much about negotiating on price as they are about protecting the small business' financial interests and overall fiscal health. These contracts give vendors the opportunity to feel like they're "helping" the small business, and they may result in more favorable rates for companies that can't demand the benefits of large volume ordering or long-term contractual agreements.

The downside to these shorter agreements, of course, is simply that they are often quite short. Vendors might be scared that a company will drop them and choose a competitor at the end of this shorter term, or they might view the end of the shorter contract as a reason to become emboldened and negotiate higher prices more frequently. Companies who negotiate these shorter vendor contracts need to be aware of the possibility for a tougher round of negotiations the second time around, and they need to be prepared to set a firm tone on price and value from day one.

Long-Term Vendor Contracts

While longer contracts with suppliers can often be hard for small businesses to afford, those with a bit more capital and a bit more reach can often boost their own bottom lines by entering into longer agreements. Long-term contracts come with a number of unique benefits, the most impressive of which is the ability to lock in a given price per unit for a very long time, all while reducing that price by committing to a longer-term order and a larger up-front amount of product. Virtually all vendors today offer volume pricing discounts that actually reward purchasers for committing up front to a longer deal or a larger number of units, and this can help to partially offset the noticeably larger expenditure for a longer contract.

Of course, small businesses will not have this flexibility and many will not want to borrow money to accomplish a long-term deal with a vendor that they deem to be unproven and perhaps not in their best interest. Furthermore, long-term contracts can lock a company in with a vendor that produces lower-quality items or has an exceedingly low amount of added value. While most purchasing professionals will try to discern these things early, there is always the possibility that the vendor's pitfalls are overlooked and the company's bottom line will be doomed to suffer for the vendor's own problems.

3. Don't Buy into the Mentality That a Vendor's Product Will Buy Success

As noted above, some vendors supply subpar products or offer a very low amount of value to the companies that they sign contracts with. Other vendors, though, do just the opposite. Regardless, all vendors will argue that their line of products, and theirs alone, will result in unparalleled success for the company. While it's understandable why vendors would offer this line of argument during contractual obligations, purchasing professionals owe it to themselves to immediately ignore that kind of logic.

When negotiating, it's important to remember that a vendor's products will not be the sole determining factor between a company's continued financial and market successes, and the complete lack thereof. Vendors provide key products, but they do not provide market research, advertising campaigns, retail locations, or anything else needed for customer-facing operations and market success.

Negotiate with vendors while understanding that their products are a means to an end, a key way to serve the needs of the target demographic. Their products, and the products of any other vendor, will rely on sound fiscal management, capable corporate leadership, and excellent customer-facing operations, in order to succeed. Any vendor that believes differently should be handled with caution.

4. Be Flexible and Amenable, But Always Have a "Walk Away" Mentality

At its core, the vendor negotiation process is about two companies meeting and coming to an agreement that benefits the bottom line of both parties. This might sound easy, but it's actually a pretty difficult process. If it wasn't, there wouldn't be entire teams and entire college majors dedicated to learning the skills needed for success in such negotiations. The best approach to bring to the table during these key negotiations is to be willing to walk away from the entire process, looking instead for a vendor that is more amenable to the company's needs and more in line with their goals.

It's okay to walk away. Not every vendor will have what a company offers, and still other vendors will not be able to work within a company's price requirements or their desire to add value to the price they're paying for a vendor's wares. Furthermore, vendors are actually scared of dealing with an opposing party who is ready and willing to walk away, find a competitor, and make a better deal with them. The sheer prospect of losing a potential client, whether short-term or long-term, will often force vendors to reconsider their tough stances on some of the most contentious items and prices in a given contract.

That being said, flexibility really is the name of the game in negotiations. It's okay to walk away, but purchasing professionals need to work in good faith to come to an agreement with the vendor. While vendors are scared of companies who are willing to walk away, most will actually be relieved if a completely inflexible company takes a walk. After all, they're looking to derive value and fiscal benefits, too. A lack of flexibility from a purchasing professional raises quite a few red flags of its own, as far as most vendors are concerned.

5. Set "Success Metrics," or Expectations of the Deal's Benefits, Before Negotiating

It's hard to enter into a successful negotiation if the company doesn't even know what it's hoping to achieve when the negotiating process is finished. Before entering into any negotiation over vendor contracts, prices, value, and products, be sure to make a list of success metrics that will indicate the company got a fair deal and a workable contract. These metrics can include anything from the price per unit to the payment terms stated in the contract. They'll make it clear whether the company should continue with a given negotiation or simply move on to a competing vendor that can offer something a bit better for those interests.

It's important to rank these success metrics from the most important to the least, as this will also help the company get a fair deal. Remember that not all metrics are created the same. The company may be flexible on value added services, but it may have to hold very firm on the overall price of the contract due to its own obligations and fiscal considerations. By holding price as a strict requirement and value as an area more open to concession, negotiators will give themselves a blueprint of the negotiation's opening moments, the best way to proceed through each item in the contract, and a successful reference guide that will indicate when to stay, when to walk away, and when to exhibit greater flexibility overall.

6. Don't Make a First Offer Be the Last Offer

One tactic used by a number of vendors today is to assess the needs of the company purchasing their products and offer them something that is just a small percentage below what they originally wanted. Those new to purchasing will see this as a great deal, and they'll immediately put it in their "victory" column. The vendor, meanwhile, barely had to break a sweat and still ended up with a deal that is overwhelmingly in their own favor. This mistake needs to be avoided, largely because purchasers can get a better deal from the vendor if they play hard to get.

Instead of treating a great first offer as if it's the end of the road, treat it as a great starting point that can be used to encourage more concessions and a better overall value for the money paid per unit to the vendor. Master the art of being both impressed with the first offering but confident that something better can probably result if the two sides continue to work together toward each other's goals. The result is likely to be a far friendlier contract that works for the purchasing side in a much more dynamic way.

7. Don't Be Afraid to Drop the Name of Another Vendor During Negotiation

The purchasing professional is working on behalf of a business that has no shortage of competition, and they should feel free to remind vendors that they, too, have plenty of competition in the marketplace. One of the best ways to wake up a vendor who feels they cannot make any more adjustments to a deal is to simply remind them that the company is looking into other vendors who offer better values, different services, and a wider range of products. This might seem like it borders on intimidation, but that's not really the case.

Most vendors tend to assume that their negotiating opponent depends on them, and them alone, to provide the product that the business needs. By reminding them that negotiations with other companies are possible or ongoing they'll understand that they're competing not only with the opposing party, but also with a wide variety of other vendors who are more than willing to undercut competing prices.

8. Develop a Contingency Plan with the Vendor

Another way to make sure the vendor is held accountable for their products and services is to enforce the creation of a contingency plan, or an "easy out," if they fail to live up to expectations. In the pursuit of offering greater value to the company and meeting their pricing demands, many vendor will make big claims about their supply chain, their support network, and the overall quality of the products they sell to business customers. Those things might all be true, but they could just as easily be overstated and unreliable.

Businesses need to have a contingency plan so that they can stand a decent shot at voiding a long-term supply contract in the event that the products don't live up to promises made by the vendor. This contingency plan can involve a forced termination of the contract, a reduction in price, or other concessions made by the vendor that would benefit the business' bottom line when faced with the worst-case scenario.

Perhaps best of all, a purchasing professional who works with a vendor to develop a contingency plan is inherently letting that vendor know that subpar service or quality will not be tolerated. This should compel the vendor to go the extra mile, offer their very best service and support, and make the contract as beneficial as it is durable.

9. Treat Existing Vendors as the Odds-On Favorite When Negotiating

If the goal is to re-negotiate an existing contract with a proven vendor, don't go into the negotiation and immediately list the names of their competitors. While tough negotiating should apply to both new and existing vendors in equal measure, those vendors that have already provided a great service in the past deserve the benefit of being treated like the odds-on favorite. Be sure to remind them just how much their hard work was appreciated, and remind them how nice it was to negotiate a beneficial contract for both parties last time around. Let them know what the business thinks it can do for them in the new partnership going forward, and allow them to counter with their own vision of a renewed commitment to the company.

If those visions don't align, negotiations can begin in earnest. Only during a true negotiation between these companies should tough tactics be used. By approaching the process first with a great deal of appreciation, and later with a sense of toughness, vendors will likely offer a better deal and seek to add value or reduce prices to a level that keeps their established sales in place.

10. Exhibit Patience During All Points of Negotiation

Purchasing professionals need to remember that vendor negotiations are a marathon, not a sprint. There will be times of fast-paced negotiating and there will plenty of opportunities for extended silence and time to process new information. Give vendors the time, space, and respect they deserve during negotiations so that they can fully evaluate all terms of a proposed contractual agreement. Understand that this time and patience can only help the negotiation and move the company's goals forward.

Tough Terms, Flexible Approaches, and a "Walk Away" Mentality Can Win the Day

Negotiating with vendors can be tough, but it doesn't have to be intimidating. Businesses that remember the goal is fiscal health, quality products, and durable business-to-business relationships, will be poised to enjoy the right combination of value-added pricing terms, long-term product availability, and friendly negotiations that benefit both sides. With a measure of patience and an understanding that both sides must derive value from the finished contract, negotiations with vendors can be successful and rewarding all around.

Ready to learn more? Check out:

"Negotiation Strategies: Dealing with Vendors and Suppliers"

Live Webinar — August 15, 2013

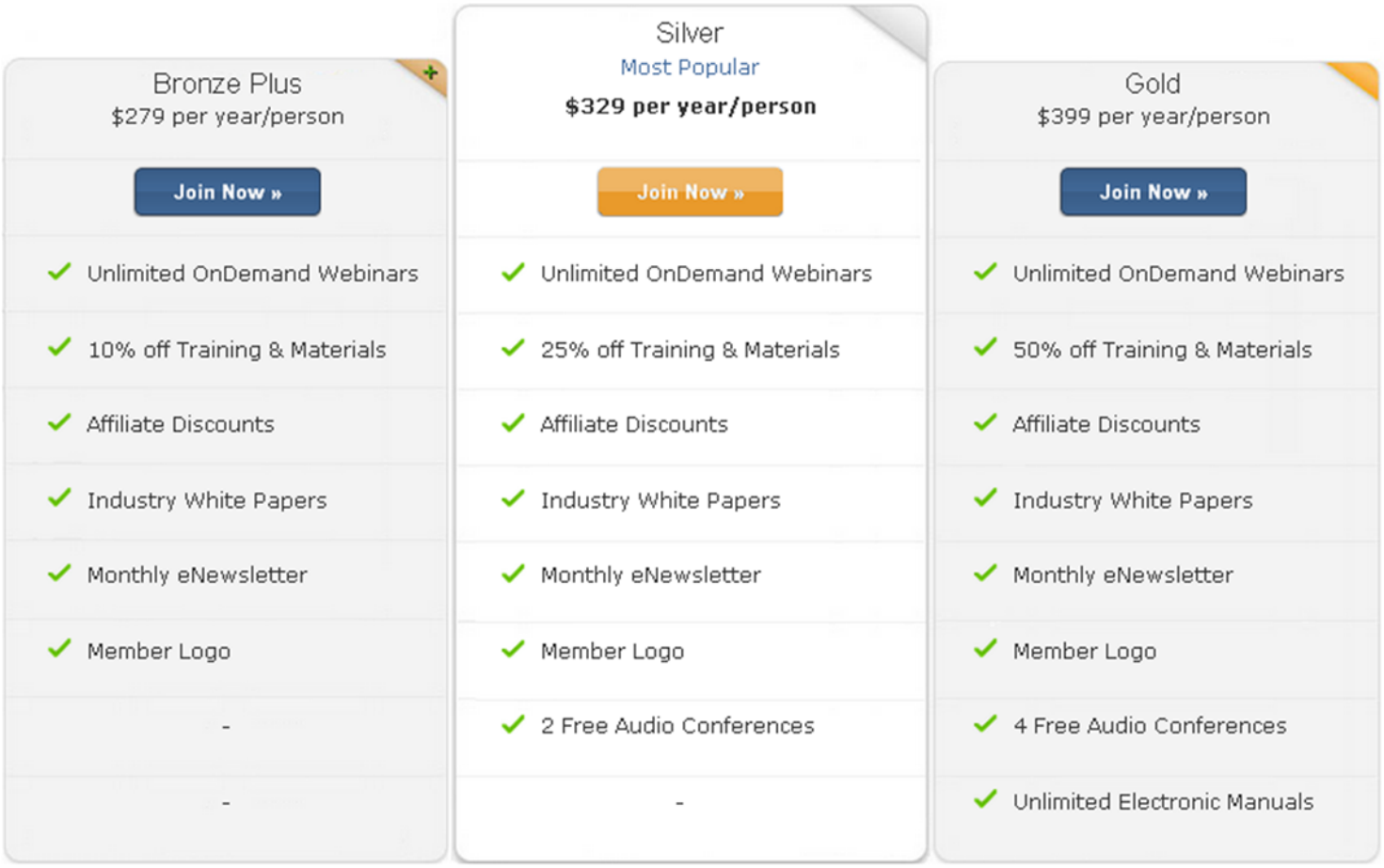
Learn More

During this live webinar, Mr. Taney will identify key risk points in vendor and supplier contract negotiations, along with techniques and best practices for addressing these risk points to obtain good results for your clients. Some of the specific topics include the RFP process, drafting effective statements of work, obtaining appropriate vendor warranties, addressing intellectual property issues, change orders, and dispute resolution provisions, among many others. Among other things, the content of this audio conference will help you achieve clarity with respect to the performance required from the vendor, ensure an appropriate allocation of commercial risk, ensure appropriate remedies in the event of the vendor's breach, protect and retain appropriate intellectual property rights, establish a framework for managing the vendor's performance, and create tools for minimizing the impact of disputes.

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