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Professional Credentials (formerly known as Certification)

Purchasing "Negotiating in a Global Environment: What You Need to Know"
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E-Commerce: Driving Digital

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The current challenging economic times will increase pressures on organizations to reduce costs for profitability and even survival. I've recently heard many commercials recently advocating for the use of web-based meetings and activities to increase effectiveness and to mitigate the cost of travel. For some of us optimists, these challenging times are an opportunity to integrate some forward thinking processes….many of which are digital.

With that said, it is time to measure your e-commerce initiatives! But rather than speaking in bits and bytes, networks and bandwidth, or exchanges and marketplaces, let's imagine a straight line scale populated by cartoon characters. On the left hand side is a Stone Age family (call them the Flintstone family), representing no progress at all towards implementing any kind of e-commerce processes. On the right hand side sits a Space Age family (call them the Jetson family), representing digital nirvana. Where does your company fit on this scale? Do you have plans to move towards the Space Age? What have you done so far in implementing any e-commerce processes? How is your company holding up? How are your suppliers doing?

Oh, did I say suppliers? Many organizations that are implementing e-commerce solutions may be leaving their suppliers in the dust. It is important to see where your major and critical suppliers fit on the Stone Age / Space Age continuum, and to determine their attitudes and plans regarding e-commerce. It can get very lonely and dangerous in space without the support of your critical suppliers.

E-commerce is having a dramatic effect on the marketplace, affecting everything from communication to transactions to service levels. Most, but not all, companies are already taking advantage of the benefits of e-commerce. However, all organizations will have to take a serious look at their existing supply bases to determine how many suppliers can make the journey with them. Some suppliers may be already making the trip, and are actually leading the pack. Some may lag behind, and some will never leave the launching pad. It is never too early to check on their progress and make the plans and decisions necessary to ensure that you will have the most agile and responsive suppliers possible as you move across the e-commerce universe.

The normal supply base is made up of large multi-national suppliers and small "mom and pop" suppliers. Both are valuable, and have their place in the supply base. Large suppliers may have vast product offerings, extensive technical support, and e-commerce based systems that dovetail perfectly with your operating systems. You may be fortunate to have a solid relationship with these suppliers. The small suppliers, on the other hand, may not be very sophisticated, but they may offer outstanding service, the products that you need, aggressive pricing, and generally great support. Often, they are local. The large supplier can immediately become e-commerce enabled, or maybe is already, but the small supplier may not even have e-mail! What does a buyer do now?

The smaller supplier may even be more important to your organization than the larger supplier. Many small suppliers can be sole source or critical suppliers who supply a special part or perform a unique service. No matter what the e-commerce plans of your company are, it is important to keep these suppliers ready and happy. We all have our secret suppliers, those dependable, honest, and thoughtful suppliers whom you would trust to hold your wallet and watch your children. Once we have found those types of suppliers, and developed strong relationships, we are hesitant to give them up. But what if e-commerce comes knocking so loudly that you have to "electrify the relationship"? Both of you may be in trouble.

How can you make sure that your suppliers will go along with you on the e-commerce journey? There are several key steps that buying organizations can take to ensure that their e-commerce plans integrate with their suppliers. The first step is to ask your suppliers about their e-commerce plans. Identify your key, or critical, suppliers. This may be a big list or a short one, but each organization has a group of key suppliers that they can ill afford to lose. Once you've made that list, begin to review the suppliers' e-commerce capabilities. As silly as it sounds, many suppliers today still don't utilize e-mail. It is time for them to get it. And use it!

Which of your critical suppliers have a productive web site? What can you do on that site? Is it primarily advertising, or are there opportunities for product support, technical information, catalogs, or directly ordering from the supplier? If you want to utilize the supplier sites, let them know that. Suppliers are a bit nervous. They are launching web sites because they fee compelled to do so, but often times they are still giving customers the opportunity to get information in more traditional methods. As more and more customers gain familiarity with the Internet, and increase their usage and understanding of technology, suppliers may begin to restrict information to the Web.

It is critical to provide feedback to suppliers as to what is important to you relative to their site. Often time web sites are created by those with little direct customer interaction, yet, the target of the site is the customer. So, be a good customer and tell them what you are looking for!

Some sites even allow for order status and tracking. Remember how difficult it was to get delivery information from trucking and package companies before those tasks became Internet based? Wouldn't it me great to track all of your materials that way? This is but one example of the power of e-commerce.

You can also quietly force your suppliers to increase their use of technology. Begin to transfer some communications to e-mail or through a portal. It wasn't so long ago that the fax machine was considered the technological tool of the future. Many suppliers didn't even have them. Computers are the same way. The cost of computers has plummeted, so the cost excuse has gone away. Technology, while not perfect, is becoming more intuitive. Force your suppliers to communicate through e-mail by making it a primary means of communication for certain things. I am not advocating the elimination of face to face meetings or the telephone, but by increasing the use technology may make the communications loop more efficient and send a strong message to the supplier community.

Technology doesn't just affect the buying organization. It has a direct impact on the selling community as well. Careful planning, a sympathetic ear, a reasonable technology roadmap, some good old-fashioned convincing will help your supplier community keep pace with your e-commerce plans. While some suppliers are ready to go, and may be waiting for you to catch up, many suppliers may be lagging behind. They cannot afford to do so for much longer. Neither can you.

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Building Trust to Accomplish Large Projects

Gatorade/Graham "On-Site" Alliance

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Abstract. As manufacturers work to shorten cycle times while improving quality and value to the customers, the importance of a well functioning supply chain is being seen as a competitive advantage. In order to achieve this efficient chain, trust must exist between all prominent links in the chain. Research is showing trust to be the single most important factor in achieving performance from the supply chain.

By investing the resources and time to build strong trust with its supplier, Quaker Oats developed a strategic alliance with Graham Packaging of York, Pennsylvania, that resulted in a $20 million savings per year. That exceeded the ingoing project objectives by over $1 million annually.

Building Trust to Accomplish Large Procurement Projects. The association between buyers and suppliers exists at various levels appropriate to the product or service being procured. Traditional relationships exhibiting more adversarial properties are sufficient when contracting for commodities or non-production, non-essential materials or services. In these relationships the players will share minimal information; bargain rather than problem solve, and conduct each contract as if it were the last forthcoming.

In an effort to ensure performance, buyers will craft detailed contracts designed to reward suppliers for compliance, with punitive clauses protecting against nonconformities. These traditional contracts take the place of trust in the relationship, leaving little room for non-compliance. The result is that the supply professional gets what they ask for, but nothing more. As a result, neither the buyer's firm nor the supplier's organization is willing to invest effort or resources in this relationship, so neither benefit beyond the execution of the contract.

Non-commodity items and services require a relationship that supersedes the traditional adversarial approach. A collaborative, strategic alliance is required for such buys, or when planning a significant procurement project. Buyers must develop a foundation for sharing information. Supply professionals are the portal through which an interdependent relationship between manufacturers and suppliers can thrive. This relationship can result in leveraging resources, sharing of technology, and coordinating efforts in cost, quality and productivity improvements but for it to flourish trust must be a part of the relationship.

How to Build Trust. Trust is required to sustain commitment to the buyer/supplier relationship. David H. Maister, co-author of <u>The Trusted Advisor,</u> describes four steps in driving trust in a business relationship. 1.) Credibility-gaining an understanding of each other's business. This understanding establishes credibility which leads to trust. 2.) Reliability-do what you say you are going to do when you say you are going to do it. 3.) Intimacy-deal with people as people rather than role players. Make a true commitment to meeting the other's needs. 4.) A lack of self-orientation-a commitment to mutual satisfaction in this relationship (Yuva). Yuva writes, "Trust is transactional and without practicing these behaviors, trust is often lost due to misunderstandings."

Gatorade/Graham Alliance. Quaker Oats Company of Chicago, Illinois had captured over 82% of the global market in the sports beverage industry with its Gatorade brand. In an effort to grow its Gatorade market share, Quaker Oats searched for ways to bring a lower priced product to the market. With the bottle being the biggest expense in producing Gatorade, the purchasing department established a goal of lowering the bottling cost $10MM-15MM per year. Quaker worked to build trust and create a relationship with a second source that would result in mutual benefits and goals. As you can imagine, the original supplier was resistant to Quaker's attempts to improve its current position with it. At one point it asked Quaker Oats what price it would take to not pursue a dual sourced strategy. Although the existing contract contained clauses that created difficulty, Quaker Oats had learned from mistakes in this contract, and pursued an alliance with a second source.

The trust building process Quaker Oats had employed in searching for a second source, resulted in the alliance between the Quaker Oats Company and Graham Packaging of York, Pennsylvania, Graham is a leading global manufacturer of custom blow molded plastic containers. The Quaker Negotiation Team spent a year putting this alliance in place. In addition to visiting bottling companies, plastic molding organizations, and resin suppliers, the team spent many hours holding trust building sessions with the potential suppliers. The most difficult groups to convince were the internal executive management team and the board members. The proposal for Graham to operate on-site at Quaker Oats required a cultural adjustment according to Mr. Richard Reider, currently Director of QTG Package Purchasing for PepsiCo. (Mr. Reider was director for Quaker Oats Purchasing at the time of these negotiations.). Quaker had been in a business relationship with the current supplier for 12 years. Because Gatorade represented 40% of this supplier's business, Quaker management believed it had enough leverage to obtain the most competitive price. Managements' trust in the existing single sourced supplier's ability to produce the least costly product available, lead it to question another supplier's ability to beat the current price. Senior management at Quaker Oats was uncomfortable with the level of commitment required by both parties, to make Mr. Reider's on-site proposal work. Once Graham agreed to management's insistence of a "meet competition" and an "escape" clause in the contract, and based on Mr. Reider's substantial projected savings and his ability to confirm Graham's technical competence, the alliance between Quaker Oats and Graham Packaging was able to go forth. This alliance resulted in significant savings from the current supplier as well.

Quaker Oats was not the only benefactor from this alliance. Graham Packaging was able to draw on its new alliance to grow. In 2001, Graham's purchase of Owen's Illinois' bottling division made Graham Packaging a giant in the bottling industry. Also in 2001, Gatorade's success was the spark that ignited much of Pepsi's interest in acquiring Quaker Oats. Quaker Oats and the Gatorade product are now part of the PepsiCo family.[1]

As a result of this alliance, an in-plant bottling facility was constructed at the Gatorade plant in Atlanta, Georgia. Quaker supplied capital for the plant expansion while Graham covered the cost of equipment in the facility. Graham agreed to operate the plant and accept responsibility for meeting quality and efficiency standards. It also agreed to be responsible to sell unused capacity in the off-season. This alliance produced savings of more than $20MM/year by creating a relationship based on trust and sharing of cost information.

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Negotiating In a Global Environment: What You Need To Know

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Abstract. Cross-cultural business negotiations are a fact of life for many US companies as it is for many companies in other parts of the world. While we start by defining what we think an excellent negotiation is, our primary focus is on how important understanding cultural context is to successful global negotiations. To try to negotiate without such knowledge is to operate under a severe handicap. Some of the issues that we address are: cultural characteristics, stereotyping, cross-cultural etiquette, protocol, and importance of time. In addition, we give a few examples of cultural context in America, Canada, China, Japan, Mexico, and South Korea.

Some basic definitions. For clarification purposes we want to start out with a few important definitions:

1. Negotiations is a process that involves
   a. planning of strategy and tactics
   b. putting the plan into action through creative persuasive communications
   c. resulting in a workable compromise

2. Cultural Context
   a. culture - patterns of human behavior within a country or countries
   b. context - the set of circumstances that surround a particular event

Introduction. If we want to be able to reach the best workable compromise, we must first take some time to understand how others think and act. While Maslow's basic motivating hierarchy applies the world around, people from others countries may interpret their needs differently than we do and because of cultural conditioning they may seek to satisfy those needs in a different way than we do.

We can divide cultural context into three broad categories. They are: high, intermediate, and low. In high context countries the relationship between the parties is extremely important because they only want to do business with people they know and trust, and communications are often indirect. This is why it will take more time to make a contract in high context cultures than in low context cultures. In intermediate context cultures the relationship between the parties is more important than low context cultures but not as important as high context cultures.

Some elements of cultural context. Low context cultures communications are usually more direct; relationship between the parties is less important, but the written agreement is the main thing that counts. Low context cultures expect to get down to business right away. Small talk is viewed as a time waster.

Low context cultures like to have more space between themselves and the other party (about five feet in the US). Where as, high and intermediate context cultures are more comfortable sitting or standing closer to each other.

Uncertainty avoidance is less important in low context countries than it is high or intermediate context cultures.

High context cultures prefer group decision-making. The Japanese prefer group action so you may never know who is in charge. Americans work the other way around. They may show up as a group but it will soon become clear who is in charge.

The table below list countries and their level of context.

CULTURAL CONTEXT

Low Intermediate High
Countries

England Arab China
Germany Greece Korea
North American Italy Japan
Scandinavian Mexico Vietnam
Latin American
Spain

Beware of stereotyping. It is one thing to broadly classify the context of various cultures, but quite a different thing to pick out one person in a particular culture and say that they will always act that way. Men or women as a group are very predictable, but men or women as individuals are not. The trick is to observe individuals to see if their behaviors mirror behaviors that we have or will be described here or do they seem to be acting differently. Then adjust your approach accordingly.

Here are some important facts about culture to consider:
1. They are learned
2. They are interrelated
3. They are shared
4. They are continually evolving
5. Culture is nonnegotiable*

*Source: As adapted from, Global Business Negotiations, by Claude Cellich and Subbash C. Jain.

Protocol and etiquette. Do you have a basic understanding of protocol and etiquette, which is a set of guidelines or rules of behavior? For example, do you know how to greet someone? Should you shake hands or bowl or neither? Should you present your business card? Should your card be printed in English on one side and in the other person's language on the other side? How about names – do they go by first or last name? Which name is written first the surname or the given name?

Listed below are some items of etiquette that one should be familiar with.

CROSS-CULTURAL ETIQUETTE
Check List
_ Greetings
__Degree of formality
__Gift Giving
__Touching
__Eye contact
__Deportment
__Emotions
__Silence
__Eating
__Body Language
__Punctually
Source: James Sebenius, The Hidden Challenge of Cross-Boarder Negotiations, Harvard Business Review, 3//02 (as adapted)

Importance of time. How is time viewed in various countries? In general, low context countries like the US and Canada view time as money. Something to be valued, used wisely, and not wasted. In high and intermediate context countries relations are more important than time. In China completion of the task at hand is more important than how long it takes. Latin Americans on the other hand tend to run late for appointments.

Here are some examples of differences in culture that you may encounter in negotiations:

• AMERICA (Low context)
o Expect quick decisions
o Often rely on power
o Talk long term relations but do not act as if they want it

• CANADA
o English-speaking (Low context)
o French-speaking (Intermediate context)

• CHINA (High context)
o Politics play an important role in every aspect of life
o Use win/lose as primary approach
o No decision – is better than the wrong decision

• JAPAN (High context)
o Must get to know you first
o Leaderless teams
o Truth telling in low context countries means being truthful – in Japan it means avoiding confrontation to save face

• MEXICO (Intermediate context)
o Time is less important
o They like to socialize before doing business
o Drama and emotion means more to them than logic

• SOUTH KOREA (High context)
o As with all Asians – you must be patient

Conclusion. Our purpose has been to raise the issue of cultural context as it relates to global business negotiations. We recommend that if you are going to be or have just started to do business in another country that you do some homework. Here are a few things to learn:

1. Your first task should be to read a good history of the country.
2. Next, read articles and/or books about their political system to try and understand what impact politics may have on doing business there.
3. Study their currency and rate of exchange
4. Locate the country on a map. Know what other countries are close to them and what their relationship is with those countries.
5. Try to interview people who have done business there and people who are natives. Seek information about the points that are raised in our etiquette checklist above.
6. Read some articles about their negotiating style.
7. Learn at least a few words of their language. They really appreciate any effort you make in trying to learn a little of their language and culture.
8. Consider hiring an international global business consultant.

The people in the country you are dealing with will probably know a great deal more about America than you know about their country.

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