

1:15-2:15 p.m.

OPENING SESSION



Key Strategies to Slash TCO

Part 1

PRESENTER

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INTRODUCTION BY



KONICA MINOLTA

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“THE Godfather of Negotiation Planning” ~ Intel Corp

Omid Ghamami, MBA

PURCHASING AND NEGOTIATIONS EXPERT

Key Strategies to Slash TCO

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Agenda

Part 1:

- 1) Standardization of Custom Components
- 2) Cooperative Purchasing
- 3) Harnessing Supplier Best Practices

Part 2:

- 4) Key Negotiation Strategies

STANDARDIZATION OF CUSTOM COMPONENTS

What are Customized Components?

- Any good or service that has been customized to a customer specific application
 - ➔ instead of an available industry or supplier standard offering
 - ➔ This can be at the component or the aggregate level

Examples

- Custom home vs pre-designed home
- Standard pvc pipe vs pvc pipe with customer's name stamped on it
- City lights made to custom sizes and for custom applications
- Any request that requires the supplier has to make or do something different for you

The Good News

- Customization allows for innovation
- Customization allows for expression
- Customization allows for creating “the perfect fit”
- Customization allows for better performance reviews
- Customization helps personalize a purchase

The Bad News

- Customization robs purchasing departments of savings opportunities
- Customization robs customers of their time & budget
- Managers are rewarding unnecessary innovation because they think all innovation is good
- Suppliers hate customization too, because it introduces uncertainty and robs them of productivity

Key Actions

- Start becoming a SOW/SPEC analyst
- Look for any service or good component that is custom
- Ask the customer AND the supplier the question, “can this be done using more custom components?”
- Determine what savings come with standardization and whether the customization is worth it
- Foster a culture of **rewarding customers for standardization & reuse**, not for customization & unnecessary innovation

COOPERATIVE PURCHASING

What is Cooperative Purchasing?

- The utilization by one government entity of another government entity's contract
- Such contracts are usually based on common requirements of multiple governments
- Can save internal costs
- Can garner favorable pricing
- Frees your time up to focus on more strategic initiatives

Types of Cooperative Purchasing

- ***True Cooperatives***
 - 2 + organizations combine their requirements and solicit bids
- ***Piggybacking***
 - A govt entity determines requirements and includes option for other organizations to utilize contract
- ***Third Party Aggregators***
 - 3rd party brings together many organizations to pool requirements & manages resulting contract

Cooperative Purchasing Models

- Definite Quantity and Delivery – requires commitment to purchase volumes
 - Greater risk, but generally secures lowest costs
- Indefinite Quantity and Delivery – pricing is based off of estimated (but not committed) purchase volumes
- Piggyback Contracts – existing contracts that other agencies can use
 - Cost savings may be minimal since aggregate forecasts are not used

Some Key Sources

- The US Government's General Services Administration (GSA) maintains a large list of multiple award purchasing schedules.
 - MFC pricing is given
 - You can also get better than GSA pricing and inform the GSA to make the change!
- Foundation for CCC is another excellence resource

Drawbacks of Cooperative Purchasing

- Can impact local suppliers
- Possibly unfavorable terms and conditions
- Reduced supplier leverage
- Reduced flexibility
- *Note: Not all states or jurisdictions allow participation in cooperative purchasing, either as a user or as a lead.*

HARNESSING SUPPLIER BEST PRACTICES

Harnessing Supplier Best Practices

- Purchasing's biggest enemy is thinking they are smarter than the suppliers
- Suppliers understand their industry better than purchasing does
- Expectation should be set up front:
 - “You don't deliver a product or service; your job is to ensure we are successful”
- Every RFP should request two responses:
 - 1) Exact to the specifications/SOW
 - 2) A smarter way to fulfill this demand at a lower TCO
 - ✓ Can the specs/SOW be modified?
 - ✓ Are there bells/whistles we don't need?
 - ✓ Are there contract terms that are costing a lot of money?
 - ✓ Is one of the supplier's other customers doing this smarter?

Break the Mold!

Purchasing:

“Give me a quote on these exact specifications”

“Give me a quote on this exact scope of work”

“Failure to adhere may result in bid disqualification”

Missed Opportunities

Sales:

“We need to give purchasing exactly what they asked for”

“The customer is always right”

“It’s not our job to question demand”

Harness Supplier Knowledge!

What You Need to Do

- Start recognizing your suppliers as being a wealth of benchmarking information
- Train suppliers to tell you if you tell them something that is not smart
- Give suppliers an avenue to provide alternate proposals that offer the same solution at a lower TCO

Call to Action

1. Standardize wherever possible to reduce TCO
2. Recognize and reward reuse over innovation
3. Leverage Coop Purchasing to save time and money
4. Harness suppliers as your best benchmarking source

“Government Purchasing Professionals are ***THE Answer*** to the Budgetary Crisis.” - Me 😊₂₀

DAY 2:
KEY NEGOTIATION
PRACTICES

First – let's bust the myth that
Public Purchasing Professionals
aren't allowed to negotiate!



You Don't Have to Bid Without Negotiating!



- Allows negotiation by state agencies for acquisition of goods, services, information technology and telecommunications

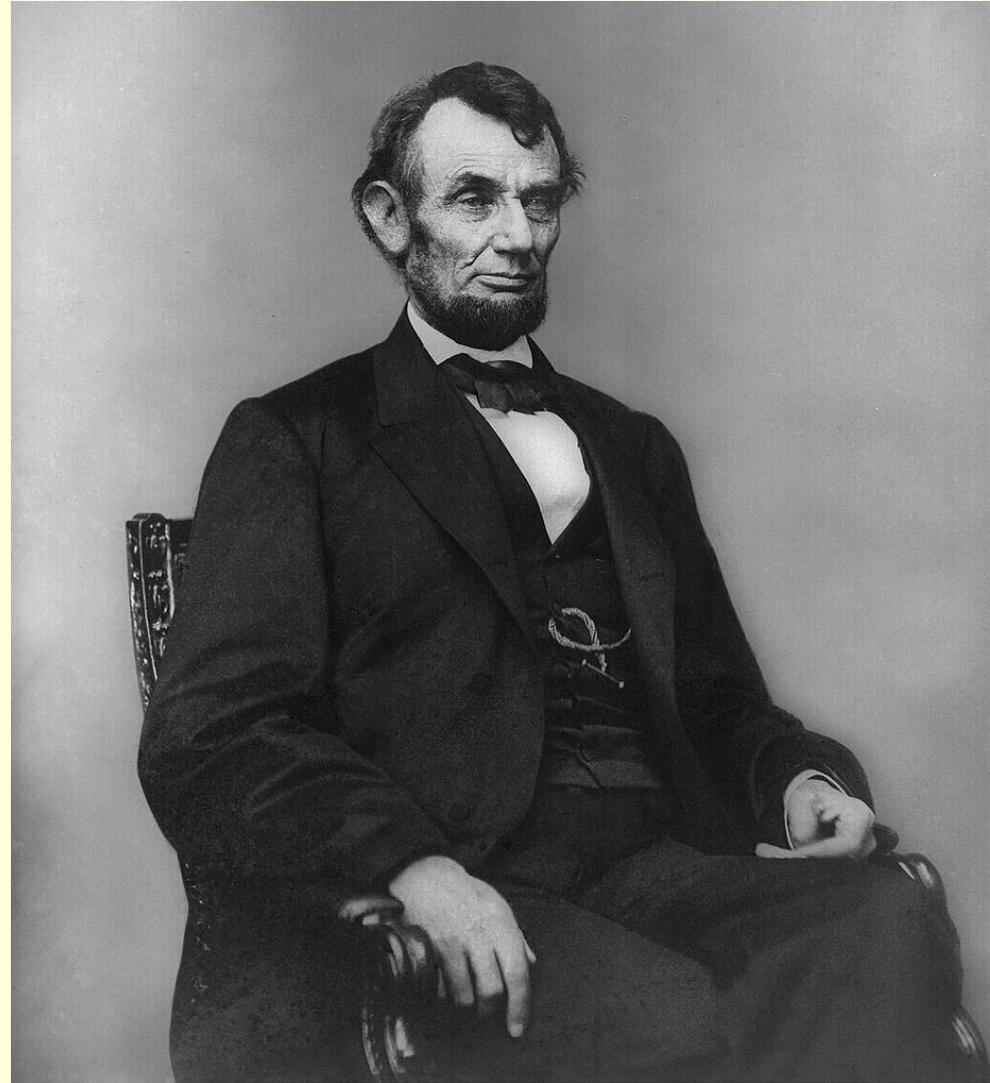


Purchasing by Local Agencies

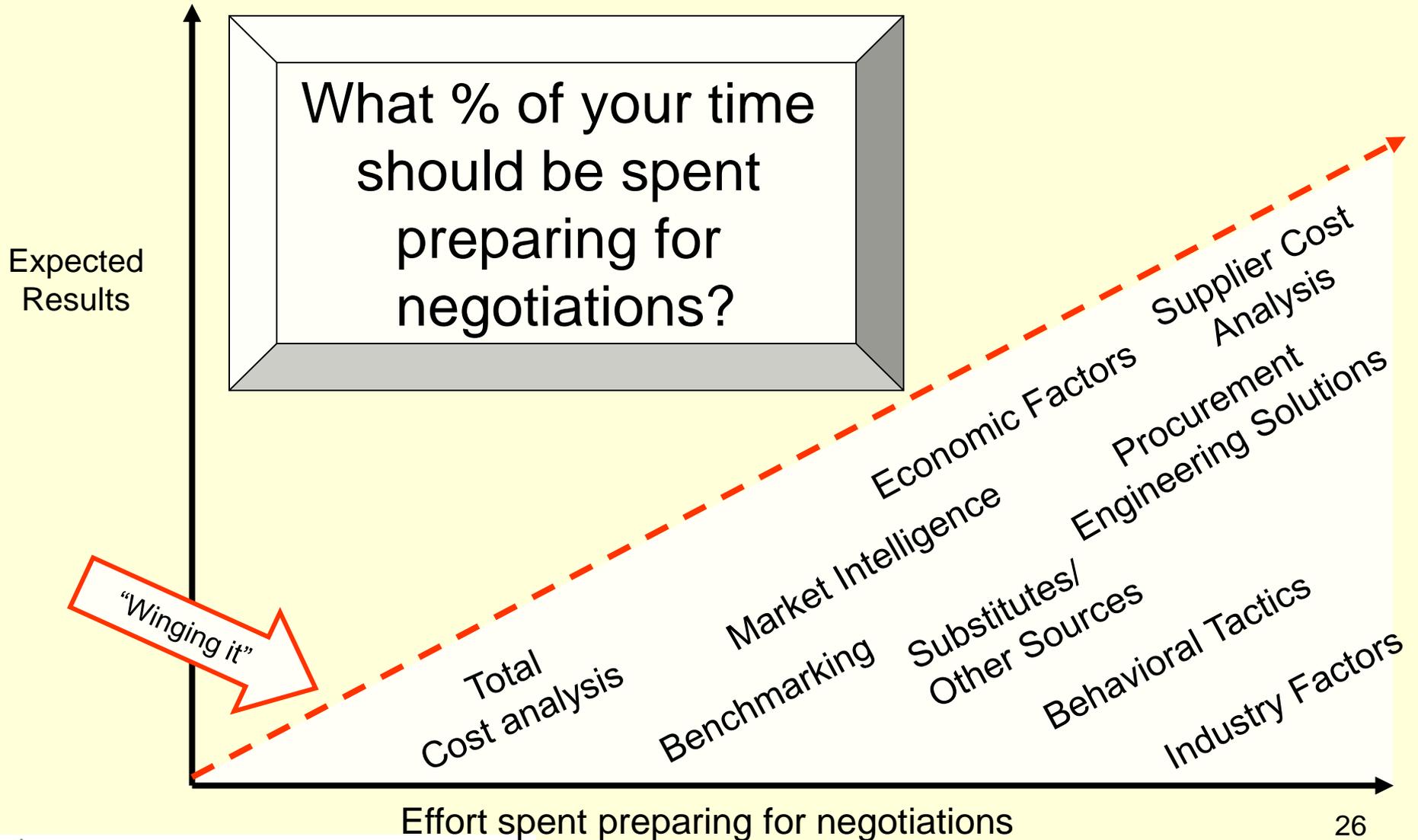
- 54202. Every local agency shall adopt policies and procedures, including bidding regulations, governing purchases of supplies and equipment by the local agency....in accordance with duly adopted policies ...and provisions

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”

- Abraham Lincoln



Pre-Negotiation Phase Importance





The Win/Win Myth

"I know, look, listen, you're unhappy. I'm unhappy, too. That's what a good compromise is all about. A good compromise is when both parties are dissatisfied, and I think that's what we have here."

– Larry David,
*Curb Your
Enthusiasm*

“Splitting the pie down the middle” = Lose/Lose



Defining Win/Win

- Win/Win = meeting your high value objectives and having the vendor feel good about the deal.
- Bitter vendors can and will find ways to increase revenue
- Allowing the vendor to “win” while still meeting your objectives is an art form

Building the Negotiation Team

- Bigger is not necessarily better
- Can be limited to purchasing and customer
 - Can also include partner groups as core or extended members
- Members should have a value added purpose and should be committed to the process and outcome
- Remember – those in the budgetary chain should not be approvers of the negotiation plan (conflict of interest)
- Team members own influencing their groups, securing their support, and representing their interests
- All team members should be on board with ground rules

Establishing Team Ground Rules - Sample

1. **Purchasing is the lead negotiator and owns the meeting**, the agenda, when we caucus, and the overall flow of the meeting.
2. **Nobody is allowed to accept a supplier offer** without first consulting with the team.
3. **All members of the team will be well versed with the Negotiation Plan** and will have a copy with them during negotiations for reference.
4. **If you are unsure of something you want to say – don't say it.** First discuss with the team.
5. **We will not discuss budget availability, preference for one supplier over another, or convey urgency**, emotions, or commentary that may detract from our negotiating position.
6. **The supplier engagement will be handled exclusively through this process** – no outside lunches, meetings, etc unless purchasing approves.
7. **The following words may not be used**, as they may have legal consequences: **'Partnership'** (implies profit sharing) or **'Leverage'** (implies extortion or bully tactics).
8. **We can tell the supplier what we want them to do, but not how to do it.** Not following this may result in detrimental reliance risks.
9. **By being on this team – you are actively representing your group's interests**; support from you will be construed as support from your group.
10. **We will focus on the issues and not the people or the personalities.** The supplier is a business ally with whom we want to foster a strong bond based on respect and understanding.

Pre-negotiation Meeting with the Supplier

- Pay now or pay later process!
- Key objectives:
 - Get to know players
 - Get to know decision makers
 - Align on requirements
 - Align on negotiation expectations
 - Align on timelines
 - Give the supplier homework!

Get to Know Decision Makers

- Authorized to say 'No' vs 'Yes'
- YOU own:
 - Who comes to the negotiation
 - Where the negotiation is held
 - How long it is held for
 - When they start and stop
 - Why they start and stop
 - What is discussed
 - What your team members say at negotiations
 - How decisions are made
 - How the output of meetings are captured

Calling a Supplier's Bluff – 6 Key Questions*

1. What percentage of your business will be coming from our firm with this proposed contract value?
2. Relative to your other customers, what is our organization's expenditure ranking with this proposed contract value?
3. Are you currently operating at full capacity?
4. Are you doing business in any capacity with other divisions of our organization?
5. If an agreement was reached, are there any target dates for placing the first order?
6. Are there any industry segments or new markets for which you would like us to use this contract as a gateway?

*Source: Ghamami, Omid, "Calling the Supplier's Bluff - 6 questions to determine how much they need (or don't need) your business", ISM™ eSide Supply Management, Vol. 1, No. 5, Sept/Oct 2008 issue.

Giving the Supplier Homework!

Other Key Supplier Questions

- List of Top 5 competitors
- NAICS code
- Spending from last year & forecast for next year
- Proposal developed that addresses the exact areas on your negotiating plan.
- Now is the time to give them your contract!

LISTENING - The Forgotten Part of the Pre-Negotiation Meeting....

- Before you tell the supplier what you want....
- Ask them what **THEY** want from this deal to be successful.
- Perception counts! Act interested, take notes, and play back what you heard.
 - Now is **NOT** the time to express disagreement
 - Your job at this moment is to show you **CARE**.

The Power of Listening

- *People are more apt to support a solution when they feel they had input into it*
- Breaks down barriers right away
- Establishes good will
- Increases supplier's willingness to compromise
- Gives you the data you need to build a Concession Worksheet.

Building a Concession Worksheet

- Don't assume you know why the supplier wants your business
- This is the value of
 - Asking questions
 - Listening
 - Having a pre-negotiation session
- You need to ask the supplier what success means for them

Example Concession Matrix

Supplier's Desire	Perceived Value with Supplier (1 – 5 scale, 5 = high)	Total Cost Impact to Purchasing/ Customer (1 – 5 scale, 5 = high)	Concession Value (in rank order of impact)
Using customer and firm name as a reference in advertising	5	1	4
Payment terms of Net 10	4.5	1	3.5
Initial payment received by end of quarter, ahead of product delivery	5	1.5	3.5
Weekly forecast updates provided to supplier to optimize inventory requirements.	4	1.5	2.5
Limitation of liability capped to contract value for direct damages	5	4	1
Ownership of new IP Developments	4	5	-1

Source: Ghamami, Omid "Win/Win Negotiation Strategies", ISM™ eSide Supply Management, January/February 2010, Vol. 3, No. 1

Behavioral Negotiation Tactics

- Listening to break down barriers
- Strategic utilization of caucus time
- Control of time and lack of urgency
- Cost of doing business appeal
- Best and Final Offer
- Walking from the negotiating table
- Escalations internally or with supplier
- Competition or reference to competition
- “The customer does not see the difference between vendors”
- Appeal to long term supplier potential
- Management concerns about this deal
- Opportunity for supplier to get their foot in the door with your firm
- Future business expansion opportunities within firm
- Utilizing the “emotional tone scale”
- Asking “help me understand”
- Sending supplier home without a done deal

CALL TO ACTION

Call to Action

1. Standardize wherever possible to reduce TCO
2. Leverage Coop Purchasing to save time and money
3. Harness suppliers as your best benchmarking source
4. Improve your negotiation skills through listening and asking questions
5. Use a concession worksheet to redefine Win/Win
6. Use behavioral strategies & the negotiation planning form to ensure success

Government Purchasing Professionals are ***THE***
Answer to the Budgetary Crisis...
Now Go Off and do Something Wonderful!