

# 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

- External stakeholder
- Roles of each group of stakeholders in negotiation
- Stakeholder management and engagement
  - Stakeholder matrix
  - Stakeholder support level scale
- Team management
  - Typical roles of negotiating team members

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:

1. **L4M1:** <https://en.evocurement.edu.vn/product-category/evocurement/l4m1-practice-tests/>
2. **L4M2:** <https://www.udemy.com/course/cips-diploma-l4m2-practice-test/?referralCode=D6857E569E583169D7E6>
3. **L4M3:** <https://www.udemy.com/course/cips-diploma-practice-test-commercial-contracting/?referralCode=A5F71CD5C684538996EB>
4. **L4M4:** <https://www.udemy.com/course/cips-diploma-practice-test-ethical-responsible-sourcing/?referralCode=00CB8A48071CD88E9BE8>
5. **L4M5:** <https://www.udemy.com/course/cips-practice-test-commercial-negotiation/?referralCode=919D1BDB285AFA4CB55A>
6. **L4M6:** <https://www.udemy.com/course/cips-diploma-practice-test-supplier-relationships/?referralCode=76AF6ECB83302BBF245F>
7. **L4M7:** <https://www.udemy.com/course/level-4-diploma-whole-life-asset-management-l4m7/?referralCode=C95CAF196D8460C1A86F>
8. **L4M8:** <https://en.evocurement.edu.vn/product-category/evocurement/l4m8-practice-tests/>