How To Renegotiate A Supplier Contract
By Charles Dominick, SPSM, SPSM2

Should You Renegotiate A Bad Supplier Contract?
A few years ago, your procurement team signed a contract with a supplier. It was a good deal at the time. But, since then, market forces changed. Today, the contract price you are paying is much higher than the market rate.

Do you renegotiate that contract?

Maybe. But you have to be careful. Here are six tips on how to appropriately renegotiate a supplier contract.

Tip #1: Approach your supplier carefully. With these types of situations, you have to approach your supplier initially as a partner. If you contracted for the product or service, they are under no obligation to concede to you. You are essentially asking them for a favor. You need to approach it like "Look, we are human and we made a mistake. We'd like to think that you are a partner that wouldn't take advantage of your partner's mistake, so we'd like to begin discussions about restructuring our contract so that our rate is more in-line with current market prices."

Tip #2: Address specifications and expectations. Be careful about specifying that you want the same product/service that you are getting today for a lower rate. Often, when suppliers agree to renegotiate a price, they look to cut corners in quality, delivery, or service or to substitute a cheaper product or service.

Tip #3: Convince the supplier that a price reduction is fair. Think about how you would feel if a contracted supplier approached you and said that they made a mistake and needed to charge you a higher price. How would you react? Would you feel they were trying to rip you off? What could they say or how could they say it to persuade you that changing the price would be fair? Now, adapt those persuasion techniques to your situation when you petition the supplier for a price decrease.

Tip #4: Consider the possibility that the relationship could devolve into an opportunistic one. If market prices went down and you approach the supplier for a price decrease, what do you think will happen if and when market prices go up? Do you think that the supplier will be waiting to use this new leverage to get revenge and hammer you with a higher price? If so, do you think that would be fair? Would a request for a price decrease ruin a relationship that will hurt your organization in the future?

Tip #5: Consider ethics and cultural norms. Renegotiating a contracted price may be considered unethical in some cultures. Are you breaking any established or implied ethics code by renegotiating?

Tip #6: Put your reasoning into context. Do you have a real reason for renegotiating a lower price? Will your organization's margin be deteriorated to a point where its profitability or competitiveness will be severely compromised? If so, you can use the rationale that, if prices aren't adjusted, your organization's solvency is threatened and it may not be around to be a long-term customer of the supplier. If the reason for your request of a price reduction is simply to pile on to your cost savings statistics, then the supplier will see less of a reason to grant your request.

How To Renegotiate (continued)

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