9 TIPS FOR BETTER CONTRACT NEGOTIATIONS

Negotiating from a position of power is easier said than done.
Anybody handling contract management knows that negotiating a supplier contract is central to the value that they add to their organization. With the right skills, the right focus and enough time to spend on the task, contract negotiations can have a monumental financial impact for an institution.

The task often falls under the domain of procurement or spend management teams, but any number of roles in an organization may have a seat at the table. And, while some people are superstar contract negotiators, many would rather avoid it and simply don’t look forward to haggling with suppliers.

Either way, it’s time to strengthen your contract management chops. After all, for organizations that need to save money, negotiating better contracts with vendors is an obvious place to start.

Good contracts not only net organization’s lower costs, they also can lead to better service, favorable terms and improved overall value. That all adds up to huge savings - on the contract itself and new efficiencies for your own organization.

But, for many, negotiating contracts from a position of power and knowledge is easier said than done.

Let’s face it: Negotiations can be charged with plenty of tension as the various players tiptoe around each other’s needs and wants - or, on the flip side, bumble through the process unprepared and not willing to listen.

Meanwhile, negotiation tactics run the full gamut - from practical and timely to, unfortunately, devious and deceitful - and nobody likes confrontation.

To add to the complexity, every situation is unique. In some cases, delivery will be the most important factor. In others, it may be price. Although, as you will discover, it’s important not to focus on either exclusively.

But it is possible - for even the least seasoned negotiators among us - to secure better contracts, lower costs and boost profitability. Read on for essential tips to ensure you enter your next round of negotiations with confidence.
DID YOU KNOW:
Spend management solutions can help organizations in contract negotiations right out of the gate and can contribute to nearly any complex bargaining strategy. With the right foundation of spend management solutions, organizations can:

Automate the basic, mundane tasks of the procure-to-pay process, allowing procurement professionals to focus on more important priorities such as strategy.

Free your staff from onerous, rote chores, so they can get back to doing work that more directly benefits your organization - such as business development.

Spend less time and fewer resources on data entry and paper processing.

Use the insight they gain and the time they save to focus on contract negotiation and supplier management.
TIP 1: SET CLEAR PRIORITIZED GOALS

Begin by setting and prioritizing your goals.

Whenever possible, set **SMART goals** -- specific, measurable, attainable, relevant and time-bound. The more clarity you can use to define your goals, the more likely it is that you’ll get them.

Once you’ve landed on your goals, **prioritize** them. That will help you stay focused on what’s most important and keep you from becoming distracted during a lengthy negotiation.

Then, **write them down** and keep them handy. It may seem like a small step, but it will provide you with a mini-playbook to work from as you are going through the process and will increase the likelihood of success.

Finally, be **direct and aggressive** - ask for everything your organization needs. If you are too vague at the outset, you will be more likely to cave in or lose sight of important points later on.

For example, “I want my supplier to lower prices,” is too vague. A 1 percent decrease would technically achieve your goal, but it might not meaningfully impact the financials of your organization. On the other hand, asking the supplier to cut prices by 50 percent isn’t realistic. Do your homework to come up with a realistic assessment of what you want and what you can get and enter negotiations with those figures in mind.

What kinds of things can you ask for? In addition to better pricing, you can ask for other things that are important to the organization. For example:

- Delivery frequency.
- Quality specifications.
- Customer service response times.
- Rebates for prompt payment.

**DID YOU KNOW?**

Having the time to do this essential prep work is one of the advantages of using spend management solutions. These tools, which automate the entire procure-to-pay process, get you out of the mundane day-to-day, transactional support of your internal customers. **Instead, you can spend time in ways that add real value to your organization's bottom line.**
TIP 2: CONSIDER THE OTHER’S PERSPECTIVE

More than half of the work of winning a contract negotiation is to understand the needs and goals of the other party. Appeal to their best interests in order to move the negotiations in your favor and get the best contract possible.

QUESTIONS TO ASK:

1. What’s their financial situation?
A company that is desperate for cash will be more willing to negotiate a lower price than one with brisk sales. Understanding their finances gives you a good idea of where to start negotiations on price.

2. What’s the pricing structure in their industry?
Do prices fluctuate much or are they relatively stable? If prices go up and down, suppliers will seek to lock in a price to avoid selling their products and services for less in the future. If they are stable, however, they will have less incentive to negotiate down.

“In business, you don’t get what you deserve, you get what you negotiate.”
~ Chester L. Karrass
HOW IMPORTANT ARE YOU AS A CUSTOMER?
If a vendor is making $10 million in annual revenue and you are negotiating a $10,000 contract, you are in a weaker position than if they are making $100,000 in revenue and you are planning to spend $50,000.

CAN THEY REASONABLY FULFILL YOUR ORDER ON TIME AND ON BUDGET?
Look at their overall capacity and the locations of their facilities. If there is any risk that they cannot fulfill an order on time and on budget, negotiate with a different company.

WHAT SORT OF CONTRACT TERMS ARE THEY WILLING TO OFFER THEIR CUSTOMERS?
Research other vendors in the same industry. Knowing what terms are widely available strengthens your position. Ask your vendor to meet or beat their competition.

DO THEY HAVE A SALES QUOTA TO MAKE?
Some companies may need to meet an annual sales target. If you’re the customer that helps them meet their goals, then you have real leverage. If your negotiation comes near the end of the fiscal quarter, you’ll find you have even more leverage.

“Success lies in the ability to get the other person’s point of view and see things from that person’s angle as well as from your own.”
~ Henry Ford
TIP 3: FORGET ALL ASSUMPTIONS

Never jump into contract negotiations thinking that you know it all from the start. Do your research first. One of the biggest errors people commit at the bargaining table is making assumptions about what is possible. Check out the facts first. Then tailor the different facets of the contract so you can land on something that meets your needs.

For example, many procurement professionals wrongly assume they will have to pay for training on how to use the software or equipment they are buying. Often training will be included free of charge.

Other times, if prices seem to be going up in a given industry, organizations assume they will have to pay more. That’s not always the case. Vendors with excess inventory may not raise their prices - even if their competitors have done so.

This can work the other way as well. Don’t assume that if you are making a bulk purchase, you will automatically get a better price. If the vendor doesn't have the inventory in stock and will have to manufacture more to satisfy your order, they may not have any incentive to offer a bulk discount.

There are three simple steps to avoid making assumptions that can hurt you during contract negotiations:

1. Do as much online research as possible into the company and industry trends. Have these facts at your fingertips.

2. Talk to other people who have negotiated with the company to find out what their experience was like.

3. If you are interested in getting something beyond the basic product or service, ask for it. The worst thing that can happen is that they will tell you it’s not possible.

“Assumptions are the termites of relationships.”

~ Henry Winkler
TIP 4: ENCOURAGE COMPETITION

One of the most powerful ways to get the best deal during any contract negotiation is to encourage competition. When vendors know they are competing against 25 other companies, they are more likely to offer lower prices, better payment terms and more free services than if there are only two or three other organizations in the running.

The easier you make it for vendors to bid, the more companies will compete for your organization’s business. For example, don’t make them fill out a lot of unnecessary forms. Let them bid online. When you automate the process as much as possible, vendors will be more likely to throw their name into the hat.

By soliciting more bids, you give yourself much more leverage in the negotiation process. This, in turn, leads to cost savings on your end and, in many cases, free extras like training or associated services.

“Never interrupt your enemy when he is making a mistake.”
~ Napoleon Bonaparte
DID YOU KNOW?
The ESM Bids & Quotes Solution makes it easy to increase competition by bringing more suppliers to the table? By soliciting more bids, you give yourself much more leverage in the negotiation process. This in turn leads to cost savings on your end and, in many cases, free extras like training or associated services.

And our Contract Management Solution allows you to step right into the complete contract lifecycle management with contract creation, collaborative authoring, automated approval processes and eSignature support. All drafts and existing contracts can be monitored and stored from creation, amendment and renewal to archive - resulting in a reduction of errors and increased productivity.
SUPPLIERS are not psychic. Unless you are clear, they won’t know your expectations. When seeking bids from suppliers, be specific and firm in telling vendors what you expect from them. Tell them what you need in plain, unequivocal language.

When you write your Request For Proposals, don’t use “like,” “prefer,” “looking for” or “targeting.” Instead, choose strong, clear words, such as “need,” “must have” and “essential.” Suppliers will then know that they have to deliver against these expectations and at the risk of forfeiting payment.

This concept applies to every aspect of the contract. For deliveries, for instance, spell out schedules, volume, shipment locations and exactly how you will evaluate the delivery. Clear language is vital when laying out payment terms as well. If you have reporting requirements, tell them exactly what they are.

Here’s the bottom line: This kind of transparency goes both ways. Potential vendors should know exactly what you expect from them and exactly what they can expect from you. This approach will foster a relationship that meets your specific needs and avoids any misunderstandings in the future.

**DID YOU KNOW?**

With contract management software, you can turn to contract repositories, which store templates and related documents, to ensure your priorities are always spelled out.

An eProcurement solution can make life easier for your suppliers. Reduced paperwork, increased process efficiency, and more timely payments can combine to save your suppliers a lot of overhead. Ask for something in return!
To get the best contract possible, put yourself in the shoes of the supplier. If you understand how they see you, you’ll know how much buying power you have to leverage. Here are some questions to ask when evaluating your buying power:

**HAVE YOU DONE A LOT OF BUSINESS WITH THEM BEFORE?**
Companies love repeat business, so if you’ve bought a lot from them in the past they are more likely to give you a good deal.

**IS THERE AN OPTION FOR REPEAT BUSINESS IN THE FUTURE?**
If a supplier knows you are likely to be a long-term customer, they are more likely to give you a good price now.

**ARE VERTICAL BUNDLES POSSIBLE?**
If they think you will purchase related products and services, you’ll have more leverage.

**CAN YOU CONSOLIDATE OTHER PURCHASES WITH THE VENDOR?**
Vendors will be more eager to negotiate if you bring them new business. The added sales will help you get better prices.

**CAN YOU DO A JOINT PROJECT THAT WILL HELP THEIR CORE BUSINESS?**
If you can partner with a vendor to help them promote their company or products, they will have more reason to want to work with you. In our eProcurement solution, you can do this by highlighting certain preferred vendors.
TIP 7:
BE THE BETTER CUSTOMER

With minimal effort, you can stand out from the crowd by relying on a concept that so few organizations even consider. It’s called reverse differentiation. During the contract negotiation process, simply show the supplier why your organization will be a better customer when compared to their other customers.

HERE ARE FOUR WAYS TO MAKE THAT HAPPEN:

1. Demonstrate that your organization can make purchasing decisions quickly. Many organizations have layers of bureaucracy and require months to approve a simple purchase order. Suppliers hate waiting for decisions to be made. They will work harder to get your business if you show that when you’re given the right price and terms you can act quickly. eProcurement software can streamline this process, making online shopping with approved vendors and approvals possible.

2. Offer supplier-friendly payment terms. Many organizations make suppliers wait 45 to 120 days before getting paid. Immediate payment upon delivery is money in the bank for the supplier. In fact, they should offer you incentives to get your business if you agree to pay as soon as the goods or services are received.

3. Provide your suppliers testimonials in exchange for a good deal. It costs your organization nothing to let them use you as a reference on their website and other marketing collateral, but your recommendations are worth a lot to them in terms of potential future sales.

4. Make things as easy as possible for the supplier. Try to limit customizations of their products or services and attempt to work within their established practices. When you seem like the ideal customer, your suppliers are likely to offer you a better deal than they would to similar organizations.

DID YOU KNOW?
eProcurement software can help you speed up purchasing decisions, create friendly payment terms and ease delivery concerns for your suppliers, making you look like a great potential customer.

During the negotiations, contract management software can make your organization look appealing from the start. With it, you can start the process by quickly pulling language and other requirements from your contract repository and wrap it all up with eSignature approvals.
“Be a yardstick of quality. Some people aren’t used to an environment where excellence is expected.”

~ Steve Jobs
TIP 8: DON’T FOCUS ON PRICE ALONE

During contract negotiations, organizations often focus only on the sale price for goods and services when, in fact, the focus should be elsewhere - on the total cost of the contract and its real value.

The sale price alone is never indicative of how much the contract will actually cost in the long run. After all, could there be associated maintenance costs? Will you have to spend money training your staff to use the products? Are their installation fees?

All of these can make the total cost exponentially higher. Many of these costs, however, can be factored into the contract if you are aware of them and willing to negotiate for them.

Once you’ve done that, figure out how much value you are getting from the supplier. Will their software allow you to reduce head count? If so, that’s a monetary value above and beyond the price that needs to be taken into account.

Understanding the costs and value over the long term will give you a better sense of what you want to get out of the contract. Once the contract is signed, the per-product price often is far less important.

“Price is what you pay. Value is what you get.”
~ Warren Buffet
Finally, as part of any contract negotiation, always try to get value-added services included from your supplier. They are often more than willing to throw these services in for free if they know it will help secure a sale.

Some common value-added services you can seek from your suppliers include:

**VOLUME REBATES.**
If you end up purchasing a specific amount of their products, you can receive an annual rebate from the supplier.

**EMPLOYEE DISCOUNTS.**
Your company’s employees may want to buy their products at a discount as well. Many suppliers will jump at this idea because it can increase their overall sales volume.

**EXTENDED WARRANTIES.**
If their products are reliable, this is a low- or no-cost service for your supplier and will give you peace of mind.

**MAINTENANCE PROGRAMS.**
Making the supplier responsible for maintaining their products saves you time and money.

**PRODUCT TRAINING.**
Let the supplier bear the burden of training your employees on how to use the product.

**CO-MARKETING.**
If you and your supplier agree to promote each other, you both get much more out of the contract.

These are just a few of the more common value-added services that a supplier may be willing to include. Depending on your unique situation, you may want to ask for others.

“Negotiation in the classic diplomatic sense assumes parties more anxious to agree than to disagree.”

~ Dean Acheson
In today’s ultra competitive economy, the power in negotiations really does sit with the customer. Vendors are willing to work with you in more ways than ever before to deliver a compelling and complete value proposition to you. Sometimes it will be based primarily on price. Other times there will be intangibles that may sway your decision in favor of one vendor over another.

Spend management software can help, freeing you away from mundane tasks so you can focus on bigger picture items.

**ESM Sourcing for Bids & Quotes** solution allow you to invite more suppliers and work collaboratively to get the best deal possible.

**ESM Contract Management** solution lets you follow contracts throughout the lifecycle to reduce errors and increase productivity.

**ESM Purchase for eProcurement** reduces manual purchase orders and keep the dollars flowing through your negotiated contracts.

**ESM Supplier** provides an online portal, making suppliers more self-sufficient, reducing the amount of paperwork to keep records current and lowering your risk of fraud.

With these tips and solutions, you’ll have the tools to enter your next contract negotiation with confidence - and leave with the best outcome for your organization.

Contact ESM to learn more about how our suite of spend management solutions can help your organization now.

**HAVE QUESTIONS?**

Contact us to set up a demo

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