

# When You're Negotiating, Direction Counts More than Accuracy

Years ago, while working for Green Giant, I phoned our steel can sales rep to ask for a 4% reduction. We had information suggesting steel prices had fallen 8%.

He certainly wasn't very happy and, as expected, argued against any decrease.

"Are you saying you're still purchasing steel at the same price as before?" I asked. "That would be surprising."

"Um... no, of course not," he said, "but look – let me get back to you."

He called me next morning. "I talked to the head of Purchasing, and it's not quite so simple. You need to understand that we use *specialty steels*," he explained. "They're not as volatile as *commodity steels*. Our costs have fallen only 6%, not 8. So we're prepared to offer you a 3% reduction."

I went to my boss for advice.

"Take it!" she cried immediately, "It's 3% better than you'd have gotten if you hadn't known about the steel drop. He certainly wasn't going to call *you*."

She went on, "What goes around comes around. The next time steel prices rise and he calls for an increase, you've got a great counter-argument. After all, *specialty steels* are less *volatile*, you know (she winked). He can't have it both ways," she added, "unless you let him!"

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## It was a great lesson. Direction counts more than accuracy.

Good thing too, because trying to discover your suppliers' *true* costs is often a futile exercise. Except for commodities traded on an open exchange like NYMEX or CBOT, "transaction prices" are not really knowable. Every deal is different. In fact, actual prices are often deliberately obscured by volume rebates, secret discounts, scrap allowances, etc., many of which don't even show up on invoices.

This is very good news for Purchasers. Direction is relatively easy to monitor (with the help of websites like ProPurchaser). This makes it quicker and easier to prepare for negotiations, and there's no real loss of negotiation leverage.

A boon for any busy Purchaser!

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