Negotiating With Suppliers and Buyers (and other important stuff)

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Rules for today

- Interactive
  - This is not a lecture but an exercise

- Collaborative
  - The more you contribute the more you will gain

Mission Statement

“To search for and develop opportunities that allow our customers to achieve their goals”

Please set some goals for yourself during our time together

Objectives

- Learn how(why) to position your business
- Gain an understanding of the negotiation process
- Expose you to ways you can improve your negotiation (sales) skills
- Provide you with a set of tools to better achieve your goals

Positioning Your Business

- Ask yourself this question – “What does our business look like today, and what do we want it to become?”
  - If you don’t have a destination in mind, any road will take you there.
  - It is important to do the background work
    - Mission, vision, values, goals (personal and professional)
    - Don’t just pay lip service to these items, use them as guiding principles as you build your business!

Positioning Your Business

- You need to know how your business (you) is viewed by buyers and suppliers

- So what is positioning?
  - A, B, and C customers – which are you now and which do you need to become?
Misconception – All customers are equally valuable. Every bit of business, every product, and every dollar of sales revenue is as good as any other.

In reality some customers and business is much more important than others, as a rule of thumb 20% of customers generate 80% of profit! But businesses also need to look to the future.

The Positioning Statement
Writing a Positioning Statement for your business is a precursor to branding the business. It will determine what you emphasize in your interactions (negotiations) with other business.

To help you create a Positioning Statement, answer the following questions.
- What do we do best?
- Who is our target customer(s)?
- What needs do we fulfill for them?
- Who is our competition?
- What makes us different from them?

Think about this in the context of land rent negotiations and selling some of your production.

A positioning statement is a distinct and engaging statement that sets you and your business apart from all the rest, by describing the unique value you offer. It tells the people that you do business with and those you want to do business with, This is why you should do business with us." You must clearly understand your market, your competitors and what they do well; and what truly differentiates you from your competition.

Main Entry:
- **negotiate** Pronunciation: ni-gō-shē-āt,-sē
- Function: verb
- Inflected Form(s):
  - nego-ti-at-ed; nego-ti-at-ing
- Etymology:
  - Latin negotiatus, past participle of negotiari to **carry on business**, from negotium business, from neg- not + otium leisure — more at negate

**Negotiation Defined**

- *intransitive verb: to confer with another so as to arrive at the settlement of some matter transitive verb1 a: to deal with (some matter or affair that requires ability for its successful handling) : manage b: to arrange for or bring about through conference, discussion, and compromise <negotiate a treaty>2 a: to transfer (as a bill of exchange) to another by delivery or endorsement b: to convert into cash or the equivalent value <negotiate a check>3 a: to successfully travel along or over
What is negotiated?

- Land
  - Rent, purchase
- Inputs
  - Seed, fertilizer, fuel, crop insurance, money, labor, services
- Machinery
  - Lease or purchase
- Production
  - Cash prices, basis, delivery time and location

In the old days two property owners who had a disagreement would hire knights to determine who was right. The process was called waging war. Several centuries ago, someone invented lawyers, and as a consequence, the process of determining who’s right in a dispute became one of waging law.

A Brief History of Negotiation

Using the previous line of reasoning, negotiation could be viewed as waging peace. However, if negotiation is viewed as a means of determining who is right, it retains the underlying sense that, as a consequence, some parties end up winning and others emerge as losers.

Negotiation is NOT a competitive sport

When parties adopt a position, locking themselves into a narrow range of “acceptable” outcomes, they often conclude that the most appropriate approach to negotiation is to treat the process as a competition, with winners and losers. In other words, broaden your view as to what is an acceptable outcome.

Negotiation is NOT a competitive sport

If negotiations for resources are treated as a competition, the process may yield short-term gains; long-term gains, however, are not a likely result.

Negotiation is NOT a competitive sport

Treating the other party in a negotiation as an opponent rather than as a partner in a collaborative process decreases the likelihood of reaching an agreement that contains the fundamental element of commitment.
Prepare for a successful negotiation

- **Goals:** what do you want to get out of the negotiation? (land, price concessions, improved basis) What do you think the other person wants? Don’t forget it is not all about money!
- **Trades:** What do you and the other person have that you can trade? Consider “flex” lease instead of “cash”

Prepare for a successful negotiation

- **Alternatives:** if you don’t reach agreement with the other person, what alternatives do you have? Think about new land to rent vs. renewal of a lease. Are these good or bad? How much does it matter if you do not reach agreement? Does failure to reach an agreement cut you out of future opportunities? And what alternatives might the other person have? Land owners usually have options.
- \Hallock and Roseau 2010\NW MN Crop Budgets 2011.xlsx

Prepare for a successful negotiation

- **Relationships:** what is the history of the relationship? Could or should this history impact the negotiation? Will there be any hidden issues that may influence the negotiation?
- **Expected outcomes:** what outcome will people be expecting from this negotiation? This includes both parties in the negotiation.

Prepare for a successful negotiation

- **The consequences:** what are the consequences for you successfully negotiating or unsuccessfully negotiating the deal?
- **Power:** who has what power in the relationship? Who controls resources? Who stands to lose the most if agreement isn’t reached? This is the unfortunate part of most land rental negotiations!

Prepare for a successful negotiation

- **Possible solutions:** based on all of the considerations, what possible compromises might there be? Price is the most obvious, but others include terms, timing, length of contract.
- **Can you think of other compromises in a land negotiation?** What about negotiation for supplies or machinery?

Prepare for a successful negotiation

- **Most of us negotiate with one another frequently.** Once we realize this, we have two choices: accept the fact that negotiation is a way of life in our culture and improve our skills so that we can negotiate with confidence; or, do nothing about it and have a competitive disadvantage in the business of agriculture.

Improving Negotiation Skills
Improving Negotiation Skills

- Attitude is important
- Be prepared to compromise
- "Fair" is a range
- Effective communication is critical
  - Developing trust through effective communication and fair dealings result in the best long term results

Know how you can gain a competitive advantage (but not compete with the other party)
- Always be aware of who you are negotiating with. Owners, spouse, heirs, employees or other third parties.
  - Always know how the other party is paid!

Listen, listen, listen.
- Listen actively and acknowledge what is being said. Make sure you understand what the other party is after and how they will benefit from working with you.

When preparing for a negotiation, know your costs and the impact of changing costs or prices on your operation. Consequently know as much as you can of the impact of a successful negotiation on the other party.
- Being able to justify and back up your position with data is critical.

Understand leverage. In some cases the best leverage you have is the willingness to walk away diplomatically.
- Good negotiators are patient and consistent in dealing with others.
- When the contract is signed you are not done. Develop a communication plan.

What do you need to do and know in advance?
- How do you calculate what you can pay?
- What non-monetary items or issues might be a part of the process?
- What happens if you pay this person more than anyone else you do business with?

Discussion – Land rent negotiation
• What can you ask for?
• Is there a reason you should get a better price?

**Is it important to do business locally?**
• Are you and “A,B or C” customer?
• How can you improve your customer status?
• Discriminatory pricing – does it occur in your trade area?

**Discussion – Supply purchase negotiation**

• Does everyone get the same price at the elevator or packer? Why?
• How can you improve your price?
• Are you a low cost supplier? How can you impact transaction costs when doing business with buyers?
• What kind of leverage can you acquire to command a better net price for your production?

**Discussion – Selling commodities**

• Questions, comments -
• What did we miss?
• Are there other topics you would be interested in?
• Make sure you thank corporate sponsors for this event.

**Discussion – other issues**

The negotiation process may be **Combative, Competitive,** or **Collaborative.**
Using **Collaborative** techniques to find **Complementary** interests can lead to **Commitment,** which is the outcome of successful negotiation.

**In the end, the “letter C” is important**

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**Thank you and please stay in touch**