**Question 1:** What are some of the major negotiating strategies that you can use to prepare your contract negotiation?

**Answer 1:** Negotiation strategies are formed during prenegotiation, executed during negotiation, and assessed in postnegotiation. You may want to use all or just some of these strategies, depending on the product or service you are acquiring. How much time and energy you spend on each is left to the project manager’s judgment.

- **Understand what you really need:** Project managers (PMs) are often given statements of work with little detail in them. The stated need for “accounting software” could include receivables, payables, general ledger, financials, project accounting, capital accounting. It could be replacing or expanding an existing system or be completely new. Hold focus groups or JAD sessions if necessary.

- **Document requirements and specifications that you expect to be delivered:** Each requirement should be measurable, unambiguous, and stated in one sentence. Each statement is assumed to start as "The delivered product, or service, shall..." Therefore, the specification should start with a verb, such as “include an ad hoc report generator.” Get agreement from all stakeholders, preferably in writing.

- **Decide how much you are willing to spend:** Ask yourself if you are willing to pay more to get additional functionality.

- **Understand your environment:** If a product requires your business processes to change, how well will that be accepted? Customization of software packages can be extremely costly and must be a consideration when evaluating solutions. Most of the time, it will be easier for the business to change.

- **Prioritize your requirements:** Set a value on them, if possible. Examples are what must you have, what would be good to have, and what are just nice to have.

- **Know what your supplier options are:** Do you have 1, 20, or 100 vendors or products to chose from? Usually, the more competition there is for your business, the better price you will get.

- **Decide on your evaluation strategy:** Will it be a form of weighted scorecard, auction, low-cost bidder, reverse auction, benchmarks, inspection and acceptance, quality models, or something else?

- **Drive the negotiations yourself:** In addition to the vendor, you may have a purchasing department and company lawyers involved during the process. However, project managers are responsible for seeing that the right products are purchased for the right price at the right time.
• **Be flexible:** This is especially true in a technology-rich environment. As you talk to vendors, you may learn that the technology you are interested in has changed significantly. You may need to suspend negotiations and rethink your requirements or consult with internal or external resources.

• **Remain calm and professional:** You lose bargaining power and credibility very quickly if you conduct negotiations in an emotional manner. Gaining sympathy for your position can be done without dramatics.

• **Seek a win-win solution:** Everyone needs to feel that they were treated fairly, even if they do not win the contract.

• **Send letters of award to successful vendors:** Depending on the size of the contract, you may prefer to do this in an e-mail, a form letter, or something more formal on company letterhead.

• **Send thank-you letters to participating vendors that did not win the contract:** You may want to work with them in the future.

• **Conduct a postmortem:** Evaluate how you performed. Did you do enough planning? Did you stick to your plan? Have you alienated anyone? Can you do business with this vendor in the future?

• **Document lessons learned:** Writing it down helps to validate what worked in the process and underline what needs to change in order to improve. It also becomes a vehicle to share knowledge gained with others in your company.

**Question 2:** I have never negotiated a contract. Are there any formal guidelines for negotiating with vendors?

**Answer 2:** If you work in any form of government or public sector business, most likely the answer is yes. Your procurement officer or someone in the department of management and budget can probably supply you with whatever you need. Many private companies have policies and procedures that govern vendor negotiations. If you don't have a policy manual in your possession, try contacting someone in your legal department or purchasing department to find out if they can get you one. If you are part of a project management office, you may also have policies and procedures that include these kinds of guidelines.

One thing to keep in mind is that there is likely to be a lot of information that is not written down. There is “local knowledge” that you will also want to learn. Find someone in your organization who has done negotiations and ask...
him or her to mentor you. Find out if any of the vendors that your company currently does business with would be able to supply your needs. Then, find out what their reputation is with the people who use their products and services.

While you are talking to the purchasing department, ask if they have a preferred providers list that you should use. A preferred provider is one that meets your company’s standards and has signed a preferred provider agreement. Be sure to get a copy of those agreements before talking to the vendors so you know what they have already committed to. Some companies also give preference to businesses based on various criteria, such as minority- or women-owned businesses. Knowledge is power. Once you have done your investigation, you will feel much more prepared to develop your own guidelines if you have none to start with. Finding better ways to do things is what project management is all about.

**Question 3:** How do you negotiate the lowest price for a product?

**Answer 3:** You can ask how the vendor costs his product. What is the profit margin? How much is added for research and development (R&D)? How much is added for marketing and overheads? Generally, a new product on the market is more highly priced because the vendor is trying to recoup high R&D costs. However, if the product is so new that the vendor needs sales to gain references, the vendor is usually willing to offer steep discounts, sometimes up to 50%. Of course, you are buying an unproven product and assuming a lot of risk in doing this.

You can stipulate in the contract that the vendor must put a cap on the amount of profit that he or she receives. Usually this is done when the entity letting out the contract is a government or educational agency or a nonprofit. However, if you are negotiating a highly competitive and lucrative contract, vendors may be willing to agree to do this.

You can make it known that you will be evaluating bidders based on lowest cost. This is only effective if there will be a lot of vendors bidding for your contract and there is a good probability of additional contracts for support, maintenance, customizations, and so forth.

Just focusing on cost as a means of choosing between vendors is extremely risky. You will most likely not get the quality product you expected nor when
you expected it. Vendors through history have gone out of business underbidding contracts. This results in a lose-lose situation for everyone and should be avoided by all means available.

**Question 4:** Are negotiation techniques different depending on the type of contract you are negotiating?

**Answer 4:** Not really. However, how you choose to exercise those techniques may be influenced by the type of contract you want to execute. For instance, in an auction bidding process, negotiations will typically be attended by many people representing the parties to the proposed contract with one person selected to speak for each party. Other team members are there to advise their team representative. This requires frequent private consultations amongst the team members, usually with one or more teams leaving the meeting room for some period of time. For this reason, team negotiations tend to be lengthy with a lot of administrative overhead.