'How do you eat an elephant?' The answer of course is one bite at a time! That is a principle increasingly being employed by buyers in negotiations with suppliers. The result is a relentless approach that cuts seller margins 'to the bone'. This article provides tips on how it can be managed.

Buyers are shaving supplier margins by adopting an incremental and yet relentless approach to getting what they want. The negotiation technique in question is the aptly named "salami technique".

"A relentless approach that cuts seller margins to the bone..."
The Salami Technique

Shrewd buyers have learned that negotiation is like salami – the best way to get what you want is slice by slice. Achieving the lowest supplier prices requires an aggressive and sustained approach over time.

Buyers are continuously looking for more but willing to pay less. They are eating into supplier margins directly by looking for price concessions, but also indirectly by altering contract terms; such as service level agreement levels, or payment terms (e.g. from 35 to 45 and to 50 days!).

The Pro-longed Negotiation

The salami technique may be applied in the negotiation of a particular deal, or over time in the negotiation of a supplier relationship. Either way it has the effect of making negotiations seem un-ending.

The former most classically happens with downward negotiation of the tender price in by the buyer, followed up by a round of further negotiation by procurement. This might even be followed by finance reneging on special payment terms (e.g. 30 days) offered in return for a few extra percent off the price.

The 'stage-gate' sale, or use of a supplier panel can be an effective way for buyers to gain successive price cuts through the competitive tendering process. A buyer may achieve a reduction of 15% by short listing suppliers only to achieve a further 10% when the panel of pre-approved suppliers competes for the award.
The Short-Lived Deal

Negotiations have traditionally always been intensive, but once it was over that was it – normality was resumed. Agreements had a relatively long lifespan meaning that the seller had time to catch his, or her breath before it was time to negotiate again. The buyer mode of negotiation is changing however.

Today's negotiations are pro-longed and the agreements reached short-lived. The ink is no sooner dry, before the contract has expired and a new round of negotiation must begin. The seller is continually 'kept on his, or her feet'.

Many suppliers have come to expect annual demands from their customers for price reductions, but the time intervals between re-negotiating the contract are shortening in many cases.

Shrewd buyers may for example avoid making a contract for a whole year, or even a quarter cutting it into shorter periods and renegotiating every time. The buyer 'keeps going back to the well' so to speak continually shaving the supplier's margins.

Why Buyers Need To Be Careful Slicing

Slicing meat can be dangerous and buyers need to mind their fingers! Like any other technique it must be used with care.

In the over exuberant application of the salami technique the buyer's orientation can shift from 'win-win' to 'shave-shave'. Shaving supplier margins too aggressively can be self defeating, if supplier performance and innovation really matter to the buyer's business.

The buyer who over-aggressively slices the supplier's margins can end up eroding the attractiveness of its business to the supplier and lessening the level of trust and commitment of the supplier as a result. The result is quick-win savings, but long term costs.
The Perils Of Salami

The Salami Technique poses real challenges for sellers, including:

- Suppliers who face the shifting sands of price, will find it difficult to plan ahead, or to budget for the future. It is difficult for them to 'know where they stand'.

- The seller who underestimates how protracted the negotiation is going to be runs the risk of giving away too much too soon. Instead of cutting in many thin slices the seller concedes in steak size cuts and ends up with little or no room to manoeuvre as the negotiation is prolonged.

- The seller is easily taken off guard by the buyer's apparently premature demands for more. It is as if the buyer had a short memory and has forgotten that a deal has already been struck.

- The seller can be worn down by what seems like in-terminal negotiations. The seller must fight against attrition or fatalism setting in. It is vital that the seller keeps his, or her cool.

How To Tackle Salami Negotiations

Here are some tips on how sellers can cope with the Salami approach to negotiations. Make a note of the ones that are more relevant to you and put them into action.

1. **The buyer has to slice the salami! So be ready for it.**
   Understand the buyer's motives and the expectation that he, or she will negotiate aggressively. Develop scenarios and explore their implications for your business model and how you define your key accounts or sweet spot customers.
2. **Be clear on how the salami is going to be weighed, or measured.** Price is only one variable so position your goods in terms of the total cost of ownership, the return on investment and so on. Make sure the economics for both parties are understood. Show the buyer that there are better ways of getting the results required than cutting the supplier's price.

3. **Help the buyer to make a real meal of it.** That is to get the real result that he, or she needs. For the seller that means considering all the ingredients costs – benefits, risk, strategic fit, compliance and so on. In this way the seller is moving the conversation off price and onto value.

4. **Focus on the total meal, not just the salami.** Your product or services price is often just a small element of the buyers a total costs, or total value. So focus the buyer on how you can impact on these more important variables.

5. **More salami, means less of something else.** There has to be a relationship between price and what is delivered. As the buyer takes a slice off the price the seller should take a slice off the value. Get less, give less.

6. **Make your salami taste better** – make sure that the buyer appreciates what he, or she is getting. Measure the impact. Delivery beyond what has been expected. Make sure your salami is not confused with cheaper poorer quality stuff.

7. **Make your salami better.** Innovate is the only way to provide buyer with more for less year on year. Innovation in your product, or service and its delivery ensures the seller can deliver more and better at a lower cost without sacrificing margins.

8. **Make sure your salami goes further.** Cutting the suppliers margins are not the only way for the buyer to ensure that his, or her budget remains in-tact. In this respect the seller should support the buyer in the areas of spend analysis and demand...

“...the buyer’s orientation can shift from win-win to shave-shave...”
management. That is the equivalent to helping the buyer with portion control.

9. **Put a best before date on the salami.** Any concessions should be time related. Two examples include review clauses (e.g. where raw materials increase in price) and longer term supply contracts in return for price concessions.

10. **Try cutting the salami too!** Where the project scope and requirements need to change it allows you to go back for more.

11. To continue the meat cutting analogy (apologies to any vegetarian readers) **buyers want to cut the fat off.** They don’t want to deliver margin to the seller, at the cost of their own margin. The only danger is that buyers often have a distorted view of just what the supplier cost structure actually is. The seller must try to ensure the accuracy of the buyer’s ‘should-cost’ model.

12. **Sell to the connoisseurs.** If your customers and prospects do not appreciate your value, then the issue of target customer profile and sweet spot customer may need to be addressed. The bottom line is that if the buyer is only interested in the cheapest salami and your company’s is a delicacy with value you will always be coming from behind in respect of price negotiation.

13. **Work the salami together.** Are you strategically important to the buyer? If so, focus on how you can help the buyer achieve his, or her objectives and the importance of building a long term win-win relationship.

“Focus on the total meal, not just the salami…”
The Science Behind This Paper

These insights and tools are based on:

1. **Buyer Research** – our ground-breaking research into how modern buying decisions are made and the implications for sellers.

2. **Best Practice Research** – Over 1 million pages of best practice sales case studies, books and research.

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enquiries@theASGgroup.com

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