



# IN SIGHTS

**October 2020:**

**The eternal competition - procurement and sales for the best result**



***If one takes the basic concept of game theory, procurement and sales achieve a positive result for both sides when both close to their own goals for a negotiation. This only works if the zone for an agreement (in which min/max ideas from both sides overlap) is large enough and still contains a margin (negotiation measures) for both sides.***

Incited by bonuses, etc., both sides have the goal of achieving more through intransparency, of being smarter than the other side, of playing out their position of power. Everybody wants to make money, max. Either by better purchase prices or still higher selling prices. Often both parties see negotiations as a fight.

Here perhaps times the definition (Wikipedia, 11.09.2020): „A **fight** (from Old High German kampf „Zankel“, from Latin campus „(battle) field“) is a dispute between two or more rival parties whose goal is to achieve an advantage or to cause a disadvantage for the other party. [...] Often a **strategy** helps to gain an advantage.“

## **The right strategy - information as an advantage**

Here one likes to speak of negotiation strategy. This includes how one's own goals for the negotiation are to be achieved. Own goals refer to the greatest possible own benefit, always related to the next negotiation. Not surprisingly therefore that a book like Sunzi: The Art of War, Machiavellis: The Prince or Miyamoto Musahis: The Book of the Five Rings is still a must read for managers today. All three books are about the right strategy to win a war or a conflict.

But if you take a closer look at the contents, you can find another one in parallel. From Sunzi: The Art of War: If you know the enemy and yourself, you need not fear the outcome of a hundred battles. The basis of any strategy is the sovereignty of information. Knowing your own abilities, evaluating them and identifying your own strengths. The same then applies to the other side. Which strengths and weaknesses can be identified and how can they be put into an overall context. And first and foremost: How can I exploit weaknesses to my advantage.

## **Transparency as a basis for strategy development**

There are many different methodical approaches to conducting negotiations: Harvard concept (best alternative) to game theory approaches. Together also here: Optimizing my result to get a conclusion.

But if you deal with Sunzi, you also find: ... **the true goal of war is peace.**

In an information age, in which we live today, intransparency is less and less an adequate means for a good negotiation between procurement and sales. Cost structure analyses, industry cost structures or worldwide benchmark

s allow procurement to have ever better information about prices and costs. Fabulous prices for articles or services („we always take our internal cost rate 4.3“) can no longer be placed on the market today.

The transparency required in the various management approaches and in the techniques for conducting negotiations as a basis for strategy finding is possible today. But to what result does the exchange between procurement and sales lead?



# Do I really get what I want?

The goal of every negotiation technique is the best alternative, the win-win situation or the balanced means of negotiation measures. So in the end a compromise. But due to the increased transparency, the negotiation space is becoming clearer and clearer nowadays. In the past, the internal cost rate was multiplied by 4.3 and used to determine the offer price, for example 43 €, but now it was a success for the procurement department to conclude at 36 €. After all the offer price was negotiated down by 17%. A great result for the procurement.

Through worldwide benchmarks, cost structure analyses or linear price performance, purchasers today are already aware of the price level before a tender. A markup calculation of 4.3 is no longer feasible. The internal cost rate plus sales costs and margin is then more likely to be 12 €, which leads to a bid price of 14 €, not 43 € as before.

The room for negotiation narrows accordingly to 10 to 14 €. Now it depends on the competitive situation and negotiating skills. Let us assume that the result is 11.70 €. A win-win situation, the sales department gives away some of the 20% margin and still has a good result.

## Final question: Does there have to be a winner?

With each new round of negotiations, however, the room for manoeuvre in negotiations narrows further. And at some point both sides come to Sunzi's point: ...the true goal of war is peace.

This broadly thought out: A common reduction of cost drivers on both sides is then the only way for procurement and selling to still improve a good result.

If you look at this development, and the digitalization of communication will intensify this, the question must be realistically asked whether competition between procurement and sales is still modern today.

Please contact us!

**Author**  
**Oliver Kreienbrink**

