

Chapter 1

Strategic Procurement Negotiation

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ABSTRACT

The challenges facing procurement managers across industries and public services are quite important. Businesses need to take care of the bottom line while public services need to manage tight budgets. This is aggravated by difficult economic environments such as the one that has come with COVID-19. Reducing procurement costs means less funds and working capital. Such is achieved by means of adequate negotiation processes. Technology procurement is a field with long acquisition lifecycles, where negotiations span over considerable periods of time, and where the features of technology may impact negotiations, including the technology inherent obsolescence speed. Such negotiations occur in an environment where demanding technical requirements abound alongside economic rationality and where negotiations are conducted by teams of managers and engineers, addressing the distinct dimensions. An approach to technology procurement negotiation is presented with viewpoints for reflection on how procurement and negotiations shall be addressed for technology procurement purposes.

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INTRODUCTION

“If you know the weaknesses and capabilities of yourself and your competition and are familiar with the specific environmental culture (the terrain), you cannot fail.” - Sun Tzu, 544 B.C.

Complex technological procurement managers have to manage for technology acquisition, both products and associated services. Products may include hardware components, systems and platforms, but also software. As for services, there is a considerable range as well, from consulting, engineering, maintenance, software programming, even financial ones. Besides the technical concerns, the economic rational shall always be taken care of, and the ‘value for money equation’ must be always present in mind within the procurement context. These issues demand some care in addressing procurement negotiation. The value of equation (1) must always be greater than one, that is, the value attributed to the functionalities associated with the good or service being purchased, plus the perception of future returns, must be higher than the value paid plus the risks associated with the business (Huet).

$$\text{Value for money} = \frac{\text{Functionality} + \text{feelings}}{\text{Price} + \text{insecurities} + \text{doubts}} \quad (1)$$

For example, when considering the procurement of telecommunications equipment and systems, purchases involve hardware and software acquisition processes related to categories such as radio relay links, networking devices, cable infrastructure, management information systems, geographic information systems, planning tools, as well as a considerable set of services, from design and installation to maintenance. Procurement managers must have equation (1) always in mind as a sort of navigation compass.

This chapter has a special focus on the negotiation and negotiation process and pinpoints some critical “post-negotiation” issues that typically arise within the context of technology acquisition. Because most agreements implementation does not develop exactly as negotiated or expected, there is a permanent need to carry on negotiating during the delivery or implementation stages, a concept oftentimes referred to as “post-settlement settlements” (Mendenhalt, 1996; Raiffa, 1982). Besides the need for an integrative approach to Negotiation, as opposed to competitive ones, such issues involve several typical steps and will be discussed within the context of this chapter.

This chapter is written from the viewpoint of the purchasing side procurement. Such raises a different set of questions when compared with the selling side point of view. Each side or party takes its particular perspective, where sellers want to maximize their profits. In contrast, buyers want to reduce acquisition costs, which, together with the always present asymmetry of information among the parties, will raise friction and damage the procurement effectiveness during or after the main negotiation stage.

This kind of procurement, where technology is involved point toward cooperative modes of Negotiation, where long-term relationship between suppliers and purchasing companies shall be taken care of. Regardless of the benefits of such long-term relationships and the involved collaborative approaches, there is also a negative side. Such negative side arises from the following issues: (i) since procurement managers will have the attention focused on a fewer supplier, he may be missing some new emerging technologies and solutions, (ii) long term relationships have the potential to feed the vicious cycle where other potential supplier will not present themselves to the procuring companies, because they may believe that there is a barrier related to the long-term relationships, already in place, with current

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