

Sales and Procurement

Sharing the spoils or
spoiling the share?



Introduction

The annals of commercial history are full of anecdotes about the B2B buyer-seller relationship. Various described as a contest, a war, a win/win partnership, a value-adding collaboration, a strategic venture, there are very few sales people who don't have an epic tale to tell about an encounter with a purchasing manager. And, on the other side of the fence, most procurement professionals have plenty to say about sales people!

We wanted to find out how the sales function interacts with procurement in 2012, and for this reason, we decided to re-run a survey carried out in 2007 which revealed some stark messages about their preparedness for dealing with this rapidly evolving function.

In essence, the research showed sales people being reactive, transactional, overly focused on face-to-face behavioural negotiation tactics, and unaware of the strategic, analytical and longer term methods being employed by a newly-educated procurement profession. We also added some new questions to the original survey to make for a richer picture.

And to interpret the results with a truly balanced view, we decided to ask two lifelong specialists from either side of the fence to jump into the ring and 'debate' the results!



The Contenders

In the Red corner...

Representing **Sales**

Anderson Hirst

Director

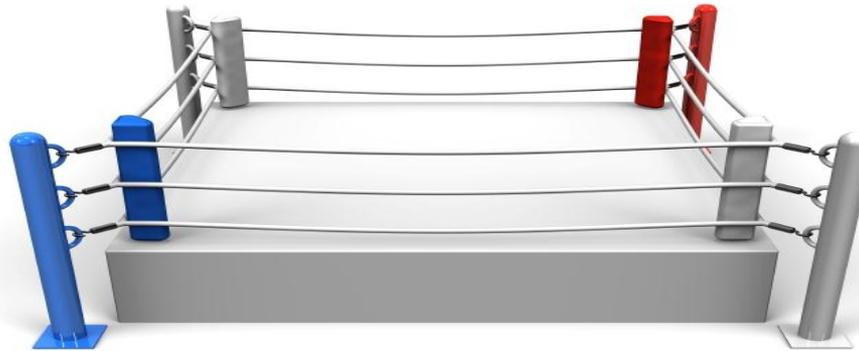
Selling Interactions



Like many procurement

people I found myself in the profession by happy accident, at Black & Decker, where I earned my spurs as a relative youngster doing deals internationally with senior supplier executives. I quickly learned how to negotiate and began to apply analytics to sourcing decision-making. I had fun working with these tools in a variety of procurement leadership roles in automotive and aerospace over a long career in large companies. For the past ten years I've shared that experience and knowledge with buyers (and indeed sellers) in a wide range of business sectors. For me, there are few situations where solid preparation doesn't out-perform an negotiation adversary: so I'm saying the key to success in buying and selling is in doing your homework; something I don't see enough of.

In the Blue corner...



Representing

Procurement

David Atkinson

Founder & Director

Four Pillars

I started my sales career at the age of 23 selling water treatment chemicals in to the facilities management services industry, before moving onto to sell industrial adhesives. In both cases, I encountered some fearsome buyers, and among our sales team, there were always stories circulating about their inexplicable behaviour. And, of course, there was always bravado about winning one over the buyer too! The fascination with buyer-seller interactions led me to become a training consultant in sales, and eventually to set up Selling Interactions, to 100% focus on sales development and researching sales issues.

Survey Questions

1. What percentage of your client's sales revenues are purchased from 3rd party suppliers?
2. To what extent is your business clear about its strategic importance to your client's business?
3. What supplier evaluation criteria does the client deploy for your category of spend?
4. To what extent is Procurement the lead business function in sourcing decisions for your category?
5. What percentage of the total purchases a client makes does you service or product represent?
6. Is the client active in steering your sales to a position where it can successfully apply greater leverage?
7. What are the commercial power attributes in the relationship and which company do they favour?
8. How successful is your company in creating client lock-in?
9. Is the client active in creating a dominant position in the relationship by reducing its own and increasing your dependency?

Encouragingly for the sales profession, their knowledge of the procurement process has demonstrably increased in recent years. Two-thirds of the knowledge indicators in the survey show an increase in understanding of procurement since our first survey. Procurement is now an expected part of the sales territory.

88% of sales people believe the role of procurement is increasing in strategic importance to clients.

Unsurprisingly, aspirations of 'client lock-in' are somewhat depressed, more uncertain in today's atmosphere of financial turmoil and risk avoidance (decrease from 57% to 49%).

70% of sales people are indifferent, or actively do not enjoy embracing the challenge of dealing with procurement.

The sales profession, lagging in 2007, in terms of understanding and leveraging power and dependency, is in an even worse position in 2012. The need for getting a grip in this critical area is urgent for many suppliers.

And worryingly, "little or no help" is coming from the Sales hierarchy in 79% of cases; help such as senior executive engagement, training, deal coaching, etc.

Survey Headlines

In 2012, sales people have a deeper understanding of their clients' reliance on procured goods and services

David Atkinson

Thankfully, more and more sales people are understanding that this is an important question. To many a sales person, their own product or service is the perspective from which they view their working world; customers are engaged with for the purpose of making a sale. But understanding how important 3rd party expenditure is to the client can provide great insight as to why sales struggle to get attention for their value proposition. It is also a window on the type of procurement organisation they're likely to be facing.

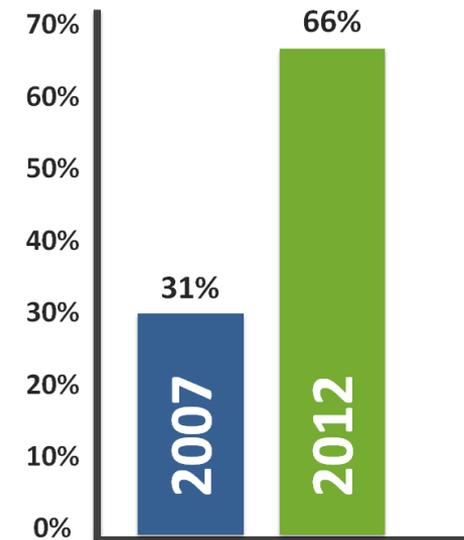
A useful rule of thumb is that the greater the percentage of sales revenues that are spent with 3rd party suppliers, the more important procurement will be perceived by its organisation. This will almost certainly mean that the skills and capabilities procurement has will be higher, its influence in the organisation greater, and the mandate it has to influence purchasing decision far stronger.

For example, if that percentage is low (30% or less), then procurement's approach is more likely to be reactive and traditional, and its influence in the organisation limited. It's possible, with care, for the sales person to sell 'around' procurement and avoid the function with continued success.

Anderson Hirst

The fact that the number of sales people with weak knowledge of this question has dropped shows that sales people are becoming more savvy in understanding their customer's business. This is great to see! The sales education industry has invested a lot of time in this with tools like PESTLE and SWOT designed to help people think in depth about their customers. At the same time, I don't think strategic analytical thinking comes naturally to sales people, meaning they may well overlook this important question.

What % of your client's sales revenues are purchased from 3rd party suppliers?



% of sales people having STRONG knowledge in this area

Suppliers believe they have a reliable and strong handle on how important they are to their clients.

David Atkinson

On the face of it, there has been strong improvement in this since our 2007 survey yet, in my judgement, we have to be careful about celebrating too early. It's a rare salesperson who doesn't believe their value proposition is strategic and, sadly, many suffer from a deluded view of their business's importance. The callous truth is that most of what a customer buys is far from strategic, barely getting attention from the CPO or other senior managers.

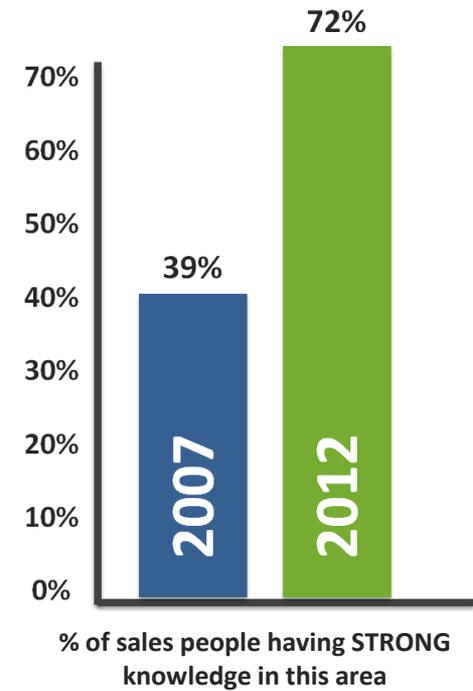
The stakes are particularly high for the seller, and there is little room for a sales strategy based on hope and expectation. What is required is a dispassionate assessment of all key client relationships. The consequences of failing to understand the customer will almost certainly result in reduced sales, or no sales at all.

Determining the criticality or strategic impact of distinct spend categories is a core skill of procurement and is at the heart of any sourcing and negotiation strategy. There are tools long in use by procurement that help practitioners reach decisions on how much time and effort they will invest in any particular supplier relationship. Sales people would do well to learn what these tools are, how they are applied and the impact they consequently have on the selling environment and its opportunities.

Anderson Hirst

This area has improved massively since 2007, and again, I believe it is much more widely understood amongst sales people that they need to do research about their customer's business. The internet has helped here, by making training materials and business tips freely available to all. Good key account managers often have thorough and extensive knowledge of customers, as there has been a trend to recruit professionals from customers' industries and then have them sell into that industry. Anecdotally though, I still train many sales people who overestimate their importance to customers, caused by inside-out thinking, and being given the title of "Key account manager". Whilst the account may be key to the supplier, it might not be key to the buyer.

To what extent is your business clear about its strategic importance to your client's business?



What supplier evaluation criteria does the client deploy for your category of spend?

Sales are better at understanding how bids are evaluated in 2012 than they were in 2007.

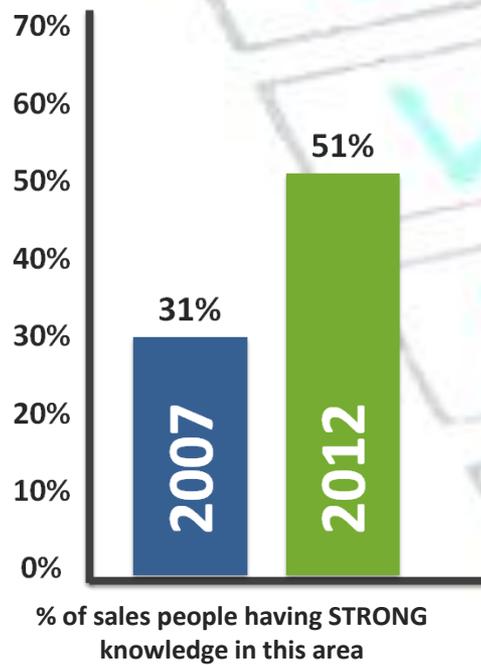
David Atkinson

I recall a conference I was speaking at in the USA a few years ago when, between sessions, I sat-in on another speaker's presentation. That sales leader was talking about 'value', 'relationship selling' and "big bad procurement" and, during the Q&A, I suggested that, in my then 20 years as a procurement practitioner, I'd never once been asked by a sales person what my targets were, or indeed how I was going to evaluate a supplier's bid. Now, I'm not suggesting that sellers *never* ask, but I am saying they're reluctant to do so. There's something about the specificity of this question that scares sales people, as if they strongly suspect their value proposition isn't going to address the customer's needs.

There's evidence of progress in this survey, perhaps due to Sales' acceptance that procurement people are operating in a more systematic manner, and are seen to be taking a dispassionate view of each supplier's bid. I would encourage any seller confident in his or her bid, to challenge the customer to declare how that bid is going to be evaluated. They may be surprised to find that many buyers will be quite happy to share that information.

Anderson Hirst

Although there is an improvement here, I think this question in particular reveals an Achilles heel in sales people's knowledge. Whilst National Account Managers in FMCG are very used to category management, I think many feel that how the individual categories are evaluated is something of a "dark art". And, it's my belief that most sales people would not be clear on the line of questioning they would have to follow to discover this. In many cases, they may consider it frivolous information given the time constraints they inevitably have. For the 'rank and file' sales person, the focus is often on selling to meet a target. It's not surprising that many KAMS struggle to penetrate accounts if their category is seen as a commodity.



To what extent is procurement the lead function in sourcing decisions for your category?

David Atkinson

Although procurement has been blessed with a mandate to lead its organisations sourcing decision process by many a CEO, there are plenty of businesses out there where this is not the case.

Savvy sellers will, in their mapping of the customer's decision-making unit (DMU), assess the influence procurement will have over the sourcing decision but, in doing so, must avoid simply focusing on the influence of the key individual alone.

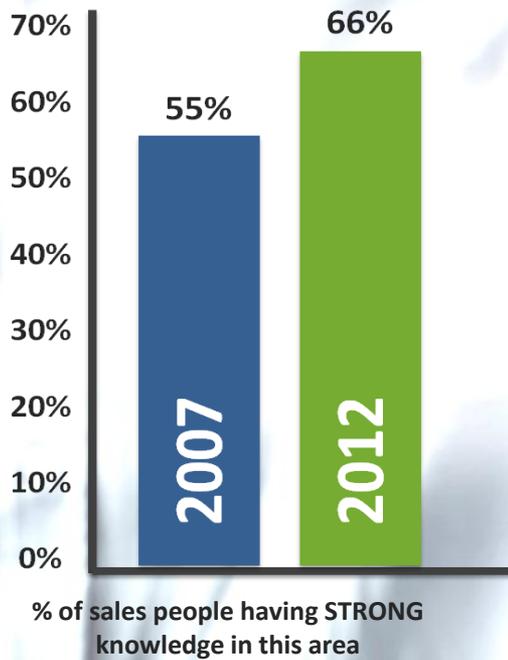
Procurement's structural influence is much less understood and, for those sellers hoping to make a sales breakthrough, being able to understand procurement maturity and influence *together* can truly help.

My challenge to sellers is to take a more dispassionate view themselves, be really clear about to what extent procurement is a key player in the game, and develop engagement strategies appropriate to the situation.

Anderson Hirst

Since the ground breaking work by Miller Heiman in strategic sales training in the 80s, decision making unit mapping, understanding buying roles and digging for needs are commonplace now in the sales profession. This has enabled sales people to get a much better understanding of how purchases are made and who has most influence.

Understanding decision making units is a totally critical skill for KAMs to avoid losing out to competition, or having margins unnecessarily eroded, through a weak political position. I remember very well the words of one procurement director I trained: "We believe in win-win: A small win for the sales person and a big win for us!" This is more difficult for the buyer to achieve when sales people are in good contact with all buying roles and sell to needs.



Half of all respondents have no idea when their products or services are ‘big ticket’ for the client or not.

David Atkinson

Once again, the 2012 survey shows an improvement but there are still only half of all respondents who could claim to have a good handle on this, leaving the remainder reliant on their own sales hype to convince themselves (and hopefully the client) that the services they provide can have real strategic impact.

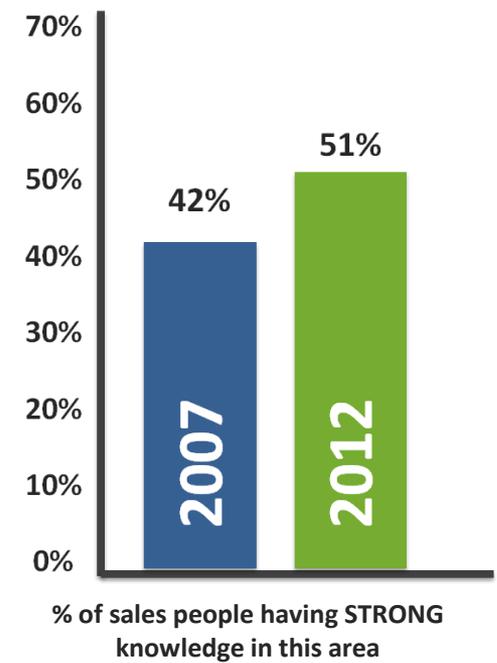
Procurement concentrates its efforts and resources on the spend categories that either represent a large percentage of its total spend and/or has genuine critical or strategic importance. For sellers of products and services sitting outside this criteria it will be difficult to gain the attention of the senior procurement people and, if they get a significant attention at all, it will be from relatively junior staff, leaving them with a up-selling challenge within procurement itself.

Are sales people clear about which type of client engagement is likely to be most effective with the client? According to our survey, at least 51% should have cause to think again.

Anderson Hirst

This relatively low level of knowledge of what is clearly quite a critical and obvious piece of knowledge I think reflects sales people’s tendency not to engage well with strategic thinking. This was highlighted earlier and is worth expanding upon. The very qualities we recruit for in sales people sometimes are the opposite to good strategists: We want action orientated, relationship focussed “Just do it” people who are not deterred by obstacles. Strategist are often reflective and analytical are more inclined to think about supply chains, downstream use of products and services. Fortunately, sales people can be trained to think in this way without compromising their action orientation.

What % of the total purchases a client makes does your service or product represent?



Only 38% think they know what Procurement is up to when it comes to leveraging the relationship with the supplier.

David Atkinson

The success of most procurement functions is in generating, from supply chain spend, savings for their business. Where this is easiest is in the sourcing of categories of spend classified as 'leverage', meaning items where the relative spend of the buyer is high, and the supply market is swamped with competing suppliers. Of course there are some (but typically very few) categories of spend where supplier engagement on a broader 'value' agenda is possible and sellers can't rely on achieving that status with the customer. For most sellers, they will continue to face procurement attempting to position the supplier where there is greater leverage, for the implicit goal of suppressing prices or rates.

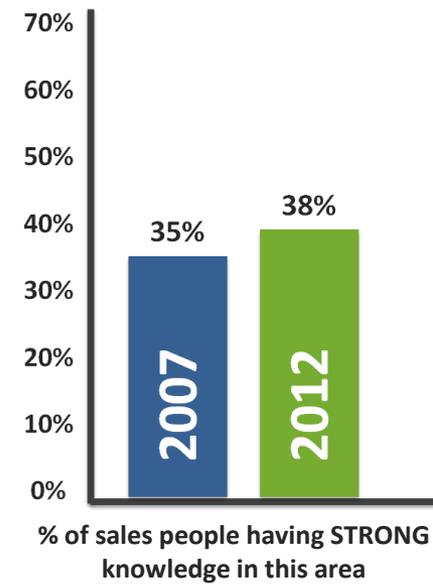
Where procurement outsourcing consultants are deployed, the business model is to concentrate volumes with a smaller number of competing suppliers, with the transparent aim to reduce prices. It's fair to say that, for procurement, the 'leverage' box generates a gravitational pull on most spend categories and sellers need to have strategies of their own to perpetually create differentiated and compelling value propositions.

Anderson Hirst

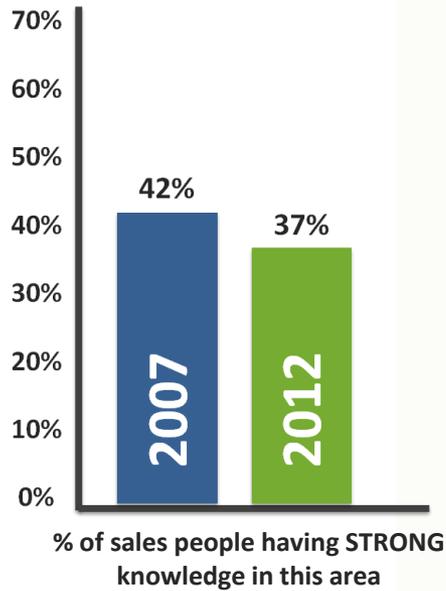
Not much change here unfortunately! Levels of uncertainty were high in 2007 and are, not surprisingly, still high! From my perspective, whilst sales people are acutely aware of the methods they can use to try to make clients dependant (i.e. creating custom product / service variations that cannot be copied by others – USPs) the methods procurement use on their side are still seen as "dark art" again.

While most sales people are sensitive enough to the threat of price leverage, for example by hearing the competition's name mentioned, it often occurs in a 'reactive manner' meaning defensive strategies are applied too late.

Is the client active in steering your sales to a position where it can successfully apply greater leverage?



What are the commercial power attributes in the relationship and which company do they favour?



Sales has little idea of how to systematically assess, and then act upon, their understanding of power.

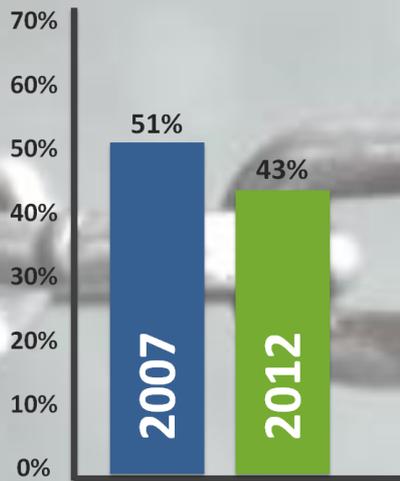
David Atkinson

Sellers often have an intuitive sensitivity to commercial power in their relationships between their own companies and the customer organisation, and it aids them in their negotiation activities. Nevertheless, in my experience they do not typically take an analytical approach to understanding power attributes and variables and their impact on commercial outcomes. In the last fifteen years there has been substantial research led by the procurement profession into the power in business relationships, much of which has led to analysis tools being used by procurement today, to their demonstrable advantage. Until such time that sellers become more interested in taking such an analytical approach, then they will continue to be at a disadvantage.

Anderson Hirst

This result for me highlights the ‘new frontier’ of sales training. That the problem has got worse highlights a key area where procurement have got ahead in the “arms race”. Procurement are clearly using analysis of power to their advantage, and to my knowledge, very little training or education has been done in this area for sales people. This should definitely be a key area to on to help sales teams cope with this silent and largely hidden negotiation approach.

The financial crisis continues to depress Sales' expectations of their ability to create long-term client relationships.



David Atkinson says....

One of the defining characteristics of procurement activity is that cost savings generated through sourcing and negotiation, in contrast to sales and marketing efforts, typically find their way to the bottom line very quickly. This obviously attracts the attention of senior leaders and many procurement leaders have reported during these recessionary times that tough savings targets have subsumed broader efforts to harness the capabilities of, and the value that could be generated from, key supplier relationships.

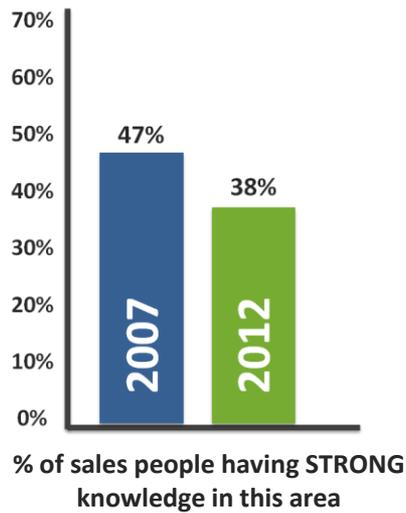
Consequently, many long-term business relationships have come under strain, leaving sellers uncertain about the sustainability of their existing share of the customer wallet.

How successful is your company in creating client lock-in?

Anderson Hirst says....

This is the thing that really keeps sales people awake at night. It takes a lot of effort, support and persistence to win a new customer, and invariably growth targets means the work does not stop there. So, as sales people are asked to find more business, they do their best to protect existing wins. When procurement starts to flex its muscle, parade the competition and demand discounts, then it is not surprising that stress results. It is also clear to me when I train sales people that they are not always aware of their power and value to a customer and are often too easily shaken by such sabre rattling. It's vital therefore that they do a proper analysis of their added value to the client, and build it across as many areas as possible in order to increase lock-in.

Is the client active in creating a dominant position in the relationship by reducing its own and increasing your dependency?



It is difficult to see beyond tactical behaviour when it comes to Sales' consideration of each party's dependency

David Atkinson says....

Smart buyers, in their mapping of those attributes and variables, will attempt to identify those they can lever to their own advantage before developing negotiation and sourcing strategies that will improve their position.

What few sellers consider is that, in a specific relationship, some of these attributes or variables of power or dependency have potential for the seller to take control of.

For the buyer, being in a dependent situation with a supplier can be incredibly frustrating and many will seek to proactively reduce that dependency through a range of internal and external activities. Sellers who find themselves overly-dependent will similarly look to reduce their dependency on the client by nurturing alternative client relationships.

The key is to understand what levers of power and dependency exist, and then seek to lever those to the suppliers advantage. In my experience few sellers even think about those levers, and fewer still proactively do anything about them.

Anderson Hirst says....

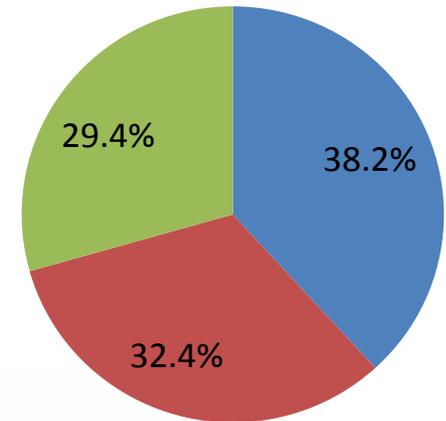
This comes back to the point of procurement winning the arms race at the moment by a better understanding of who has the power, and how to shift the balance. There is quite a big swing for the worse on this dimension, which is really a wake up call for the sales community. We need to get much smarter at looking through the eyes of procurement professionals and devising strategies, early in the game, to push the balance towards a fairer distribution of value.

Dealing with procurement is no fun

David Atkinson says...

With many sellers brought-up on a diet of *Relationship Selling*, coming to terms with analysis-driven procurement people can be disconcerting. The latter are all too frequently more rigorous in identifying and quantifying tangible value. Often daily, they have to deal with failures on the part of suppliers to supply to contract, failures which represent value leakage for Procurement's business.

Sellers may feel that they're on the defensive much of the time; it's challenging enough to sell to service and product users, and more and more are experiencing procurement is becoming a harder sell altogether.

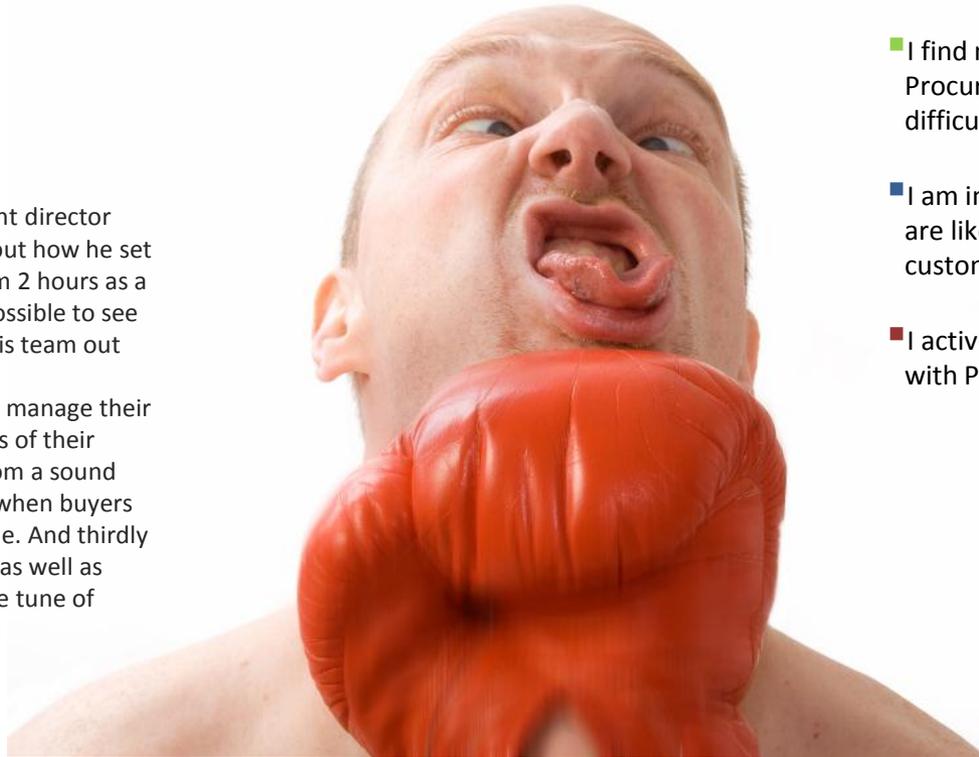


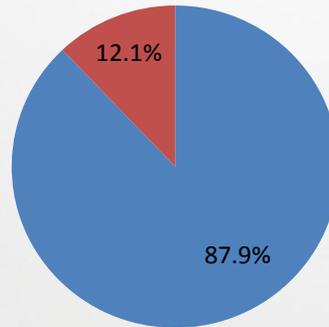
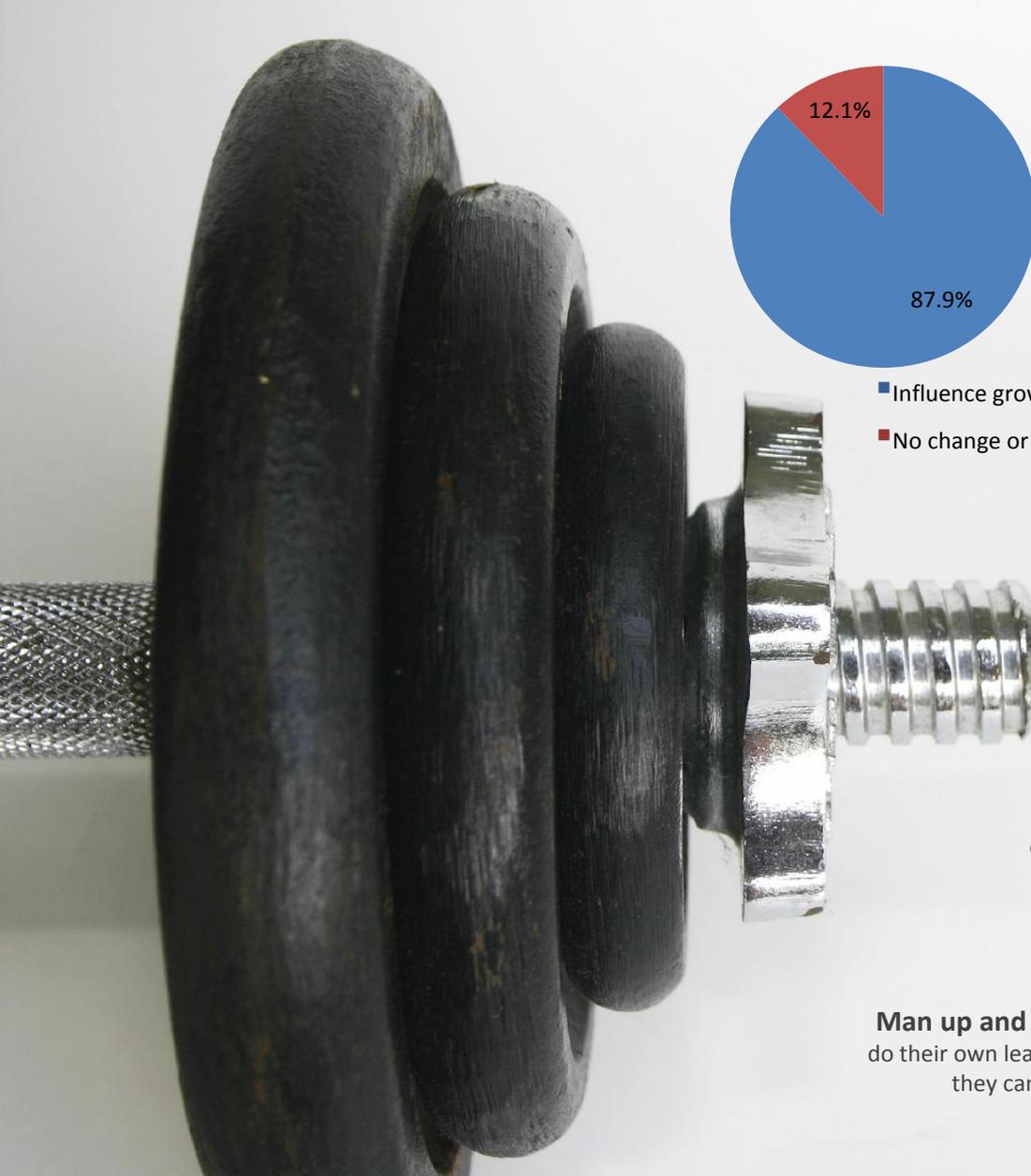
- I find meetings with Procurement personnel difficult
- I am indifferent – they are like any other customer
- I actively enjoy working with Procurement

Anderson Hirst says...

What a surprise! I remember one procurement director explaining with a gleam of pure evil in his eye about how he set up a meeting with a major supplier and gave them 2 hours as a team to come up with the best price reduction possible to see if they would retain the business, while he took his team out for a pizza and a laugh!

Sales people have to learn to do 3 things. First, to manage their own perception to appreciate the positive aspects of their procurement counterpart so they can operate from a sound emotional base. Second, don't take it personally when buyers use strategies and tactics that aim to harvest value. And thirdly, to be much more proactive in planning strategy as well as tactics, so they lead the dance rather than dance to the tune of others.





- Influence growing
- No change or declining

The influence of procurement is increasing

David Atkinson says...

Procurement in the 21st century is a mainstream business function. When businesses outsource increasing amounts of their requirements, then effective procurement becomes a far more important part of the business than in the past when businesses were vertically-integrated. The procurement profession itself is struggling to meet the demands of business for its talent; this is illustrated by the growth in membership of the Chartered Institute of Purchasing & Supply. This professional body was set-up around eighty years ago and as recently as the 1990s had little more than 10,000, U.K.-based, members. A few years on and it has a global membership of around 70,000, and still growing. This, coupled with a maturing and cross-sector-applicable suite of tools and techniques, makes for a formidable opponent for *old school* relationship-sellers.

Anderson Hirst says...

Man up and get used to it! Seriously though, my advice is for all sales people to do their own learning and research to really learn how modern procurement works so they can better understand how relationships play out, and how to lead value development and negotiations.

Little or no help is coming from the hierarchy

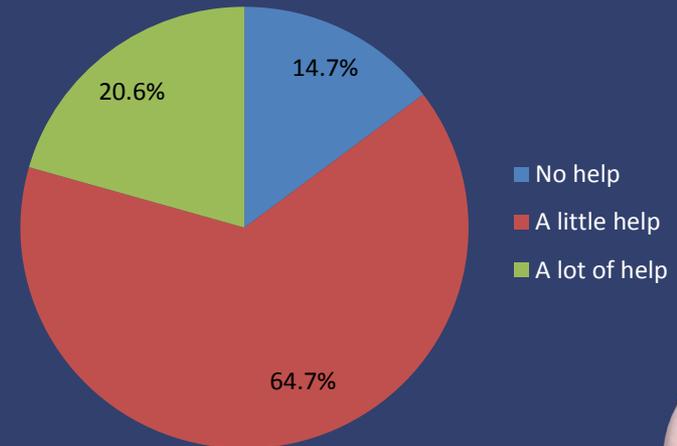
David Atkinson says...

Sales and marketing leaders occupying the upper echelons of the management hierarchy, with successful careers behind them, probably gained their sales fieldwork experience in the years before procurement become so established. They're just not equipped with the skills and knowledge to intervene or provide support to frontline sales and account managers in dealing with procurement. In addition to their sales teams, these senior managers also need a procurement education.

Anderson Hirst says...

I think many sales leaders were schooled at a time when procurement was a "back room" function and therefore they have had no exposure to the rapid evolution of the profession. Furthermore, there is still a heavily operational, tactical, reactive mindset in many sales managers, whose default position is to drive sales and win orders, without an eye on the longer term evolution of customer-buyer relationships.

Therefore this result does not surprise me at all. And, I think it should be a call to arms for sales leaders. It's time to provide serious help to the sales force: Training, account planning, coaching on the job and exemplar behaviour in front of the customer.



Conclusion 1: Analysis Before Action



The role of procurement in any organisation can vary substantially. Therefore, the first important task we have is to properly understand procurement's role within our clients: Is it highly strategic, sophisticated and progressive, or is it an unloved back room function with no power or influence? This demands a level of analysis of our client's business activities which is not often understood or acted on by many. It means getting to grips with the proportion of client spend on direct costs, the drivers of value that are important to procurement, and the linkage to bottom line profits

Without an understanding of how procurement are actually involved, it is very difficult for sales people to make sense of the behaviour they are faced with. And because the procurement profession has evolved significantly over the last 10 years, attracting many MBAs who see the role as influential, high impact, and a stepping stone to other opportunities, sales people can expect to be confronted with a formidable force.

Fundamentally, analysis implies looking through the client's eyes in terms of what has to be achieved in procurement terms, in order that effective engagement strategies can be made.

Conclusion 2: The New Trusted Advisor

Progressive sales organisations have made big strides in moving from “product pushers” to “business consultants” or more informally, “trusted advisors. Unfortunately, at the same time, procurement is also increasingly winning this role internally, especially as they can play the trump card of “market objectivity”. Good procurement personnel can become respected in their own organisations for supply chain and sourcing expertise. Without a full understanding of the procurement agenda, the classic sales approach of relationship management can be lacking. Trying to win friends at the top may no longer be an effective strategy, particularly when procurement decisions have been happily delegated to lower levels, and especially if the supplier has been characterised as a “non-strategic” purchase.

Sales people by nature (and design) seek goodwill-based relationships, and it can be challenging for them when faced with apparently hostile purchasing staff, who in reality, are just acting in the way required for the “spend category” they are dealing with. It’s important to see through this, and not take it personally. This is easier to do if the role of procurement in the product / service category is comprehensively understood.

Conclusion 3: Understand Power and Value Levers

One stand-out conclusion from the research is the weakness of sales people in understanding and using power. Through a number of power analysis tools, procurement professionals have been able to use this dimension to fully extract value from commercial interactions. It seems also that sales people find the use of power rather uncomfortable, perhaps linked to the instinctive desire to build relationships. And they most often experience it during face to face negotiations as intimidating behaviour, which directly confronts the desire to build “fun” relationships.

In fact, a thorough mapping of “value levers” (those subtle and not so subtle activities which help clients save costs, reduce risk or increase revenues) would enable sales people to manage power much more effectively. Especially if they go to the trouble of understanding their client’s downstream business, they can become invaluable to the client, and hence more powerful.

Understanding how spend categories are classified by procurement helps a lot in understanding which value levers are likely to be appropriate , and also where power lies. Which takes us nicely back to our initial conclusion: Analysis before action.

Conclusion 4: It's time to engage with procurement

We've suggested in this research that the nature of buyer-seller relationships are, at a fundamental level, adversarial. Both parties, in executing their roles, are in positions where their primary goal is to secure advantageous terms that enhance the shareholder value for their respective organisations. They're not responsible for the success of the other. This is not a value judgement; it's simply a description of the territory in which our protagonists operate.

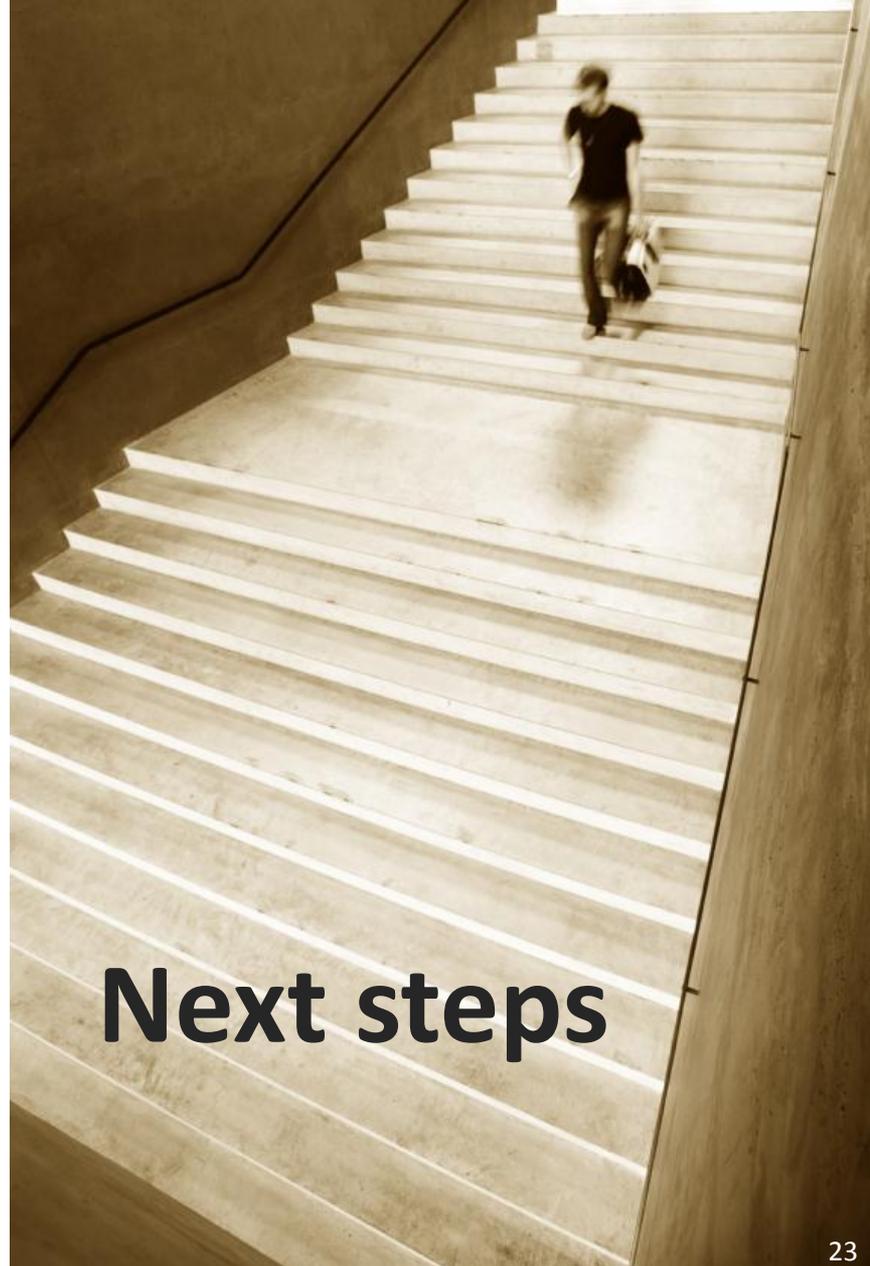
Many tales of woe from sales people arise because the procurement strategy is well under way by the time they come face to face with it: normally via a tense negotiation or a series of apparently unreasonable demands placed before them.

We believe these moments of misery can be headed off, IF sales teams are **HIGHLY PROACTIVE** and **ENGAGE WITH PROCUREMENT**. That means understanding procurement's role, mapping out what the client organisation values in granular detail, and developing value propositions that explicitly address those value requirements. It doesn't have to be a boxing match; but it does require sales people on top of their game, ready for any challenge procurement may throw at them.

Our Advice to Sales leaders

- Act without delay to train sales people on the tool kit procurement professionals use to manage supplier relationships;
- Bring that new understanding to your account planning and value proposition development;
- Engage proactively in Key Account Management (KAM) by dispassionately assessing each key relationship; defining visions for each, and working longer-term to create client lock-in and a shift in the power balance;
- Coach KAMs on 'thinking one step ahead' in their client engagement and negotiation preparation. Encourage KAMS to engage with procurement on an equal basis, creating value together, and insisting on a fair share of the value.

- We hear a cry for help in this survey from the sales profession and we have teamed up to create a new kind of development process which is based on helping sales people analyse and develop their largest accounts with the procurement mind-set fully in view.
- Attend our **Selling to Procurement Executive Briefing Workshop on Tuesday 4th December** in central Birmingham. Here you will be able to bring one of your own key accounts as a case study and:
 - Understand the role of procurement there
 - Understand how your client categorises your product / service
 - Map out value levers and power distribution
 - Plan to maximise your position at the account
- We can also run a S2P (Selling to Procurement) development programme in house, directly tailored to your needs
- Contact Anderson.hirst@sellinginteractions.com or d.atkinson@fourpillars.co to find out more



Next steps



Four Pillars

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Transform, sell, buy and negotiate for

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