

USING DAY ONE ANALYSIS TO DRIVE OUT VALUE IN NEGOTIATION

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Negotiation

Whilst predominantly used in Category Management and Supplier Relationship Management, Day One Analysis can also be a powerful tool in negotiation planning – particularly when sourcing goods and services. It helps us understand our current position and what scope we might have, if any, to negotiate and then enables us to determine what sort of negotiation we should conduct if we are to maximise our outcomes. It is simple to understand and simple to apply... but can make the world of difference.

AN INSIGHT INTO LEVERAGE OPPORTUNITIES

Day One Analysis can be used to give an insight into what leverage or opportunities might exist, then help to determine the value and relationship objectives that would be most compatible with the negotiation.

To use it, plot on a matrix the categories, areas of spend or products that you are planning to negotiate. Do this according to the number of suppliers that could potentially supply the category or item, against the number of buyers. Make sure you fully understand the axes for this analysis. They are not sliding scales and, while there may be either one or more supplier or buyer, there is no middle ground.

Number of suppliers	More than one	<p>Tailored We have choice and power, but possible cost or effort to switch suppliers.</p> <p>Compatible value objectives Value claim ✓ Value creation ✓</p> <p>Likely relationship objectives Some relationship in support of day to day interactions for the area of supply</p>	<p>Generic We have choice and power.</p> <p>Compatible value objectives Value claim ✓ Value creation ✗</p> <p>Likely relationship objectives None or very limited unless there are longer term needs</p>
	One	<p>Custom Power should be balanced (unless we have neglected the relationship).</p> <p>Compatible value objectives Value claim ✗ Value creation ✓</p> <p>Likely relationship objectives Joint, collaborative, long term</p>	<p>Proprietary Supplier has the power.</p> <p>Compatible value objectives Value claim ? Value creation ?</p> <p>Likely relationship objectives Supplier doesn't need one, but might cultivate a superficial relationship, limited relationship building by us to secure supply</p>
		One	More than one

Number of buyers

It is helpful to do day one analysis in a group, as it will typically spark discussions regarding differences in outcomes or positioning, depending on how people view the goods or services they are attempting to negotiate.

This type of discussion is good and differences will often reveal insights into what is happening.

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Potential negotiation approaches for each of the quadrants are as follows:

- Generic** – This is where there are many suppliers and many buyers. In this quadrant we have the greatest choice and ability to switch, so the power lies with us. For a single negotiation it is unlikely that we will need an ongoing relationship with the supplier unless, of course, there are wider or longer term needs. The supplier's mindset is about beating the competition, so a value claiming negotiation stance is normally the most suitable approach.
- Tailored** – Here the products and services are made uniquely for the organisation so while there could be many suppliers, there will be only one buyer. Anything that is branded or made to a unique, business-owned specification or drawing fits here. The supplier's focus is on selling its process and capability. Because of this, we may need some sort of relationship with the supplier, perhaps to facilitate day-to-day interactions between companies that support the tailored goods or services.

As there is more than one supplier, we also hold the power here so, in theory, it is possible to switch suppliers to gain the best value. However, switching may not be as straightforward as it seems in the generic quadrant. There may be issues around the transition, ensuring the new supplier is fully aware of our specific requirements, the manufacturing or service provision process. Depending upon the circumstances, we could adopt a *value claiming* negotiation approach, but equally we may benefit from a degree of *value creation*.

- Custom** – As the name suggests, this quadrant features the things that are custom-made for us by just one supplier. Either we or the supplier may have a unique process or patented component and the arrangement in place could stipulate that it can only be made by or sold to the other party. Here, we will undoubtedly need a strong, collaborative and perhaps long term relationship with the supplier. It's important to keep in mind that the supplier may have accumulated certain know-how regarding the manufacture or service provision, so our dependency on them is increased. The balance of power between

us and the supplier would most likely be shared but that's assuming that we have managed the relationship well. Value claiming negotiation approaches would be entirely inappropriate and here value creation would typically yield the best outcomes.

- **Proprietary** – Proprietary, where this is one supplier but many buyers, is where suppliers ideally want you to be, as it gives them the power and a degree of control. Suppliers are very clever and will work to identify ways in which you go to only them for their products. Some of the ways that they do this include:
 - branding
 - differentiation – by making a product or service unique in some way
 - added value – by including additional products or services with the aim of creating real or perceived additional value for your money
 - convincing a design team to specify make and part number on a drawing or specification, and
 - bundling different generic or tailored products and services together to create a unique offering.

In *Proprietary*, the supplier does not need a relationship with us, but may cultivate a superficial one to shore up

their position. There is little point in us attempting to build a collaborative relationship with them, however there is benefit in building a similar superficial relationship that seeks to make and keep us attractive to the supplier. This can help to secure the best terms given the constraints. In terms of *value objectives*, we have little power to drive value claiming and value creation could end up a one-way street on our part, yet both approaches are valid and work to a degree providing the constraints are kept in mind.

A POWERFUL TOOL

Day One Analysis is a powerful tool that both helps us understand our current position and what scope we might have, if any, to negotiate and then helps us to determine what sort of negotiation we should conduct if we are to maximise our outcomes. It is simple to understand and simple to apply but can make the world of difference.

This article has been adapted from Negotiation for Procurement Professionals by Jonathan O'Brien @ 2016, published by Kogan Page (9780749477301). Jonathan is CEO of Positive Purchasing, a leading expert on negotiation who helped pioneer the Red Sheet® Negotiation methodology. The article was first published in April 2017 as an invited contribution to the Procurement Leaders Blog.