The SawaSawa Inc. Case

This case is adapted from NegotiationTraining.com. The content of the case has been modified for student teaching, assessment and/or examination purposes. As part of the modifications, the company and participant names have been changed to respect non-disclosure and protection of privacy of all the individual and/or firm parties involved.

The Situation at SawaSawa Inc.

SawaSawa Inc. had recently centralized its procurement department. Part of that process included evaluating services, service levels, and associated pricing across all the SawaSawa business units.

It was discovered that one business unit was paying a significantly higher monthly retainer to their Marketing Agency of Record services supplier. SawaSawa's CFO (Chief Financial Officer) instructed a Procurement Agent from the Procurement team to "get the business units costs in line with their peers".

> The average monthly retainer across all business units was $24,000 per month, this business unit was paying $30,000 per month (a 25% premium). The scope of work was roughly the same across all business units.

The Procurement Agent began the process by reviewing services, processes, and service levels that each business unit had engaged in with their Marketing Agency of Record for the retainer. After gaining an overall understanding, a meeting was held with the Procurement Agent and the CEO (Chief Executive Officer) and CFO of the business unit.

In that meeting the CEO and CFO asked the Procurement Agent to "try and save 10% if you can, but don't threaten competition (one of a Buyers core tactics) to replace the Marketing Agency". After further research, it was discovered that the CEO of the business unit and the CEO of the Marketing Agency were friends from high school who had also gone on to be college roommates (relationship is one of a Sales Person's strongest tactics).

The First Negotiation

The Procurement Agent called the Account Representative from the Marketing Agency to request a meeting. The meeting was held at the Marketing Agencies offices (part of the Procurement Agents planning process to make the supplier feel comfortable and to allow the Procurement Agent to get on their sheet of paper) and included the CEO of the Marketing Agency (using the level of authority tactic – never take a no from someone not empowered to say yes).

The meeting began with the CEO of the Agency stating "I heard you're here to ask for a 10% discount. Our margins are already too slim, so that can't happen."

It was clear that the President of the business unit had pre-empted the negotiation the Procurement Agent was attempting to conduct (the CEO of the Marketing Agency had engaged in another powerful seller tactic – backdoor selling). A re-evaluation of the negotiation plan was in order (the Procurement Agent remembered part of the 4-Step Process, be flexible).

The Second Negotiation

The Procurement Agent decided to apply the cost vs price analysis or argument.

A second meeting was called with the Marketing Agency. The Purchasing Agent opened with the statement "I'd like to understand the scope of work better. Specifically, where we've made mistakes, where we're a bad customer, where you laugh at us for wasting valuable time and money?" And then they used a tactic proven powerful for both Buyers and Sellers–SHUT UP.

This was surprising to the Marketing Agency team, and they were suspicious of the motives of the Procurement Agent. But agreed to show the Procurement Agent work orders and processes while they were there and asked for a week to respond to the questions. It was granted.

A week later the meeting reconvened and the Marketing Agency presented three topics:

1. Overtime labour was a significant cost driver (a retainer is a fixed fee; overtime erodes planned margin quickly). The overtime was driven by work supporting major events that occurred each year such as Christmas celebrations, Nkuuka, Grand Music Awards, New Year's etc. There were other times of the year that had significantly less workload. The Marketing Agency said their best clients have a planning calendar that allows work to be spread throughout the year, reducing their overtime to a very manageable level.
2. The revision process was frustrating and inefficient. Example: The Deputy CEO of Marketing for the business unit would ask for something with a blue colour pallet. The Marketing Agency would do the work asked and bring it to the Marketing offices where the Marketing Manager at the business unit would review their work, and often times not like blue and ask for it to be re-worked using orange. The Marketing Agency would revise the work and re-present. At which point the Marketing Manager would approve for presentation to the Director of Marketing for the business unit, who would then ask to see it in purple. The revision would occur, receive approval from the Director, then be presented to the Deputy CEO, who would then of course ask to see it in blue. Their best clients streamlined the review process by having all the decision makers in the initial review.
3. "Fresh ideas": In any brainstorming process there are typically several ideas which are explored. Only the best idea will move forward, but idea "1-A" is still a great idea. In the past the Marketing Agency was scolded for re-presenting past ideas and told they were not "fresh". Their best clients allow them to keep a library of "second place" ideas (which require significantly less hours) and re-present them without fear of being scolded.

The Procurement Agent thought the ideas seemed reasonable and asked the Marketing Agency to assign financial values to each of the ideas.

They reconvened a week later. The Marketing Agency said if all three processes improvements were implemented, they would move the retainer from $30,000 per month down to $20,000 per month. A 33% savings, but as importantly, a happy supplier! This was important for service levels and the relationship between the two CEOs

The Final Negotiation

The Procurement Agent called a meeting with the Deputy CEO of Marketing at the business unit for an "internal negotiation". All 3 ideas were presented but met with some resistance as it required the Marketing department to operate differently, change management is hard for people (especially when those people are "the customer"). The Procurement Agent asked if the VP of Marketing received 100% of the budget they requested. The Deputy CEO of Marketing said, "of course not, why?" The Procurement Agent suggested that if the Marketing department would accept the process changes, the Procurement Agent would tell the SawaSawa CFO that since they helped produce the savings ($120,000 per year) that they should get to revisit budget items that didn't make the cut. The Procurement Agent exchanged low value (to the Procurement Agent) for high value (the cost savings results and happy supplier). The Deputy CEO of Marketing received high value (consideration to grow their budget) in exchange for a better product and streamlined process. All they had to do was adapt to change. These are all examples of trading concessions. Give low value to get high value.

Conclusion

In any negotiation there are multiple ways for multiple people to win. If you approach a negotiation as an "I win you lose" or "you win I lose" you limit yourself and risk being on the losing end. In this case, rather than take the "loss", the Procurement Agent decided to keep trying, and to use the tools cost vs price. It produced a rare win-win-win-win (SawaSawa Inc., the business unit, the Procurement Agent, and the Marketing Agency–who did not have to reduce their margin but delivered a significant cost reduction).

Answer the following questions

(a) Outline, and briefly explain, FIVE key deliverables of procurement negotiation planning.
(b) Draw a procurement negotiation plan appropriate for SawaSawa Inc.
(c) Review Thomas-Kilmann conflict resolution model and considering different approaches carefully, examine the possible approaches to procurement negotiation that the Procurement Agent acting for SawaSawa Inc. might adopt with the Marketing Agency. For each approach to negotiation clearly outline what would be the objective of the Procurement Agent in the negotiation, and what will have to be done to realize the objective.
(d) Describe the characteristics of a good negotiator and discuss how the procurement agent acting for SawaSawa Inc. exhibited these characteristics before and/or during the negotiation.