L4M5 Summarised Note

1. Understand key approaches in the negotiation of commercial agreements with external organisation

1.1. Analyse the application of commercial negotiations in the work of procurement and supply

a. Definition of commercial negotiations
   - The definition
   - Differences between negotiation and other persuasion methods
   - Negotiation content and processes
   - Negotiations in different procurement stages:
     - Roles of negotiation in each stage of CIPS procurement cycle
     - Roles of negotiation in each stage of CIPS contract management cycle

b. Sources of conflict
   - Conflicts that arise from the content of the negotiation
   - Conflicts that arise from the process of the negotiation

c. Conflict management styles: Thomas-Kilmann conflict mode instrument
   - Competing style
     - Objectives
     - Best use in which circumstances
   - Accommodating style
     - Objectives
     - Best use in which circumstances
   - Avoiding style
     - Objectives
     - Best use in which circumstances
   - Compromising style
     - Objectives
     - Best use in which circumstances
   - Collaborating style
     - Objectives
     - Best use in which circumstances

d. Stakeholder management and team management
   - Classification of stakeholders
     - Internal stakeholder
     - Connected stakeholder
1.2. Differentiate between the types of approaches that can be pursued in commercial negotiation

a. Collaborative (win-win) approach
   - The objectives of this approach
   - Best use in which circumstances
   - Typical characteristics of this approach
b. Distributive (win-lose) approach
   - The objectives of this approach
   - Best use in which circumstances
   - Typical characteristics of this approach
c. Comparison between collaborative and distributive approaches
d. Principled negotiation: four fundamentals
   - People: Separate people from problems
   - Interests: Focus on interests, not positions
   - Options: Generate options for mutual benefits
   - Criteria: Use objective criteria
e. Setting targets and BATNA
   - What is best alternative to a negotiated agreement
   - What is zone of potential agreement
   - What are options/tradeables/variables
   - ‘Must, intend, like’ criteria
   - How to set up BATNA

1.3. Explain how the balance of power in commercial negotiations can affect outcomes

a. The importance of power in commercial negotiations
b. Sources of personal power: French and Raven’s Power base model
   - Legitimate power: where this power stems from
   - Reward power:
     - Where this power stems from
     - How it is used in a negotiation
   - Expert power:
     - Where this power stems from
     - How it is used in a negotiation
- Referent power
  - Where this power stems from
  - How it is used in a negotiation

- Coercive power:
  - Where this power stems from
  - How it is used in a negotiation

- Information power:
  - Where this power stems from
  - How it is used in a negotiation

c. Sources of organisational power

- Macro environment: STEEPLE analysis
- Microenvironment: Porter’s five forces: students should focus more on what can shift the balance of power towards buyer or supplier
- One-to-one buyer/supplier dynamics
  - Supplier positioning
  - Supplier’s perspective
- Sources of information about buyer that supplier collect
  - Publicly available information: internet
  - Other sources of information
- How purchasers can improve leverage with suppliers
  - Increasing spend:
    - (a) Spend concentration
      (i) Vendor base reduction
      (ii) Volume pooling
      (iii) Volume redistribution
      (iv) Volume consolidation across categories
      (v) Standardisation and harmonisation of specification
      (vi) Forming purchasing consortia
    - (b) Spend analysis
      - Increasing buyer’s attractiveness:
        (a) Factors that are unrelated to spend volume can be optimised to increase buyer’s leverage. They can be payment period, simple processes, etc.
        (b) Buyer’s attractiveness model: four quadrants and what is seller’s objectives with each quadrant
1.4. Identify the different types of relationships that affect commercial negotiations
   a. The relationship spectrum (Mark Moore)
      • Transactional suppliers
      • Operational suppliers
      • Strategic suppliers
   b. Reputation and trust
      • Sources of reputation
      • How to build relationship based on reputation
      • Sources of trust
      • How to build relationship based on trust
   c. Repairing a relationship: the vicious cycle of blame

2. Know how to prepare for negotiations with external organisations
   2.1. Describe the types of costs and prices in commercial negotiation
   a. Types of costs
      • Direct and indirect costs
      • Fixed and variable costs
      • Addressability of spend: which costs can be reduced in negotiation
      • How to understand supplier’s cost base:
         – Spend waterfall
         – Spend tree
         – Value analysis and value engineering
         – Exchange rate movements
         – Vendor supply capacity
         – Early procurement involvement
   b. Break-even analysis
   c. Costing methods
      • Absorption costing:
         – How to calculate
         – Strengths and weaknesses
      • Marginal or variable costing:
         – How to calculate
         – Strengths and weaknesses
      • Activity-based costing:
         – How to calculate
         – Strengths and weaknesses
      • Cost plus
         – How to calculate
         – Strengths and weaknesses
• Total costs of ownership
d. Volume, margins and mark-up and their impacting on price
  • Margin and mark-up:
    – How to calculate
    – Implications of margins and mark-ups on gross profits and net profits
  • Pricing strategies used by suppliers
    – Cost plus pricing: how to calculate price
    – Premium pricing: how to calculate price
    – Penetration pricing: how to calculate price
    – Marginal cost pricing: how to calculate price
    – Market pricing: how to calculate price
  • Cost modelling and analytics
    – Procurement analytics
    – ‘Should cost’ analysis/benchmarking
e. Negotiating prices:
  • Saving levers:
    – Volume concentration
    – Demand management
    – Best price evaluation
    – Global sourcing
    – Specification improvement
    – Joint process improvement
    – Relationship restructuring
  • Purchase price cost analysis (PPCA)
    – Purposes
    – When to use
    – Types of costs that are discovered by PPCA

2.2. Contrast the economic factors that impact on commercial negotiation
a. Microeconomic factors
  • Scarcity, choice and opportunity cost
  • How supply and demand determine price
    – Demand
      (a) Demand curve
      (b) The factors that shift demand curve and change quantity demanded
    – Supply
      (a) Supply curve
      (b) The factors that shift supply curve and change quantity supplied
Equilibrium price
(a) Definition
(b) Market prices are set up above and below equilibrium price: shortage and surplus

Elasticity
(a) Definition
(b) Implications on supply and demand
(c) Types of elasticity: demand elasticity, income elasticity, cross-elasticity

Market and competition
(a) Perfect competition:
   (i) Typical characteristics
   (ii) Procurement implications
(b) Monopolistic competition
   (i) Typical characteristics
   (ii) Procurement implications
(c) Oligopoly
   (i) Typical characteristics
   (ii) Procurement implications
(d) Monopoly
   (i) Typical characteristics
   (ii) Procurement implications

b. Macroeconomic factors:
   - Considerations
   - Macroeconomic factors:
     - Economic growth
     - Inflation rates
     - Interest rates
     - Currency exchange rates
     - Unemployment rate
     - Protectionism

c. Sources of information on micro- and macroeconomics

2.3. Analyse criteria that can be used in a commercial negotiation
a. Benefits of having a strategy
b. Typical criteria in a negotiation strategy:
   - Objectives:
     - Overarching objectives
     - Specific objectives
     - TOP’s objectives
   - Variables, bargaining mix
     - Variables
Concession planning matrix
  • ‘Must, intend, like’ limits
  • BATNA

2.4. Identify and assess the resources required for a negotiation
  a. Choice of location
     • Ideal negotiation environment
     • Home or away
     • Neutral ground
  b. Room layouts and surrounding
  c. Team roles in negotiation
  d. Individual negotiation styles: warm, tough, logic and dealer
  e. Use of telephone, teleconferencing, web-based meetings
     • When to use these methods
     • Advantages and disadvantages of each method

3. Understand how commercial negotiations should be undertaken

3.1. Identify the stages of a commercial negotiation
  a. Supplier conditioning
  b. Analyse different phase:
     • The opening phase
       – The objectives of this stage
       – Dos and don’ts of this stage
     • The testing phase:
       – The objectives of this stage
       – Dos and don’ts of this stage
     • The proposing phase:
       – The objectives of this stage
       – Dos and don’ts of this stage
     • The bargaining phase:
       – The objectives of this stage
       – Dos and don’ts of this stage
     • The agreement and closing phase:
       – The objectives of this stage
       – Dos and don’ts of this stage

3.2. Appraise the key methods that can influence the achievement of desired outcomes
  a. ‘Push and pull’ persuasion
     • Definition and typical characteristics of ‘push’ and ‘pull’
     • Further classifications of ‘push’ and ‘pull’:
       – Directive
       – Collaborative
– Persuasive reasoning
– Visionary

• Differences between ‘push’ and ‘pull’

b. Tactical ploys:

• Good cop/bad cop
• Thank and bank
• Lack of authority
• Declaration of public stance
• Getting peanuts
• Salami
• Outrageous initial demand
• Add-on
• Broken record
• One more thing

3.3. Compare key communication skills that help achieve desired outcomes

a. Types of questions

• Open questions:
  – Features
  – When to use
• Closed questions:
  – Features
  – When to use
• Probing question:
  – Features
  – When to use
• Hypothetical question:
  – Features
  – When to use

b. Listening:

• Roles of listening in negotiation
• Rules of effective listening
• How to improve listening skill

c. Non-verbal communication

• Typical non-verbal communications
• Interpretation of non-verbal communication

d. International cultural differences

• When are cultural differences important in a negotiation
• Evaluating cultural differences
• Other issues that arise in the negotiation with foreign suppliers other than culture
e. Emotional intelligence
   • Definition
   • Roles of emotional intelligence in negotiation

3.4. Analyse how to assess the processes and outcomes of negotiations to inform future practice
   a. Reflecting on performance
      • When to undertake reflection
      • How to reflect on performance
      • Benefits of reflection
      • Areas to consider when reflecting
   b. Opportunities for improvement and development
   c. Protecting relationships after the negotiation
      • Why you should protect relationships with supplier
      • Some tips to protect the relationships

If you need to check your skills, use my practice tests as your reference:

6. L4M7: https://www.udemy.com/course/level-4-diploma-whole-life-asset-management-l4m7/?referralCode=C95CAF196D8460C1A86F