



## **Negotiating for Value**

*Learning the total cost of ownership process can place you in a better position to negotiate for value. Here are 8 lessons from the medical device industry*

By Martin P. Finkle, CPT

Negotiation is far more than getting the best price. Many procurement specialists, especially in the medical device industry, focus too narrowly on dollars and cents when dealing with suppliers. Whether you're buying stents, joints or replacement parts or need to fulfill contracts, you need to include the critical variable for any negotiation — value. Following are eight lessons derived from experience working in the medical device industry, but which are applicable across a broad range of industries.

### **Consider the Total Cost of Ownership**

To incorporate value into your negotiation, use the "total cost of ownership analysis" approach, combining the hard and soft costs of owning networked information assets. For example, the hard costs of a blood analysis machine would include the purchase price, implementation fees, upgrades, maintenance contracts, support contracts and disposal costs. All are hard because they're tangible and easily accounted for.

But even more important in the medical supply industry, and in other fields, are the soft costs related to management, support, training, hidden costs and downtime. Since these costs don't occur at the time of acquisition, they're often overlooked in budgets — leading to unexpected increases or even a transfer of management and responsibility to the end user.

To analyze the total cost of ownership, you as the procurement specialist should interview the internal users and weigh the importance on all soft costs. Your findings should lead to the correct purchasing decisions.

### **Get Involved in the Beginning**

Be sure you're brought into the procurement process up front, not at the end when you'll face pressure to extract a savings after the deal is all but done. At that point, nearly all variables have been decided and you'll be forced to resort to persuasion or haggling. Get involved as soon as the scope of work or specifications are discussed, which will ensure multiple variables are in play.

In the medical device industry, internal partners who request equipment, fulfillment, molecule or other components from suppliers tend to compromise too easily on terms. That could weaken

your position and create an imbalance of power for the other side. But when you're involved from the start, you can better understand the business or scientific needs and build them into your negotiation.

### **See Who's Got More Power**

Any significant negotiation needs power balance analysis, a robust and creative process with an internal client or colleagues. Start by comparing your company's strengths and weaknesses to the supplier and listing what you believe each side wants. Your wish list should include items that are "nice to have" but are not the primary reasons you're being driven to negotiate. Then consider concessions you're willing to make. This process will enable you to develop your objectives, opening statement and strategy.

When working in a competitive bid process, make any RFP or RFQ as specific as possible to arm yourself with more power. During the negotiation, express what it is that your side wants rather than suggest that suppliers guess. Remember that suppliers don't have crystal balls and aren't mind readers. Allowing the supplier to guess at your needs may result in "pin the tail on the donkey" strategy where you could be hesitant to ask for something and merely hope the supplier offers more than what's requested. If the supplier is given the opportunity to make the first proposal, the odds are it will be much closer to his or her ideal position than to yours.

### **Ask the Right Questions**

With the total cost of ownership approach, you as the buyer need to consider information from the other party's vantage points as well as your own. It will help you develop open-ended questions so you can get beyond yes-no responses and secure the information you need for the negotiation process. The answers will allow you to put the proper value scale on the categories to be considered. This process can also be used when developing an RFP or when interviewing potential suppliers.

For example, if a total onsite service contract for the blood analysis machine has a value scale of 10 and price has a value scale of 8, the better service contract of the higher-price machine could outweigh the lower price of a competitor's machine.

### **Reveal Information Early**

Some people have the misconception that disclosing information creates weakness, which is not true. Share the right information with suppliers early in the discussion and you'll earn more respect. You'll create trust and will better understand the supplier's position. This is especially true with bad news (such as you don't need to purchase nearly as much as you did last year). If you hide this type of information, the supplier will probably start guessing — and most of the time he or she will be wrong, leading to argument, distrust and disappointment. Your goal should never be to lengthen the negotiation process but to complete it as soon as possible, saving time, money and other things you value most.

Start by determining what information should be disclosed to the supplier. If you don't reveal certain facts, it could work against you and lead to unintentional deadlock. With sensitive information that could weaken your position, prepare plausible answers that are sufficiently vague so they don't cause suspicion or reveal anything proprietary.

Be prepared to disclose non-sensitive facts, which may help you get what you want. Any information that may lower or minimize the other party's expectations gives your side power and should be revealed early on, even if it's not requested. If the supplier is reluctant to share information, be prepared to trade information you want for what he or she wants.

In one case that illustrates the benefits of early disclosure of information, a supplier sent pricing information to the procurement specialist prior to the first meeting, saying that prices were negotiable. The pleasantly surprised buyer told the supplier that it helped him understand the pricing structure. When the buyer pushed on price, the supplier revealed other negotiable variables. As a result, they closed the deal in short order. The supplier got his price and the procurement specialist got five items of value from the supplier — and was able to tell his internal customer that he had "won."

### **Negotiate More Favorable Terms**

The total cost of ownership approach provides you and the supplier with more flexibility in negotiating terms and fees. For example, if the length of the service contract for the blood analysis machine is more important to you, then the supplier can offer higher value — helping its overall standing and helping you get what you want.

If leasing the equipment is a possibility, then this would have a high relative value with the total cost of ownership process. And if the total leased price for contract length, though less expensive on the surface, is offset by extension costs or equipment replacement costs, this may be outweighed by the cost of purchasing something seemingly more expensive on the surface.

### **Overcome Suppliers Who Say They've Been "Stripped to the Bone"**

If you've been dealing with a supplier for a long time, through multiple rounds of negotiations against commodities or services that have remained constant over time, their margins may be nearing a limit — "stripped to the bone." You may have already gotten the best price on a particular stent, screw or other components. Still, they may have manuals, training, online tutorials or onsite help that could add value to your physicians, clinicians or others in the lab that may be worth more than another price cut. In this case, use provocative questions like, "Under what circumstances would you (the supplier) provide what I am asking for?"

When you believe the supplier has more power (discovered in the power balance analysis), enter the negotiation armed with a series of proposals. Then drive the process by putting proposals on the table without spending unnecessary time in dialogue. Be ready to ask what needs to be done to a proposal that's first rejected to make it acceptable. This will keep you on the offensive and stick to the agenda.

For example, if a pacemaker supplier has allowed prices to erode to preserve market share, you could agree on the value scale categories. Then, by allowing the supplier to maintain or even increase the price, you can demonstrate that, with other attributes, the total cost of ownership is less than with other suppliers and you're improving existing or original terms.

### **Conclusion: Keep Searching for Value**

Effective negotiations require much more than just the art of persuasion — which will take you only so far. Especially in today's tough economy, always look for value in buying and selling. It can help you partner more closely with suppliers to meet your monetary goals. At the same time, you'll be able to meet others' needs, such as quality-of-life goals for your scientists, administrators and other health professionals.

Learn the total cost of ownership process to place you and your firm in a better position to negotiate for value and maximize results. Plus, you'll always be able to defend your decision not to purchase the least expensive component, monitor, stent or assay machine. You'll be able to explain how negotiating for value paid off.

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