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Making Global Agreements Work

By Susan A. Hahn

Before jumping into a global agreement, take some time to get rid of the hurdles that could lower your ROI and make you less competitive in the long run.

The growing availability of the Internet in all parts of our world, which has seemingly erased national borders and shrunk the enormity of our planet, has precipitated an increase in global agreements between companies and countries. Regardless of client size, sophistication or location, most companies pursue global agreements because of the belief that global agreements automatically leverage a company's size, spend and geographic location into a quantifiable, competitive advantage.

Unfortunately, global agreements guarantee nothing; they merely reflect the desire of two or more partners to conduct business, usually in a new way. An agreement's strength is directly proportional to the contracting parties' level of preparation and planning and their commitment to support change management and contract maintenance. Without such a commitment, contracting parties find themselves quickly overwhelmed and disappointed.

Often, we are our own worst enemies. As negotiators, we can unintentionally sub-optimize our own global agreements as we rush forward to evaluate global agreements, pressured in part to avoid "falling behind" our competition. Rushing in blinds us from identifying the eight most common hurdles blocking global agreement optimization, which, ironically, exist within our own company's four walls. These eight hurdles can be eliminated prior to entering a global agreement, and, by doing so, can improve a company's present supply/buy situation. Resulting agreements result in higher return on investment and return on effort, and they can be designed to remain flexible to changing market signals over optimal time periods.

The eight most common barriers blocking global agreement optimization are:

- Lack of clarity
- Over-reliance on a traditional toolbox
- Standard approach to new and unique opportunities
- Inflexible savings definition
- Reputation
- Miscalibrated timing and speed
- Lack of funding
- Unmanaged cutover/implementation

Lack of Clarity

Test your negotiation team. Ask each member to write down on paper the goal of an agreement without consulting one another. Responses from an efficient negotiating team will be concise, simple and closely clustered around the same goal; responses from an unorganized team will vary greatly and may even be contradictory.

Potential agreement partners are not mind readers. Vague, ill-defined and inconsistent contract goals prevent partners from correctly interpreting a company's intentions, leading them down irrelevant avenues.

Lack of clarity automatically reduces potential contract return, and "business-eze" is usually the culprit. "Business-eze" is an operational language based on a specific company's culture and geographic location, which is best understood by the company's own employees, but not by those outside the company. To increase the agreement's value, clarify communications by eliminating all "business-eze." Use simple language to make clear statements. Further define the goal in terms of expected outcomes and measurement methods. This enables potential partners to propose better solutions.

Over Reliance on a Traditional Toolbox

Global opportunities are everywhere, filled with unique benefits and hard-to-quantify deliverables. A buyer's over-reliance on traditional evaluation methods can misrepresent a global agreement's potential risk and value.

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- Traditional Tool Box: Negotiate price and terms;
  Specialty Tools: Cost contribution to the finished product
- Traditional Tool Box: Market Surveys;
  Specialty Tools: Cost-plus or should-cost analysis
- Traditional Tool Box: Single-faceted negotiations;
  Specialty Tools: Multi-faceted negotiations
- Traditional Tool Box: Flat price comparisons;
  Specialty Tools: Risk management
- Traditional Tool Box: Single component negotiations;
  Specialty Tools: Category management
- Traditional Tool Box: Annual contracts;
  Specialty Tools: Optimal market timing

For optimal measurement, understand the purpose of each tool and use it to its fullest potential, either independently or in tandem with other tools, to fully evaluate the value proposition of unique proposals.

Standard Approach to New and Unique Opportunities

Stringent adherence to predetermined goals and deliverables can constrict a company's ability to see new partners and opportunities. It is easy to find partners to supply predetermined solutions. However, market leaders are not satisfied with standard solutions; striving to outperform their competition, market leaders state their goals in terms of their intended impact. They also partner with innovative companies with strong problem solving capabilities. Additionally, market leaders consistently capture the potential of new, complex proposals and are able to measure non-traditional opportunities better than their counterparts.

Inflexible Savings Definitions

Question: Who sets your company's sourcing strategy?

Answer: The department that is responsible for defining a company's legitimate "savings."

Don't believe me? Consider this: Negotiators evaluate agreement benefits in terms of hard and soft deliverables. Hard deliverables are often given more weight in the supply decision because accounting can track, validate and support the savings estimates.

Here is a common example at Company ABC: ABC's accounting department defines legitimate savings as any decrease in the purchasing price variance (PPV). Negotiators are discussing a one-year contract with two current suppliers. Supplier One proposes a 6 percent PPV. Supplier Two proposes a 5 percent PPV and guarantees a 3 percent reduction in inventory value.

"It is vital that negotiators increase market understanding, global contracting cultures and are allocated adequate time to negotiate the contract."

Since ABC does not value inventory reduction as a PPV (rather, as an asset revaluation) it is not valued as savings. Negotiators have more incentive to partner with Supplier One, who has the highest PPV contribution, even though Supplier Two can arguably create greater long-term benefits.

Accounting does not intentionally block good sourcing strategy. Non-traditional opportunities necessitate creative measurement that is difficult to capture. It is important to remember two things:

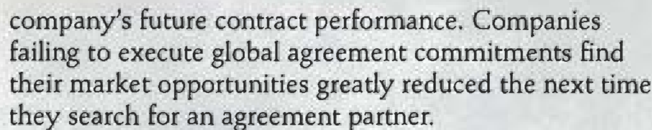
- The more limited the savings definition, the more limited the market opportunities and the less innovative the solution.
- Innovative companies seek out equally creative partners that appreciate revolutionary new market approaches.

The solution: closely tie the procurement and accounting divisions' departmental and personal performance targets. Shared targets facilitate the creation of accurate, quantifiable savings definitions.

Reputation

Companies that consistently honor their agreement responsibilities can demand a premium contract partner and can better leverage future global agreements. Potential partners assume that a company's past predicts future contract performance, and in today's market the key is for a company to align itself with high-performance partners.

Global partners build their proposal, in terms of opportunities and costs, around their perception of your



company's future contract performance. Companies failing to execute global agreement commitments find their market opportunities greatly reduced the next time they search for an agreement partner.

So how can a company positively enhance its reputation? By only agreeing to contracts that can be fully supported. Companies adequately prepared to meet financial and human resource commitments during cutover and implementation will find a plethora of eager partners.

Miscalibrated Speed and Timing

Speed: Regardless of language ability, the majority of foreign businessmen know one universal English phrase: "time is money." As Americans, we believe corporate leaders drive great deals on demand. Yet, in areas such as Asia the common belief is that the person who needs the deal the most agrees to it first. Americans striving to demonstrate strength by the speed and efficiency of their negotiations can be viewed as hasty, irreverent and naive in countries like China and Turkey, where businesses enjoy the art of striking the deal. For example, American companies often sign 1- to 3-year contracts with built-in evergreen and escape clauses. In Japan, a contract's trial period may be three years and the contract's returns evaluated over a 7- to 13-year period.

Timing: Negotiators should strive to align global contracting with positive market signals to garner the best results. Yet, in many corporations market signals take a back seat to annual corporate project(s), which commonly dictate agreement timing, execution period, terms, opportunity valuation, contract length and cutover commitment.

To solve speed and timing issues, it is vital that negotiators increase market understanding, global contracting cultures and are allocated adequate time to negotiate the contract. Partners need time to create flexible global agreements with mechanisms that allow them to stand the test of time. To gain market leadership, agreements must build in mechanisms that adjust to future, unknown market opportunities, which take time.

Lack of Funding

If all of this sounds expensive in terms of investment, time and human resources, it is. Significant expertise and resources are required to create solid global agreements. The costs of entering and sustaining agreements are rarely identified in both dollars and human resources hours prior to entering the agreement, despite the fact that costs can quickly run from 3 to 7 percent of contract value.

In order to drive value from a global agreement, a company must make sure its negotiation team has the appropriate resources and experience (or access to it). Build funding for market, financial and legal research, site visits and translators into the negotiation budgets. A negotiation team limited to part-time project status and a budget that only covers conference calls and e-mail communications will create a "part-time" global agreement that reflects its lack of resources.

Likewise, a partner's budget for supporting a global agreement is critical. Negotiators must intimately understand their partners' investment capacity (dollars and human resource hours), as well as their applicable experience and prior success.

Weak Cutover

Agreements start, not finish, with a signed contract. Poor cutover is the No. 1 cause of global agreement failure and disappointment. Cutover is the period of great change that occurs between signing the contract and full contract implementation. The best-written contracts can be undone instantly with poor or absent cutover planning. Unfortunately, cutover costs occur before agreement rewards are realized, and funding sourcing solutions with delayed savings potential is difficult for most companies.

To avoid this, negotiators must evaluate all negotiated agreements in terms of total cost, which factors in cutover and start up costs and includes hard and soft savings such as cost savings to market, cost containment, ability to change and current employee skill set. The negotiation team must secure resource support from senior management before recommending any solution. No solution can be chosen if the company cannot continuously support its cost or resource commitment — doing so ensures failure.

In addition, the negotiation team should include members of the cutover and implementation team. Cutover and implementation are better supported when the professionals, challenged with implementing the agreement, are included in creating the contract.

In the last decade, our shrinking business world and on-demand global communication has led us to believe that negotiating global agreements should also be simple and convenient. The ease of entering global agreements should not tempt us to believe that it is easy to create efficient and global agreements. Diligent procurement teams that take into account the eight common barriers to success will be the only ones rewarded with fiscally beneficial global agreements. SC