FLEXTRONICS

Design. Build. Ship. Service.

Creating Value Through Negotiations

NEGOTIATIONS HANDBOOK

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Business Confidential

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FLEXTRONICS
NEGOTIATIONS GUIDEBOOK
for Synergistic Innovation & Value Creation

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PERSONAL LETTER FROM MIKE MACNAMARA

Dear Flex Negotiator………………………

PERSONAL LETTER FROM PAT HEHIR

Dear Flex Negotiator……………………….

Chapter 1 The Negotiator's Dilemma

You've recognized that it's important to become a powerful negotiator, but like most people, have been asking yourself a lot of questions, such as

- What Style Should I Use?
- What Techniques are Best?
- Should I be Hard-Nosed?
- What About Trust?
- Should we use a Team?
- Should I make Concessions?

and the list goes on……

Perhaps you decided to learn more about negotiations and went to the book store – and the difficulties escalated when you saw how many books there are on negotiations that tell you such a range of options that you will undoubtedly become more confused than when you started.

This Guidebook is designed to unscramble the conflicting range of advice, and provide you with deep insights on how to turn negotiations into an opportunity to create great value for you, our company, and our customers.

What Style Should I Use? What Techniques are Best?

Most people, when they start learning about negotiations believe that good negotiators are effective because they have excellent style or techniques. This belief comes from observation: great negotiators are seen by outsiders as people who know their trade, understand the rules of the game, and use a powerful style and insightful techniques.

However, style or technique is more effective in golf than it is in negotiations. Negotiations are more an art than a sport. For instance, take any great musician: Greatness comes from their insight, soul, passion, collaborative ability, focus, and transcendence of their own limitations. Without these, style and technique comes across as flat and uninspired.

Should I be Hard-Nosed?

Watch any movie and the toughest negotiators are hard-nosed, stubborn, inflexible people. It makes a great movie scene: dramatic, tense, thrilling, and dangerous. In real life, the best negotiators are not movie stars – they are far more patient, flexible, and compassionate. This doesn't mean the great negotiators in real life cave in, nor does it mean they are "soft." It means they understand strategy, teamwork, preparation, problem solving, and most importantly: people.

What About Trust?

Whether the negotiations will be finalized through a contract, or if it will be a long-term business relationship, trust is always an essential ingredient. Without trust there will be little, if any, collaborative interaction to solve problems, contracts will become burdensome, and creative thinking will be brought to a standstill.

You don't have to like someone nor do you have to agree with them to trust them. Trust is based on values, honor, integrity, mutuality, and commitment. If someone, whether on your team or the other's believes you will betray them, the fear of betrayal will drive then to inordinate efforts to wall you off to protect themselves.

You don't have to agree with someone to have trust, but it is difficult to trust someone who is disagreeable.

It will be important to build both *individual* and *institutional* trust with those we work with. Individual trust is what you must create for all those people with whom you connect. Institutional trust is the collective impact of everyone who interacts with Flextronics.

For Flextronics, we need to work with our customers and our suppliers in an honorable way that stays true to:

- our Purpose:
  to Create Value that Increases Customer Competitiveness, and
- our Values:
  Intense Collaboration; Passionate Customer Focus; Thoughtful, Fast, Disciplined Execution; Tenacious Commitment to Continuous Improvement; and a Relentless Drive to Win; where People make a Difference.

Should we use a Team?

In situations where there are lots of complexities, interfaces, places where breakdowns could easily occur, and tremendous pressures for saving money and meeting deadlines, it is most important to engage those people who will be needed in the outcome to be engaged in the design and agreement on how to proceed.

Simply put, teamwork is essential to our success. The more we operate internally as a team, the more effective we will be – and the more productive and aligned we will be with our own customers and suppliers.

What Really Makes a Great Negotiator?

Negotiations are perhaps one of the most confused and misunderstood elements of business, primarily because of the intermingling of very different (and even contradictory) strategies, tactics, and styles

Overall, there are essentially three distinct negotiations strategic models in operation today (Chapter 3 describes these in detail):

1) Win/Lose (Adversarial/Combative) Strategy
2) Win/Win (Cooperative) Strategy
3) Co-Creative (Synergistic: Beyond Win/Win) Strategy

The first negotiations strategy – Win-Lose (Adversarial) -- some argue, might be effective in some forms of negotiations, such as one-time vendor relationships. Unfortunately, our adversarially based legal system has made this negotiations style the foundation of most courtroom litigation. For years, adversarial negotiations have been the primary mode of purchasing managers seeking to get the lowest prices. The adversarial approach will be presented later in this handbook simply for the sake of understanding its thinking, tactics, and countermeasures. However, its value is strictly limited to transactions where no future relationship is either valued or desired. In most situations we neither endorse it nor recommend it.

The second strategy -- Win/Win (Cooperative) -- is very applicable as a beginning point for generating cooperation. It is particularly applicable to our most strategic customers and preferred supplier relationships where the value proposition requires more than the lowest price (such as: just-in-time inventory, rapid product reconfiguration, etc.). It requires a balancing of needs and requirements between the buyer and seller. Often, the win-win approach will require using compromise. Beware, that compromise, while often inevitable, is, more-often-than-not, considered far less than an optimal response.

> Great Negotiators are characterized, not by their techniques, nor by their hard-nosed toughness, but rather by their breadth of capabilities, their flexibility, their depth of listening & understanding, there ability to co-create with others, their embracing of differences in thinking, and their insightfulness across a broad range of strategies and situations.

However, while win/win is a worthy goal, its level of trust generation and capacity to create real synergy is somewhat limited. Therefore, for truly effective negotiations for such purposes as strategic alliances, one most go beyond the cooperative model to a synergistic model.

The third strategy -- Co-Creative (Synergistic) -- is the most effective for alignment with our most strategic customers. However, unfortunately, it is far less known, and has not been popularized in the press. Consequently, fewer executives know or practice it. For most people who engage in Co-Creative Negotiations, it doesn't even seem like negotiations at all because it is so fluid, energizing, and productive. Yet, those managers who have never been "trained" in the other models tend to pick it up rather naturally.

As a negotiator, your responsibility is to distinguish the different models and ensure that you use the right model for the right circumstance.

The Great Negotiators

So what actually makes a Great Negotiator? If you study the greatest negotiators in history, such as George Washington, Theodore Roosevelt, Winston Churchill, and others, you will quickly discover that:

Great Negotiators are characterized:

- **Not** by their:
  - techniques
  - or hard-nosed toughness
- **But rather** by their:
  - integrity
  - ability to build trust with others
  - breadth of capabilities,
  - depth of knowledge
  - depth of discovery, listening and understanding
  - insightfulness
  - flexibility across a broad range of strategies and situations

…Yielding mutual possibilities
and producing sustainable RESULTS

Chapter 2 FLEXTRONICS PURPOSE & VALUES

Ask yourself two questions:

1. What makes a truly great company?
2. What can I do to help our company be truly great?

The answer to these two questions is very fundamental. Great companies have a powerful purpose supported by aligned values, then execute well on their strategic vision.

As a person engaged in negotiations for Flextronics, it is imperative that you help achieve our vision/purpose and to do it in a manner that aligns consistently with our values.

Flex Purpose

Most people believe that a company's reason for being is to make money. While we must make money to survive and thrive, money is just one *measure* of our success. When we are achieving our purpose powerfully and productively, then we should be making money. Never confuse our purpose with our measure of success.

By "**Creating Value that Increases Customer Competitiveness,"** we put our emphasis on our customer, not ourselves. Our customers are in highly competitive industries. It is our job to think and act both strategically and operationally to keep them in business. Remember:

– Our Customer is *the most important person* in our business -- in person or on the phone. Our Customer is not just another number, but a real person who expects and deserves the *best from us.*

– Our Customer is not dependent upon us, we're dependent upon them -- *they alone pay our salaries*.

– Our Customer is not an interruption in our work -- they are the *essence of our work*.

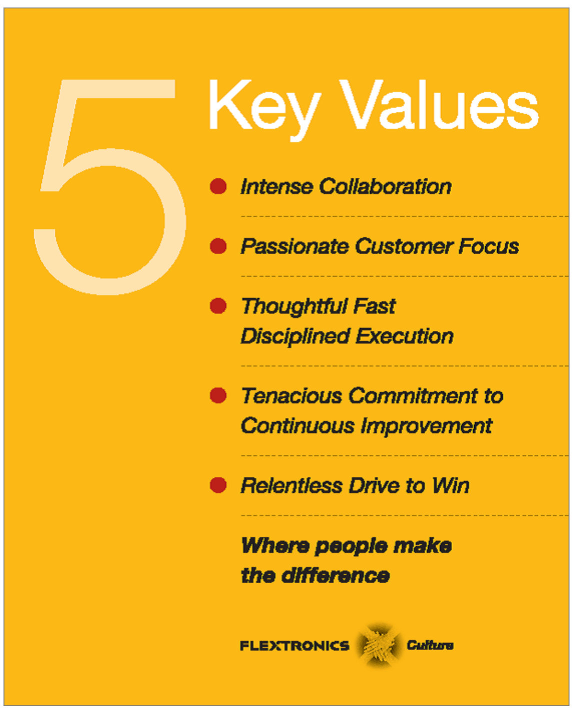
– Our Customer is an *honored and treasured friend* -- they give us the opportunity to produce for them an exceptional product, in a creative environment, by a committed teams, in exchange for their payment.

– Our Customer is not someone to argue or match wits with -- *nobody ever wins an argument with our Customer*.

- Our Customer is never a complainer. When we err, and they complain, they are taking the time to become *our advisors*; they don't want us to fail them, for our success is their success.
- Our Customer, *when satisfied, will be more likely to stay with us others* -- and when dissatisfied will engage our competitor. Without satisfied Customers, we would have to close our doors.
- Our Customer expects us to *be easy to do business with*, we should never create obstacles and unnecessary difficulties.

It is our duty to understand how to create the value that will keep our customers satisfied and prospering with us.

Flex Values



Because great companies are build on great values, it will be essential for your negotiations to be aligned, consistent, and synonymous with our values. Therefore, study these values and embody them in all your interactions when you negotiate with customers, suppliers, and internal Flex teams:

Intense Collaboration

- Have a genuine collaborative intent when interfacing with peers, supervisors, subordinates and customers
- Actively seek opportunities to engage other business units
- Work together to solve problems
- Actively build relationships — build your portfolio of content experts
- Engage others to create a better solution
- Connect/leverage any available knowledge/competence, best practices or lessons learned

Passionate Customer Focus

- Service the customer aggressively

- Study the customer's business and learn what they need to compete successfully in their market place
- Have a clear understanding of how Flextronics continuously creates value in the relationship
- Continuously invest in the relationship and explore/exploit all opportunities to sell Flextronics' integrated solutions
- Anticipate the future needs of the customer and act on these needs
- Go out of your way to provide the customer with an outstanding experience
- Build customer loyalty and help Flextronics to be the easiest EMS company with which to work

Thoughtful Fast Disciplined Execution

- Strategy without Execution is useless, focus on disciplined Execution
- Barriers? Knock them down!
- Thoughtfully evaluate alternatives, benchmark continuously, study the competition
- Use balanced risk assessment with sound judgment and intuition
- Actively eliminate bureaucracy when you see it
- Be decisive and act with speed once decisions are made
- Participate in creating a repeatable, predictable system
- Think through process, systems, people and metrics as a guideline when converting strategy into results

Tenacious Commitment to Continuous Improvement

- Make a personal commitment to yourself to make the tasks you do everyday a little faster, a little more efficient and a little smarter every time
- Every improvement should build on previous improvements and be permanent in nature — fix the root cause
- Improvements should be based on improving processes and systems and not be people dependent.
- Ensure performance is benchmarked versus best in class but also against what is possible
- Have passion institutionalizing lean and six sigma systems as a way to drive our success

Relentless Drive to Win (a win for Flex and a win for our Customer)

- Personally commit to a never-ending focus on winning
- There is winning and losing, do not accept second place
- Drive the culture of winning into the organization everyday by words and actions
- Exhibit complete dissatisfaction with the status quo and mediocrity
- Have a clear vision of what it takes to win
- Know our/your weaknesses and relentlessly work to strengthen them

Where People Make a Difference means TEAMWORK

- Teamwork is the key to providing good products and services to our Customers.

- Teamwork means thinking about your other teammates as much as you think about yourself.

- Teamwork is the only way to succeed when you are under pressure and Customers need attention.

- Teamwork is not just a nice word, it is the fundamental value upon which good service is built.

- Teamwork requires high levels of cooperation, consideration, and communication -- you must value these immensely to achieve the expectations of our Customers and your fellow teammates.

- Teamwork may not come naturally -- it is an art requiring practice, thought, discussion, planning, and more practice.

- Teamwork means being vocal about your expectations for your own performance as well as the performance of others -- and very carefully listening to the expectations of your teammates.

- Teamwork means doing whatever is necessary to get the job done, regardless of position or job description.

- Teamwork means professional performance, and true professionals always give 100% effort, not because they are paid for it, and not because others expect it of them, but because they expect it of themselves.

- Teamwork is the foundation of the collaborative innovation which will help produce the competitive advantage that will keep us and our customer in business for years to come.

It you *don't* support our Purpose and Values in your interaction with customers and suppliers, you will not be able to build trust, not be capable of generating teamwork, not develop joint innovation, and not provide opportunities to construct a great company.

Failure to be consistent with our Purpose and Values will send contradictory messages to our customers and result in damage to our trust and reliability.

In other words, how you act will make a difference in your future, your customer's future, and your team's future.

We are depending on you!

Chapter 3 SPECTRUM OF NEGOTIATIONS OPTIONS

As mentioned in Chapter 1, there are essentially three distinct negotiations strategic models you will encounter in business:

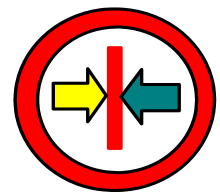
1) Win/Lose (Adversarial/Combative) Strategy

2) Win/Win (Cooperative) Strategy

3) Co-Creative (Synergistic: Beyond Win/Win) Strategy

What may give you difficulty is that not every negotiator knows there are three strategic models, and if they do they may think one is better than the other, and not know when to use one or another. This Handbook is designed to have you develop the skills and understandings to be effective in all your negotiations.

Win-Lose (Adversarial) Strategy



While this is the oldest and best known approach to negotiations, it is undoubtedly the most dangerous and volatile approach. What's more, it's the most likely to produce a Lose-Lose and the most difficult one to recover from. (The only time it should even be considered is when we engage in a one-time, short-term transaction.)

Win-Lose makes has a number of fatal flaws in its basic premises:

First: what's "on the table" is a "fixed pie" and we must fight the other side to get the biggest piece.

Second: the other side will also be fighting back for their piece of the pie, so being aggressive is the only alternative.

Third: you cannot trust the other side, because they are essentially the "enemy."

Fourth: if you aren't tough with the other side, they will take advantage of you -- so beware and be protective.

Flextronics neither endorses nor recommends this approach!

The only reason we put the Win-Lose strategy in this handbook is so that you can recognize it when it is used against you and take effective counter-measures to prevent your team from getting stuck in it, and then shift the strategy to a higher order that will produce mutually beneficial results.

Characteristics of Effective Win-Lose (Adversarial) Negotiators
Here's what you can expect people from this frame of mind to be thinking, doing, or saying:

- Make even the dullest item look great
- Be Cunning & Crafty -- project you products in the most positive light
- Be Greedy, have more ambition and motivation than your opposition has objections
- Make people like you by virtue of your powerful and smooth personality
- The Other Side is the Opponent, who is prepared to scheme against you;
    - they will not volunteer any information that will make the deal easier, and will lie if they feel a trap is being set or intimidation is likely; and will lie about most other things they tell you, so be careful. Remember, the other side has a game plan and is suspicious of his enemy, which is you. The suspicion will continue until you manage to break the ice.

Key Beliefs: Negotiations are a game of Psychological Manipulation and Mind Game Warfare

The Win-Lose negotiator has a underlying set of beliefs that often are hard to change, but if you let yourself get caught up in this belief system, your life will wallow in misery.

- Psychology is the most important weapon a master has in his arsenal. By using psychological manipulation you can examine and analyze the opponent and guide their thinking so he will be more open-minded and receptive to any presentation.

- One excellent way to manipulate the thinking of the other side is let them know you appreciate them. Also, ask them to talk about themselves

Guidelines on Making Concessions

Because Win-Lose negotiators see their world as “bargaining” – which means everything is a trade-off, concessions become a pivotal tactic. Here’s what they are thinking:

1. Don’t be the first to make a concession on an important issue
2. Never accept the first offer
3. Make the other side reduce a high initial demand; don’t honor a high demand by making a counter-offer.
4. Lower the expectations of the other side by making small concessions.
5. When you make concessions, make them slowly
6. Defer concessions on matters that are important to you.
7. Make contingent concessions (i.e. get something in return, or concede only on the condition that all issues be settled).
8. Make every concession seem important
9. Don’t feel that you must reciprocate every concession made to you.
10. Be cautious about making first offers, because you may lose an unintended benefit.

Dirty Dozen Tricks and Traps for Psychological Manipulation
Because Win-Lose is a game of psychological warfare (in the mind of the Win-Lose negotiator), then it obviously becomes essential to use psychological manipulation to win. Here are the most typical tricks you may find the Win-Lose negotiator attempting to use on you followed by the recommended counter-measure: (remember, the counter-measure only neutralizes the tactic, it does not shift the thinking to a higher order, which will be discussed later)

1. **Touch People**: Use your hands to touch their hands or some other part of their body. This makes people more attentive and draws them closer to you.
   Countermeasure: Keep your distance. Show displeasure if you are touched.

2. **Always tell them a Secret**, something they believe is special. People love to think they know something that no one else knows.
   Countermeasure: Tell them the secret has little strategic value, but you appreciate it; see if you can get them to tell you something of real importance.

3. **If you are negotiating against a team, it's you against them**. Focus on winning over one of the team; it creates internal dissention and a pressure for the others to join in.
   Countermeasure: Establish clear roles of skeptics and devils advocates to make the team division tactic useless and seem impotent.

4. **Be aware of the weapon of intimidation; maneuver yourself into a psychologically advantageous physical position** when talking. The main factor is for your eyes to be higher than theirs, making them look up at you, subconsciously making them feel less defensive, more believing, and more attentive to your words.
   Countermeasure: Set the positions of the negotiations table first, hold the negotiations on your territory.

5. **Ask a series of trap questions** that the opponent will have to agree with (say 'yes' to), it puts them into a logical progression pattern that forces them to trap themselves every time. Build a "trap box" to surround the opponent with invincible and invisible walls, and when the time is right, close the final door to the "trap." At this point, they are sealed in, locked in, boxed in, and sold.
   Countermeasure: Don't say yes easily; throw them off-balance by answering a question with a question, or asking for further clarification.

6. **Good Cop/Bad Cop:** Have an unreasonable contract clause or lawyer who takes a tough stand to make the "good guy's" position seem quite reasonable.
   Countermeasure: Tell the other side you just witnessed an excellent (or awful) good cop/bad cop routine. It will put them

off balance. Then counter with a small concession in return for a larger concession from them.

7. **Limited Authority** prevents someone present from making final decisions, thereby requiring higher authority from another entity, such as a lawyer, board of directors, or technical review.
   Countermeasure: Determine if this is true or a ploy. If true, ask that the right person be present at the table.

8. **Last and Final Offer** sets a standard for the other side to reach, or the deal will be killed.
   Countermeasure: Don't overreact; consider the walking out ploy, perhaps by feigning a need to caucus. Introduce new alternatives and other possible solutions.

9. **Nibbling** is typically used when the deal is close to being agreed, and one side asks for a few minor points just to gain a little more advantage before the end is in sight.
   Countermeasure: These are just concessions; follow the rules of concessions (above)

10. **Crunching** is an intimidation tactic that says, "You'll simply have to do better than that if you are serious in doing this deal," counting on pushing you to change your position.
    Countermeasure: Defend you position as firmly as possible; hold on to any concession you might make as long as possible.

11. **Humble & Helpless** says that you really don't know the industry nor the technology and are too new at the game to be knowledgeable, thereby getting the other side to be more giving.
    Countermeasure: Realize they may be dumb as a fox, play dumb like a fox asking for vital information in return; give out information in small increments, looking for signs of insincerity.

12. **Cherry Picking** puts one party in the position of buyer, treating the other side as a vendor. The buyer gets bids from several vendors, picking the lowest prices per item from bidders on a line-item basis.
    Countermeasure: Consider tying all items together and making the offer contingent on an all-or-nothing basis.

Note:	**The Ultimate Counter-Measure:** ***"A Trap Exposed is Emptied of Its Power"***
Suggestion:	***Print out this list of traps and counter-measures (it's included on a single page format in Appendix 4) When someone tries to ensnare you in a trap, Humbly take out the list, Point out the trap, Indicate you could take the suggested countermeasure, Then reject that option and then Propose a more productive approach that will Create more value for both and result in deeper trust.***

Legal Issues
The Win-Lose negotiator lives in a world of deep fear and distrust. To keep their protective shield intact, tough lawyers and tight contracts are potent weapons in their arsenal of warfare. Here's what you can expect of the Win-Lose approach to using lawyers:

- Your lawyer is an important asset and there to protect the client against any possible risk
- Use Lawyers to Spread Fear
- Shed Risk to the Other Side and Accept no risks if possible
- Don't Trust any agreement except the tightest agreement.
- Be sure to get all agreements in writing with clear terms and conditions.
- Litigation is the best manner to win a dispute.

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The Art of War, Sun Tzu, Shambala Books, 1994
The Negotiators Handbook, George Fuller, Prentice Hall, 1991
How to Negotiate Anything with Anyone Anywhere, Frank Acuff, Amacom, 1993

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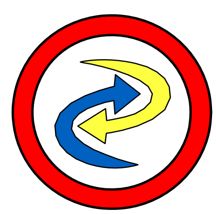
We have presented the Win-Lose Strategic Model of Negotiations so that you will be aware of it and alert when it is used against you. This approach has been used for centuries. It is the foundation of most labor negotiations and more purchasing managers have been trained in this model than any other approach. It is commonly known as "squeeze the vendor."

However, there are better ways – Win-Win is a great place to start:

WIN-WIN (COOPERATIVE) STRATEGY



Characteristics of Effective Cooperative Negotiators
A Win-Win negotiator knows that if either side loses in a negotiations, the balance of fairness will not produce a long-term relationship – something's got to give. It might be quality, or performance, or speed of response, or the loser getting back the balance on change orders, etc. Therefore the Win-Win approach takes a very different and more productive point of view:

- Conflict is inevitable and not necessarily harmful
- Some kinds of conflict can contribute immeasurably to the health and well being of an organization -- for example, by stimulating

productive competition

- No matter what the conflict, it can be managed in such a way that losses are minimized and gains are maximized.

- There will be clashes of values, but the good negotiator will find the Best Alternatives

- There is always a Zone of Possible Agreement, one must seek and find it

- All Change will Cause Conflict, and the skilled negotiator will show compassion and understanding of needs, values, and differences in these situations

- The escalation of conflict and reaction does not generally produce good results

- Always seek areas of mutual agreement, be hard on the problem, soft on the relationship

- Focus on Interests, not Positions

Key Win-Win Beliefs: Negotiations is a game of Mutual Accord
Where there's no mutual accord, in the Win-Win framework, there's no real agreement. And if there's no agreement, there'll be distrust, an anxiety that one party is unreasonably taking advantage of the other, creating, in effect, a win-lose condition. In win-win, problem solving is a fundamental principle for gaining accord and commitment:

- Establish an Atmosphere in which people are free to raise appropriate objections

- When soliciting opinions, don't define the results you are expecting

- Joint Problem Solving is a superior manner to get agreement than confrontation

- Diplomacy is the art of letting someone else have **your** way.

- Negotiations is the process of back-and-forth communications aimed at reaching agreement with others when some of your interests are shared and some are opposed; it is the informal activity you engage in when you try to get something you want from another person.

- It is essential to identify the other side's interests, fears, needs, concerns, desires and motivations at the outset before attempting to solve a problem.

- People are Reaction Machines, and it is this knee-jerk reaction mechanism that blocks most people's abilities to reach accord because differences escalate immediately into uncontrollable conflict. By suppressing this reaction mechanism, negotiations can proceed on a more logical, methodical basis.

- It is essential to limit any attack on people, which will only exacerbate feelings of distrust, thus making joint problem solving nearly impossible.

- Always look for situations where Win/Win is possible. Win/Lose situations are not likely to result in long-term accord.

- The Negotiator's Role must be to change the Rules of the Game, from one of limits and fixed positions, to one of accords to meet mutual interests.

- Extensive Preparation is critical before entering negotiations to determine what the other side's needs and interests are.

- Look to build trust by focusing on a positive relationship with the other side. The relationship between the sides frequently outweighs the importance of the outcome.

- Good Negotiations should produce a wise agreement, efficiently, and not damage the relationship between the parties. A wise agreement is one that meets the legitimate needs of each side, is durable, and resolves conflicts fairly.

- Negotiations are neither a debate, nor a trial, nor an exercise in persuasion of a third party judge or arbiter.

Guidelines on Making Concessions

For the Win-Win negotiator, winning means giving and taking based on maximizing what's in the other party's interests or what might be in the mutual interest. This means:

1. Know what I am willing to give up and what I am willing to take.

2. Examine and weigh all alternatives; develop objective criteria for the alternatives.

3. Never assume the other side thinks like you do, nor do they always want what you want.

4. The other side's values are probably different, even if they were in your position.

5. Never put the other side in a position where they will lose face or be perceived as dishonorable.

6. Preparation and Research are essential to finding win/win arrangements.

7. Listening is far more important than talking if you are to discover best alternatives.

8. Seek alternatives rather than make concessions.

Win-Win Tactics

The win-win negotiator rejects the manipulative tactics of the adversarial win-lose approach in favor of a set of principles that are more open and trusting:

Win-Win: A commitment to both parties winning will result in a far better solution than a win-lose, adversarial game. Both parties should make this commitment up front.

De-personal Conflict: Do not see conflict as evil; benevolent people can use conflict productively. Use conflict to generate energy, new opinions, and to prevent stagnant, one- dimensional thinking. Separate the Disputants from the dispute. Recast an attack on you to an attack on the problem.

Compromise: Trade-off minor issues to win major issues. Compromise is the art of releasing a lower order need to gain a higher order need.

Build Relationships: Use personal interaction to build trust and understanding. You can gain far more with a positive, productive relationship of appreciation and mutual respect than if you distrust or detest the other side. Make the other side feel not as an opponent, but as if they belong.

Listen & Learn: The most important skills in negotiations are often the most simple. By listening, asking non-threatening questions, and developing a deep understanding of the other side's perspectives, we can determine the "Best Alternative To A Negotiated Agreement (BATANA). Spend the time to find the facts. Give people time to think.

BATANA: The **B**est **A**lternative **T**o **A** **N**egotiated **A**greement is that Zone where both parties sacrifice the least and gain the most. It should be the aim of *both parties* to do the least damage to the other. Be willing to explore many alternatives to get what you want.

Fairness: A mutual commitment to fairness is essential to building a win-win. A sincere desire to see that neither side benefits at the diminishment of the other will produce a better agreement.

Focus on Interests: A "position-based" stance will only force ego-entrenched warfare that does nothing to produce a positive result. It is legitimate for the other side to different interests. Too often positions are just symbols of real needs and wants.

Respect Differences: Only by respecting differences can mutual accord be gained. Needs, fears, and desires are always different among people, so give the other side the room to have their own interests at stake.

Establish Objective Criteria: To enable a shift from positions to interests, set objective criteria for achievement of goals.

Problem Solving: Negotiations should not be considered like a war, but as a mutual problem solving exercise, where needs, wants, obstacles, and goals can be dealt with rationally and objectively.

Balance Forces[1]: Instead of pitting my force against the other side, thereby locking them into a position, balance the forces in a manner that enables both parties to operate in detente.

> **Corollary: Power** grows out of someone else's dependency. If you provide something the other side needs, they become dependent upon you, and visa versa. The key to gaining power is to identify what you and the other side really wants. Spend time learning who has the power to control and the power to decide.

Legal Issues

The win-win approach still uses lawyers, but in a cooperative manner that codifies the agreement and places the risks fairly in a manner that serves the interests of the parties. Here is how a typical win-win negotiator will regard and use their lawyer:

- Use lawyers as part of your team.
- Be sure they focus on interests.
- Don' let lawyers get into a positioning, posturing game.
- Keep lawyers objective.
- Use contracts to codify the win-win agreement.
- Parcel risks to each side based on what's in each party's interests.

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[1] Note: There three different "levels" of commitment to a win-win negotiations, and only the strongest level of commitment is of real value to the negotiators.

- *Level One:* Reluctant Acceptance: The negotiations proceeds on the belief that I must fight for everything I can get, and you must do the same. I will fight for my interests, you must fight for yours. I will allow you to win (because I know this is the only fair way), but you must stand up for your interests, otherwise I will keep pushing until I know you are at the zone where you have left nothing more on the table. This is how a win-lose negotiator believes they have become a win-win negotiator.
- *Level Two:* Compromise: The negotiators approach the problem as one of compromise and concessions. We will bargain away less important things to enable your essential interests to be achieved. Here, Win-Win is just an elegant form of Compromise, and thus sub-optimizes the possibilities in negotiations. To overcome this problem, you must shift to a higher order of negotiations (see next section)
- *Level Three:* Joint Commitment: The negotiators deeply understand the other side's real interests and needs and each is strongly committed to the other meeting their needs and will defend the other's interests against internal attack. This is the most effective win-win method for strategic relationships.

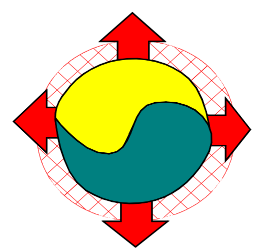
The ultimate question that must be asked when assessing the impact of a negotiating strategy is:

Will the outcome truly serve my best long-term interests?

In other words, will the strategy produce a set of results that will not adversely encumber the relationship and prevent me from really winning. Similarly, will the impact be favorable on the other side.

Conditions may change over the term of the agreement, and if they do, it is wise to make adjustments to keep things fair and square.

CO-CREATIVE (SYNERGISTIC) STRATEGY for VALUE CREATION & ALIGNMENT



For the uninitiated, co-creative negotiations will often seem somewhat unlike negotiations at all because they don't carry any of the baggage of win-lose, and go farther beyond the constructs of win-win. Unlike the win-win negotiator who is forever conscious that win-lose must be avoided at all costs, the co-creative negotiator is focusing more of his or her energy on building a synergistic system that expands the pie for everyone. Collaborative Innovation is the objective.

In synergistic negotiations, win-win is seen as a minimum fall-back position – a sub-optimal condition that is acceptable for the short-term, but not a place to remain for long. People who use the adversarial win-lose approach -- posturing, using bargaining tactics, gaining advantage, and emphasizing control has so little long-term viability that the co-creative negotiator only becomes an evangelist to demonstrate the fallacy of the win-lose thinking. Using the Co-Creative strategy will dramatically *shorten the time required* to negotiate an aligned agreement, and will produce more *successful performance*.

Characteristics of Effective Co-Creative Negotiators

- Understanding the right situation to use adversarial, cooperative, or synergistic negotiations is essential to success.
- Conflict is seldom a problem because ego battles can always be

transformed.

– Designing a synergistic, long-term relationship is always built on a foundation of trust and integrity.
– Flexibility and Creativity are the invaluable to building an strategic relationship.
– Win-Win is just a starting point; there is much to be gained by pushing farther than win-win.
– Synergy is achieved by a process of co-creation of a 1+1>3 paradigm.
– Using adversarial negotiations techniques will only produce sub-optimal results when designing an strategic relationship.
– Playing with an “open” rulebook will produce better results than playing with your “cards too close to your chest.”

Key Beliefs of Co-Creative Negotiators

– Always focus on creating more — an expansionary process — for both parties
– Make Differences an opportunity to explore new possibilities
– Win-Win is Just a Starting Point
– Synergy is the Process of Co-Creation of a 1+1>3 Paradigm
– Extreme Value Generated when two parties Push the Envelope on the Design of a New Future
– Focus on Super-Ordinate Vision, while satisfying short term Interests and Needs
– Break-Downs & Conflict are Opportunities for Breakthroughs
– Collaborative Innovation is Essential
– Focus on Total Cost of Ownership, Processes and Revenue Generation
– Create a Culture that enables continuous improvements and breakthroughs

Guidelines on Making Concessions

– Concessions are a poor alternative for creative innovation
– When concessions are requested, seek deeper insight into the strategic and operational driving forces, then use these for a breakthrough in innovative thinking.
– Be careful of compromise because it diminishes the spirit and may satisfy no one
– Use the conversation about concessions to drive deeper questions about total value, competitive pressures, and total cost of ownership, non-value added work, value engineering, and joint innovation.

Co-Creative Tactics

- Negotiations as Co-Creation: Cooperation and Collaborative Architecture is the method for shifting the energy of conflict from a Resistive, Win-Lose Battle into a Co-Creative Experience

- Resolving Conflict is rarely about who is right. It is about acknowledgment and appreciation of differences.
- Fear will sap your ability to channel your opponent's energy into a co-creative win and breaks the co-creative connection of the heart, forcing ego to conquer ego
- Discovery is the power of opening yourself to the wonderful realm of possibility
- Defense is a rigid, closed belief system, while Discovery is a flexible, open belief system.
- Strategic Future: Ask Critical Questions about the future, such as: What Do You Want? What's Your Vision? What Do They Want? What's Their Vision? What's Missing? What's Possible? What Shifts in Thinking are Needed?
- Chemistry & Character are essential for a long-term relationship. Therefore, create an environment where integrity and trust can prevail.
- Breakdowns: When the Synergistic Processes breakdown, use the Win-Win, Cooperative Style. Avoid blaming and faultfinding. Use every breakdown as an opportunity to create a breakthrough.
- Integration: Use co-location and secondment to understand what the issues and concerns of the partner are.

Guidelines on Co-Creative Strategy -- Thoughts on Co-Creative Synergistic Negotiations:

A. Co-Creative Negotiations implies there will be a commitment to an strategic relationship between the negotiating parties. The strategic relationship implies that each will be committed to serving the best interests of the other, hence a synergistic relationship, where the whole is far more functional than the sum of the parts.

B. Co-Creative Synergistic Negotiations require six fundamental skills:
  1. Design of **Breakthroughs** (new paradigm generations)
  2. **Vision** of a new Future
  3. **Integrity** to keep to one's word
  4. **Synergy** building to focus on 1+1=3
  5. **Trust** that enables higher performance and is reinforced by integrity
  6. **Attitude & Language** that create new possibilities.

C. Mastery of the "Synergy of Compatible Differences" - called **Dinergy** - is essential to the implementation of any co-creative negotiations.

  Definition: Dinergy (from the Greek; dia=opposite and ergos=working) A dinergistic relationship between two parties requires a fundamental shift in the response mechanism from traditional ways of dealing with each other and a shift in the willingness to confront traditional *paradigms.*

Traditional Responses	***Dinergistic Responses***
Blaming and defending	*Turn Breakdowns into Breakthroughs*
I'm right. You're wrong.	*Ask "What's Possible?"*
You're Different, therefore Bad.-- Diversity is scorned.	*Can we use differences to generate new paradigms? Turn Diversity into Unity.*
Emphasis on importance of Knowledge & having the right answer	*Emphasis on importance of Creativity and asking fundamental questions.*
Constant Evaluation of "Right & Wrong"	*Ask "What's Missing?" and "What's Possible?"*
Desire for Predictability and Control	*Desire for Flexibility and Coordination*

Guidelines on Strategy

Four Key Goals to keep in mind during the negotiations process:

1. Design a Powerful Synergistic Future
2. Determine if this is the Right Partner
3. Build a Relationship Between Key People
4. Develop Agreement Between the Companies

STRATEGY 1: DESIGN A SYNERGISTIC FUTURE

Effective strategic relationships are *alignments* goals and visions. The real value in a strategic relationship is to gain access to new opportunities -- new markets, new technology, new knowledge, new fields of view and levels of thinking.

Once you have gotten very clear on the future of the strategic relationship, then reverse engineer the future vision back to the present with key tasks and milestones.

TRAP

When prospective partners do not have a clear, powerful value proposition, they create a *vision vacuum* into which the need for *control* and *structure* are used to fill the vacuum. Avoid protracted arguments about control until you've empowered the strategic relationship with a clear idea of the result it is supposed to produce.

STRATEGY 2: CHOOSE WIN-WIN OR SYNERGISTIC NEGOTIATIONS

One of the biggest and most frequent mistakes in negotiations is to use the wrong approach. (see Chapter 4) All-too-often negotiators mistakenly treat strategic relationships like they were negotiating a commodity purchase from a vendor -- squeezing concessions, using strong arm and posturing tactics.

It is far better to start with a strategy based on mutual interests (win-win, e.g. Fisher & Ury *Getting to Yes*) then migrating to a more synergistic model using the rules outlined here, than to start with a power and control, win-lose approach.

Negotiating a strategic relationship is not like buying a house or a car. It is more like arranging a marriage. It is far more important to determine if "1+1=3," than to "squeeze the last concessions" out of an "opponent." Your objective is to create a "win/win" condition, not a "win/lose." Remember, you will have to rely upon on the other side when problems occur. Make sure your partner is with you, and not anxious to regain the advantages they perceived were lost in original negotiations. And be sure that both negotiations teams are using the same set of rules!

Win/Win and Co-Creative are both more than negotiations strategies, they are a way of life for the participants far after the legal agreements are signed. Therefore it's crucial to have a very clear understanding of what a "win" truly means to your partner. Keep this highly focused in your own mind.

STRATEGY 3: GENERATE POSITIVE CHEMISTRY

It's essential to build trust, or the relationship will never achieve breakthrough performance. Chemistry is the psychological contract -- the energy, the vision, the trust, and the commitment. It is far more important than the written, legal contract. Take trust away and the structure of the business relationship will collapse. Although intangible, it's essential as part of the "glue" that holds the two partners together.

> **TRAP**
>
> For strategic relationships, there's no such thing as a win-lose arrangement, because, in the long run, the loser will either get even, get out, or both. And the winner will have a hollow victory or be stuck with the residue.

Chemistry, like mortar between bricks, fills gaps between imperfect strategic and operational "fits" and helps keep the partners glued together when the relationship is under stress. If, perchance, the customer's product fails to meet the acid test of reality: strong sales, or the operational plans show themselves to be faulty, it is then the chemistry factor that is the pathway to use to rebuild, reorient, restructure, and reform the relationship. One can count on markets changing, technology becoming obsolete, development processes being superseded, political forces intervening, and any number of unexpected occurrences interfering. Without excellent chemistry, no amount of strategic planning or crisis management can substitute.

STRATEGY 4: Establish a Committed Negotiations Team

When developing a strategic relationship with a customer, avoid the "lone ranger" approach (a single individual doing the negotiating) because this is usually doomed at inception. Seldom can a single individual understand all the complexities of strategy, operational integration, cultural interrelationships, financial management, and technology. To overcome these deficiencies, the lone ranger typically turns to legal counsel to "protect" against all the uncertainties and ambiguities that are inherently introduced by not having a clear strategic and operational integration plan. The lawyer then constructs a protective legal agreement that shifts all risk to the other prospective partner, thus destroying the trust needed for successful co-creative interaction later.

But more fundamentally, the lone ranger does not have the support of the key middle managers who will be required to operate the business arrangement after it has been launched. This sets up a classic "front-end/back-end of the deal," whereby those who will have to implement (the back end) have had little or no involvement in its structuring (the front end). Consequently, they have little commitment to its final outcome and wonder why they were not consulted in the very beginning.

The fundamental rule is that: *People Support What They Help Create*. Therefore, put those key operational managers who will have to make the relationship a success on the negotiations team; and be sure they are trained in co-creative negotiations techniques.

The champion should be the leader of the negotiations team, choosing the team carefully to ensure proper balance of people on the team. (see Chapter 9 for more detail on Negotiations Teams)

STRATEGY 5: GET THE LAWYERS ALIGNED WITH THE NEGOTIATIONS TEAM

The relationship champion is responsible for selecting the right legal counsel, and ensuring that the lawyers work for and with the negotiations team (and don't indulge in independent, transactional, or adversarial negotiations). Ultimately the venture's success lies not in the legal agreements, but upon the fundamental strategy and the successful design of day-to-day operations. *Under no circumstances let the lawyers act as key negotiators.*

Examining the autopsy reports of failed strategic relationships, many executives report that their time in negotiations was spent roughly in the following way:

50%	on legal and tax work
30%	on selecting products to produce, market or develop
20%	on strategic issues
0%	on building trust and teamwork
0%	on creating joint operating principles
0%	on operations planning & avoiding potential breakdowns
0%	on management & personnel selection
0%	on developing a strong team
0%	on practical decision making procedures
0%	on maintaining good communications

To avoid these problems, allocate time during negotiations for these discussions, and designate key team members to take individual responsibility for each of these factors.

STRATEGY 6: Create a Statement of Principles & Understandings

Once negotiations have proceeded to outline the basics of what the value proposition and over-all strategy will be for the relationship, many deal makers are tempted to "structure the deal," and jump to detailed legal agreements. This should be carefully avoided at this stage.

The Statement of Principles and Understandings (SOPU) is much like a memorandum of understanding, but beyond the MOU it also includes several key passages that focus on the mission and purpose of the relationship, the key factors of success, fundamentals of the union, the presumed operational interfaces, the spirit of the agreement, and the fundamental values that the prospective partners are committing to. Unlike a Statement of Intent, the SOPU is not designed to be a binding agreement, nor is it a document written by and for lawyers. Keep the agreement flexible enough to adapt to the rapidly changing needs of the competitive arena.

The SOPU crystallizes key points and sets the foundation for finalization of arrangements. Structural issues should be only broadly outlined at this point, with final commitments to organizational form, financial investments, and legal contracts formalized after the next phase of operational planning.

What it is: View the SOPU as a road map. It helps you set goals and broad principles for action. It is written by business people for business people; it's not a legal document and non- controversial. It is a means of communication, for in-house, between partners or between staff.

What it does: The SOPU opens communications: in-house, between partners, between staffs, and between legal counsels. It airs concerns about what should be included and what should be left to negotiations. It also provides a continuity of background for new staff entering the strategic relationship years later. It serves as a document for settling minor interim disputes, eliminates duplication of decision-making and provides clear direction for legal counsel drafting agreements.

How it works: The SOPU is produced in-house with management signed off, the project team confirming the current position. It acts as a position paper that short cuts posturing of newcomers and acts as a mandate for attorneys of management, detailing the position on key basic issues. This relieves them of the responsibility of maximizing their clients position.

~CAUTION~
LENGTH OF DOCUMENT

Don't Make the SOPU more than 5 pages long. No one reads documents longer than that. It will lose its effectiveness if it isn't short and concise.

Remember, this is not the Agreement, it is just the outline of a possible agreement. The most important thing is to be sure both companies agree to the direction you are now headed in. You want to be absolutely sure there is top and middle rank support on both sides for this strategic relationship.

Implementation: The drafts are done jointly by the champions and agreed to by their negotiations teams prior to any formal presentations to top management. After a sign-off of the final draft by top management of all parties, it's confirmed by executives to each other. Then, allowing that "form (structure) follows after determining functions," an operational plan should be *mutually* created by the two prospective partners to ensure that the gears of the strategic relationship mesh properly. Writing the operational plan together, the partners test the teamwork at the operational level, insuring that the middle managers will be able to maximize their capabilities.

~BEST PRACTICE TIP~

How much do you really believe in this strategic relationship? Would you invest your own mother's retirement fund in it? If not, fix it.

Tactics

- **Negotiations as Co-Creation**: Cooperation and Strategic relationship Architecture is the method for shifting the energy of conflict from a Resistive, Win-Lose Battle into a Co-Creative Experience

- **Resolving Conflict** is rarely about who is right. It is about acknowledgment and appreciation of differences.
- **Fear** will sap your ability to channel your opponent's energy into a co-creative win and breaks the co-creative connection of the heart, forcing ego to conquer ego
- **Discovery** is the power of opening yourself to the wonderful realm of possibility
- **Defense** is a rigid, closed belief system, while Discovery is a flexible, open belief system.
- **Strategic Future**: Ask Critical Questions about the future, such as: What Do You Want? What's Your Vision? What Do They Want? What's Their Vision? What's Missing? What's Possible? What Shifts in Thinking are Needed?
- **Chemistry & Character** are essential for a long-term relationship. Therefore, create an environment where integrity and trust can prevail.
- **Breakdowns:** When the Synergistic Processes breakdown, use the Win-Win, Cooperative Style. Avoid blaming and faultfinding. Use every breakdown as an opportunity to create a breakthrough.
- **Integration:** Use co-location and secondment to understand what the issues and concerns of the partner are.
- **Einstein:** Use Einstein's Rules to generate new futures:
  - EINSTEIN'S 1ST LAW
    The Problems of Today Cannot be Solved with the Same Level of Thinking that Originally Created the Problem.
    Corollary:
    "Problems" occur at the Same Level of Thinking
    "Opportunities" emerge at a Higher Order of Thinking
  - EINSTEIN'S 2ND LAW
    Creativity is More Important than Knowledge.
    Corollary:
    "Vision is More Important" than Being Right..
  - EINSTEIN'S 3RD LAW
    Try not to become a person of success, but rather, become a person of value.
    Corollary:
    "Success and Failure are both phantoms that exist only in the ego, neither are true reality..."
  - EINSTEIN'S 4TH LAW
    From Clutter Find Simplicity.
    Corollary:
    "From Discord, Make Harmony."

Legal Issues — how to use lawyers effectively in synergistic negotiations:

- Use Lawyers only after you know what you want
- Don't let Lawyers "poison the well" with distrust that you must live with later
- Select Lawyers who understand how to operate in a collaborative environment, even when the legal system in which they practice is highly adversarial
- Select Lawyers with a high degree of integrity and who have been thoroughly trained in strategic relationship formation and management.
- Use Contracts to support and reinforce the Statements of Principles and Understandings and the Covenant of Trust

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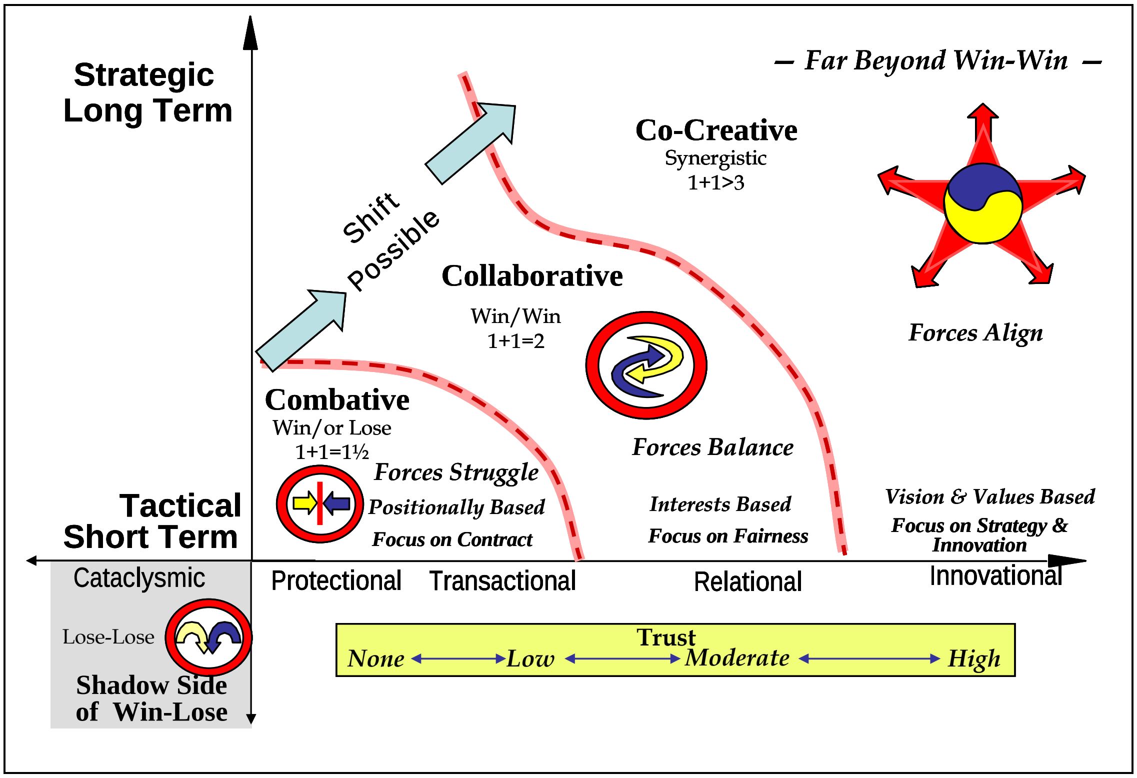
In the final analysis, your role as a Flextronics negotiator will be to continue to move the relationship into the Co-Creative Zone – the area where we can truly fulfill our Purpose: to Create Value that Increases Customer Competitiveness



The Chart above provides a visual description of the three negotiations frameworks

Comparing the Models

Win-Lose Negotiations

❖ **Key Beliefs**

- Negotiations is a "Psychological War Game"
- The Other Side is the Opponent
- They are out to "squeeze" you, so be prepared to squeeze back
- Negotiations is a process of "Bargaining"
- Don't Leave anything on the table
- Win by being strong and aggressive

➢ Assumptions & Rules of the Game

- Negotiations is a power game
- Pressure the other side
- Winning is a result of Cunning & Craftiness
- Push Very Hard
- Force them to Reveal their Position
- Psychological Manipulation
- Use Ploys, Scheming & Maneuvering
- Hyping the Sale
- Find Weakness in the Opponent

Win-Win Negotiations

❖ **Key Beliefs**

- Negotiations can be a Difficult Game
- Fighting will get you less in the long run
- Create an Environment of Cooperation where fairness and an equitable balance of power will lead to a reasonable solution
- Focus on Interests and Needs, not Position, Control, and Competition
- Win - Win is Essential

➢ Assumptions & Rules of the Game

- Negotiations is Integral to all Working Relationships
- Winning is a result of Expanding the Zones of Possible Agreement
- Find out what the other side Needs
- Forcing Positions & Rigidity creates Long Term Problems
- Balance Emotions with Reason
- Educate, Don't Escalate, Build Trust & Honesty
- Seek reasonable ground that meets both party's needs

Co-Creative Negotiations

❖ **Key Beliefs**

- Win-Win is Just a Starting Point
- Synergy is the Process of Co-Creation of a 1+1>3 Paradigm
- Extreme Value Generated when two parties Push the Envelope on the Design of a New Future
- Focus on Super-Ordinate Vision, while satisfying short term Interests and Needs
- Break-Downs & Conflict are Opportunities for Breakthroughs
- Collaborative Innovation is Essential
- Focus on Total Cost of Ownership, Processes and Revenue Generation

➢ Assumptions & Rules of the Game

- Purpose of Negotiations is to Design Synergistic Future with High Levels of Innovation Possible
- Change is Inevitable , Making Fluid, Flexible
- Agreements Essential
- Winning is a Multi-Dimensional Value Proposition
- with Strategic & Tactical Elements
- Trust is Essential to Flexibility, Creativity, Innovation, and Long Term Success

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Chapter 4 Determining a Negotiations Strategy

Flextronics' purpose is to creating value for its customers. Different customers will define value differently. For some, it's cost and quality, for others it may mean accelerated delivery time and flexibility of design, and for others, it may be determined by unique innovations. While each customer will be different, the negotiating approach will generally fall into three categories (see chart below[1]):

- a Vendor
  (cost is the primary driver, and we are a commodity supplier)
- a Preferred Supplier
  (cost is an issue, but other factors are equally important, and we have a relationship with the customer)
- a Strategic Supplier
  (cost is a criteria, but we are very critical to their success and we can contribute enormous value to them by impacting top and bottom lines)

	Cost Driven Vendor	**Preferred Supplier**	**Strategic Supplier**
Viewed As:	Replaceable Commodity	Unique Specialty	Integrated, Customized Specialty
Level of Integration	Low/Not Integrated	Loosely Integrated	Highly Integrated or Inseparable
Number of Suppliers	Many Suppliers	Several Suppliers	Very Few Suppliers
Distinguishing Features	Mainly Price Driven within min. qual. stds	Price plus unique offering (i.e. technology, service, etc)	Synergistic Value Proposition (i.e. mutual growth, etc)
Style of Interaction	Tactical Transaction	Preferred and/or Tactical Relationship	Strategic Synergy
Duration of Term	Short Term	Medium Term	Long Term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, Cost, Quality, Reliability, Speed, Innovation, and more
Framework for Winning	Winning is essential for me, What happens to you is your business	A Win is essential for me, and I know I should let you win too if the relationship is to survive	A Win/Win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low Competitive Advantage	Moderate Competitive Advantage	High Competitive Advantage
Make, Buy, or Ally Decision	Seldom produced internally (not a core competency)	Often Produced Internally (debatable core competency)	Frequently has been an integral part of the internal value chain
Trust Level	Distrust Prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low Impact, Excellent Ability to Switch Vendors quickly	Moderate Impact	High Impact, Switching may have detrimental impact due to disintegration of systems

[1] Note: Seldom do we fit totally in one column. Use this chart simply as a reference point.

Impact of Flextronics Purpose and Values

The choice of a negotiations strategy must strongly consider how we can create value that increases our customer's competitiveness, which inherently is a strategic question. Therefore, as a negotiator, you should understand the strategic issues that impact your customer. Specifically:

- Who are their competitors?
- What are consumers demanding now and what will they be demanding in the future?
- What's happening to their revenues? Profits?
- What is their CEO saying publicly?
- What's happening to their stock?
- How much innovation will they need to beat the competition?
- What new trends are emerging in the marketplace?
- Are there any new technologies on the horizon that will change the dynamics of the marketplace?

In the long run, Flextronics and its customers will have the most rewarding experiences in the in co-creative relationships where strategic value is being produced and collaborative innovation can flourish. This is the zone where the Flex Purpose and Values will shine.

Choose Your Outcome

If a customer is insistent on playing a win-lose strategy with Flextronics, it is your job to help shift them to a higher level – to move them from win-lose to win-win. (see Chapter 5)

If a relationship lacks trust, then it is your job to move the customer into a more trusting relationship.

If our interactions are strictly tactical and focused solely on daily operational performance, it will be your job to couple operational efficiency with a more strategic view of how we can make them more competitive.

Determine what Relationship is Essential

Low trust is not an acceptable place for any Flextronics business relationship. Neither we nor our customer can afford to put a substantial amount of our future in a business relationship in which the other side is always anticipating a crisis or a breach of faith.

Trust is the foundation of all collaborative enterprise. If we are to produce real value and have a lasting relationship, examine the trust level carefully. If it needs work, please go to Chapter 8 – The Importance of Trust.

Long-term or Short Term?

When Flextronics and our customers are engaged in short-term, tactical, transactional business relationships, it is difficult for us to fulfill our purpose of creating real competitive advantage for our customers. Bidding tends to focus primarily on cost, and our ability to communicate with our potential customer becomes limited. Thus we may not know what the customer really needs, nor will we adequately understand the pressures they are under. Without good relationships, we may have poor information upon which to base our bid, which can often result in failed expectations, loss of money, and extra effort just to meet minimum requirements.

Thus it is in our interests, and usually the customer's, to aim at building longer term relationships where mutual trust prevails. Every negotiations opportunity, whether it be in bidding or fulfillment, should be focused on how we can build a long-term, strategic relationship with our customer. If the customer is in a win-lose stance, your mission will be to earn the trust that will create a longer-term win-win or co-creative relationship for the future.

What's going on for The Other Side?

Understanding the customer (or supplier's) situation is essential. You should have a good grasp on their Driving Forces and how Value is Migrating (see Chapter 6) over time. You should understand the competitive forces on them, and what they are measured by.

Get a grasp on their situation so that you can have the understanding and compassion to build trust and alignments.

Have several members of the Flex negotiations team play the other side's strategy, role, point of view, and strategic drivers to get a good sense of what pressures they are under and what issues they are dealing with. You never understand a person or an organization until you've "walked a mile in their shoes."

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Chapter 5 THE WIN-LOSE TRAP

Unfortunately, there are too many negotiators, particularly in the procurement field, that have adopted win-lose strategies as their preferred method. On the surface it is a way of getting the lowest "component cost" because, by using pressure tactics, onerous tricks, and psychological traps, one apparently gets the lowest cost.

There are many, many fallacies to this approach, but years of dedicated training coupled with a rewards system for cutting costs has produced a legion of win-lose warriors.

Getting Trapped in Win-Lose

Because the customer is usually the one that sets the "rules of the game," when the win-lose negotiator begins using tactics that are less than open (see Chapter 3) then everyone loses. For example, if a customer sends out a Request for Quote (RFQ) and you know the specs are not adequate or the product will become obsolete quickly because of what other competitors are introducing, or we have created an innovation they don't know about, it does no good to keep the customer in the dark. This is the time to communicate and innovate.

Similarly, if the customer squeezes us into a situation where we lose money, it does the customer no good in the long run, because we cannot survive in a losing game – a number of our competitors tried this and their results were dismal. On the other hand, if we negotiate a contract and, for one reason or another, we win big and the customer loses, we have not fulfilled our purpose to create competitive advantage for them. Thus we will have done ourselves and the customer a disservice.

Downside Dangers -- What Win-Lose really means

Win-Lose simply is not a viable long-term position for any strategic relationship. Because our customers are often highly reliant on Flextronics for many of their most important products, placing us in a losing position usually creates a difficult position for each party. We cannot provide service and support when we are unprofitable. Nor can we engage in high-tech innovations if we have no money to invest in the future.

In the long run, placing any company in a losing position may create a modest short term advantage, but it is potentially a long-term nightmare. For example, years of unbridled cost-cutting in the automobile industry has been driving out 500 suppliers per year. This means the few remaining are either on the verge of bankruptcy or they will only select win-win suppliers, as Toyota and Honda have adroitly learned.

For many win-lose situations, the down-side is cataclysmic: it can very often get out of hand and turn into a lose-lose situation. Just look at what happens to most union strikes, or win-lose litigation – more often than we'd like to acknowledge it becomes a lose-lose where only the lawyers win.

If by failing to share critical information or by not cooperating during a product introduction, the customer fails to meet the needs of their retail customers, everyone loses.

Ultimately, Flextronics' future is best in the hands of win-win situations, or better yet, co-creative one.

As a Flextronics negotiator, your responsibility will be to help shift the win-lose negotiator into a win-win. This will not be easy, because their training, measures of success, and rewards are all designed to reinforce win-lose.

How should you begin to shift their thinking? Let's start with what they believe:

Beliefs and Assumptions of Combative Negotiations

Win-Lose negotiators are often unknowingly caught in their own trap of limited vision, narrow expectations, and measures/rewards that stifle innovation. Sadly, they often don't even know they are caught.

Let's examine first the beliefs and assumptions of the win-lose negotiator: (from Chapter 3)

Win-Lose Negotiator's Key Beliefs

- Negotiations is a "Psychological War Game"
- The Other Side is the Opponent
- The Opponent is out to "squeeze" you,
  so be prepared to squeeze back
- Negotiations is a process of "Bargaining"
- Don't Leave anything on the bargaining table
- Win by being strong and aggressive

Assumptions & Rules of the Game

- Negotiations is a Power game of Psychological Manipulation
- Pressure the other side, Push Very Hard
- Winning is a result of Cunning & Craftiness
- Force them to Reveal their Position
- Use Ploys, Scheming & Maneuvering

- Hype the Sale
- Find Weakness in the Opponent

When these beliefs and assumptions are linked to a set of measures and rewards, this is a tough system to crack. However, it can be done if approached with care, openness, and mutual benefit. Here's how to tackle the challenge:

Avoiding the Win-Lose Trap

The first thing to do is to be careful not to be trapped in the win-lose game. There will be a set of tactics thrown at you.

Time Deadlines: If the win-lose negotiator sets unreasonable time deadlines, determine if it is an artificial time dead-line or a real one. Ask for more time and provide a list of critical questions that will help the customer get a better product and/or a better price. Ask for opportunities to meet with their internal stakeholders to get a better idea of what's in their best interests. Focus on what is really in the customer's best interests, not what limits that prevent good interaction, idea exchange, and understanding of customer needs.

Onerous Tricks & Traps: Should someone begin to play a psychological manipulation on you, remember, the **Ultimate Countermeasure:**

"A Trap Revealed Loses Its Power."

Here's what to do if you are confronted by a typical trap:

1. Print out the list of traps and counter-measures on the next page
2. When someone tries to ensnare you in a trap, humbly (don't be smug, or it will be seen as distrustful) take out the list, and point out the trap
3. Indicate you could take the suggested countermeasure, but in the interests of building trust and concern for the mutual benefit of all, reject the countermeasure option.
4. Propose a more productive approach that will create more value for both and result in deeper trust.

Productive Ways of Shifting to Win-Win:

What Not to Do:
Don't try to overpower the other side with counter-manipulation, arrogance, smugness, or intellectual brilliance – these will only be counter-productive because they send the signal that the other side is stupid, inept, or fallacious. (this will put them in a losing position, and the game will only get worse)

Instead, try any of the following:

- **Ask Questions**: This will put both parties in a learning, discovery, or inquiry mode.

- **Learn what's in their best interests**: Discovery of what is in the other side's interests may reveal areas where you can produce something in their best interests, often without having to make concessions.
- **Propose Alternatives**: By opening up alternative pathways to a problem, everyone gets into a more creative zone, thus increasing the likelihood of a mutually beneficial answer
- **Suggest Ways to Prevent the Worst Possible Outcomes:** By finding out what a "bad" outcome looks like, you can engage in ways to limit the risk of having this occur.
- **Delineate what you Mutually want to Achieve, Maintain, and Avoid**: Setting out a framework for setting boundaries for winning, preserving, and preventing helps set conditions for ensuring a mutual win.
- **Define the "Metrics of a Win**:" Often it's difficult to create a win-win when there are no clear ideas about how to define winning in the first place. Expand the metrics finance/cost to include what really better, cheaper, faster, safer, more versatile, more reliable, more safe, more friendly, more green, etc.
- **Diminish Fear**: Fear drives many people into the protectionist zone of win-lose, where they believe toughness and lawyers can protect them. Determine what they fear (ask them about their "concerns") and find ways to warranty against a worry.
- **Build Trust**: Focus on the things that will create a stronger, trusting relationship (see Chapter 8)
- **Reduce Uncertainty**: Insecurity very often drives the need for control. Determine where there is too much ambiguity and/or uncertainty, and work on ways to build more certainty into the relationship.
- **Avoid Inflammatory or Adversarial Language**: Watch what you say – it reveals what you are thinking. Collaboration avoids words that trigger adversarial reactions. (see Chapter 10 – The Power of Language)
- **Resolve Operational Disappointments**: If there has been a history of operational problems (poor quality, late delivery, shipping mistakes, etc.), be sure to work on solving them once and for all. Unresolved, these will fester and cause distrust.
- **Focus on Strategic Issues**: Understand their driving forces, competitive issues, and value equations. Strategic thinking can often create a counter-balance to transactional, day-to-day issues.
- **Embrace Differences**: Your customer is not you; their difficulties and vision are important to them. Don't be judgmental about their world – embrace it fully, learn from it, and then attempt to transcend it by seeing possibilities from a higher point of view.
- **Dispel False Assumptions**: Often both sides will be making assumptions about the other. Lay out your assumptions in front of

them and encourage them to lay out theirs about you. Then either affirm or dispel the assumption.

– **Clarify Expectations**: Expectations are time-bombs: a set of unarticulated goals that people hope/believe will happen, without a clear plan of how to make it happen. Get expectations out in the open, either dispel them or turn them into goals, for which you can then develop a plan.

– **Engage Stakeholders**: Often the person you will be dealing with is an individual who is stuck on an issue, or has a difficult boss, or is being driven by a set of unfavorable measures and rewards. In this circumstance, link in others, such as the engineering team, or their sales team to get a broader view and new avenues of support for a win-win.

Remember; Win-Win works for mutual interest, it does not imply:

- softness,
- that you should be magnanimous with your competitors,
- blind trust

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Chapter 6 CO-CREATION OF VALUE

Value Co-Creation is an order higher/beyond win-win, but it typically builds on a win-win foundation. It means the participants are journeying beyond a simple negotiations into a deep exploration of how to create something that is more, better, greater, or more integral – in other words, Flex will have engaged in Collaborative Innovation to create a synergistic relationship where we are producing something that could not be produced simply by one party or the other.

This is not a theoretic ideal, it is practical, possible, and completely within the realm of what customers and suppliers can do when they align strategically and operationally. This is what the FLEXTRONICS Purpose is all about:

Creating Value that Increases Customer Competitiveness

This statement begs the question: ***What creates value***?

What is Value?

Value is distinctly difference from price/cost. Value is different for each customer, and varies over time; thus it is "s*ituational"* and based on a customer's priorities, market realities, technical opportunities, consumer expectations, and potential for continued revenue generation.

You will need to understand the business and strategic drivers behind value. This will entail more than a superficial examination – you will need to dig underneath the common statements to learn what's really driving the market and it your buyer is truly attuned to these driving forces.

It's about Maximizing the Business Value Proposition

Co-creation of value requires more than just gaining the customer's business, – it means impacting both the top and bottom lines.

Whereas the traditional ideas of value are based on Performance over Cost, Quality & Delivery, we are proposing something more powerful:

Value <u>Package</u> that impacts:

- **Profit (Revenue – Cost)**
- **Sales (Innovation, Solutions)**
- **Delight (Quality, Reputation)**
- **Agility (Service, Change, Flex)**

Thus: Value Creation = Value Package designed by understanding:
Strategy + Execution + Relationships + Flexibility

Creating & Managing Value

Creating Value is based on understanding the Elements of Value that must be aimed at before and during any interaction with the customer.

You must understand and discuss with the customer:

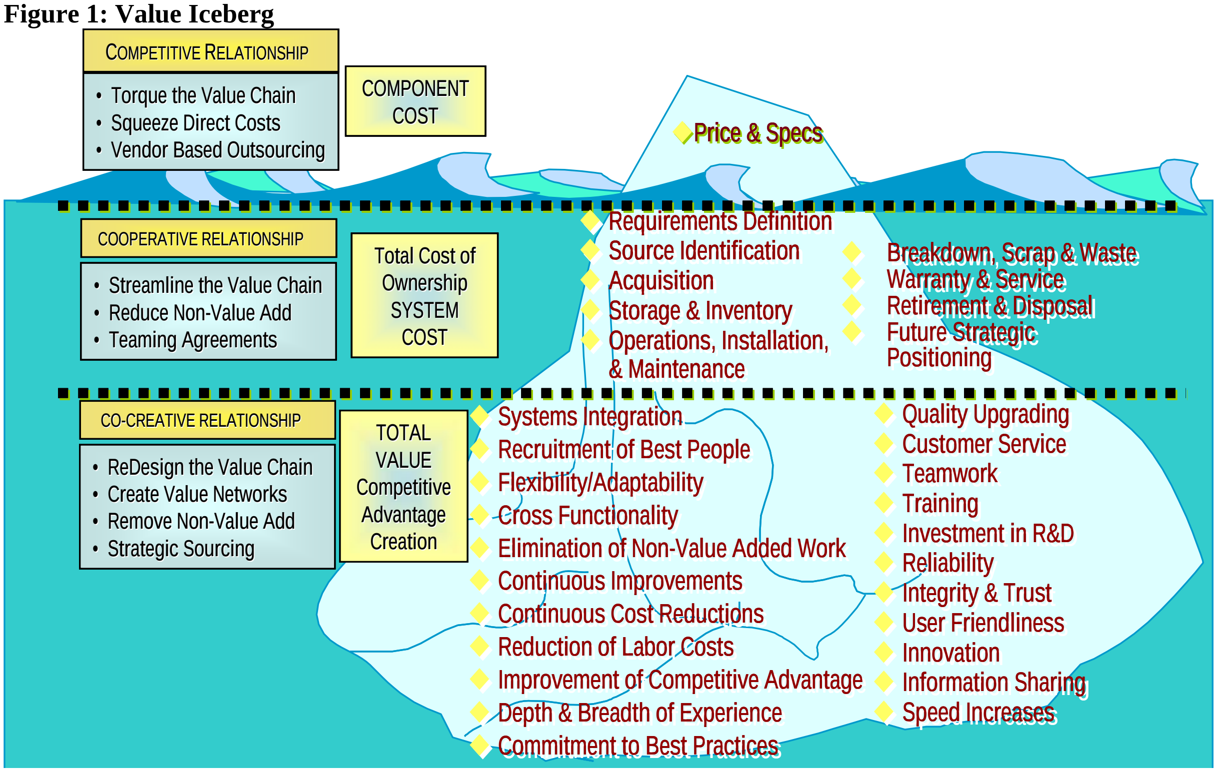
1. **Value Iceberg** (see figure 1 below) which makes the distinction between:
   - Component Cost (the most simple, but shallow way of looking at real cost)
   - Total Cost of Ownership (TCO) – the total system of price, overheads, add-ons, waste, every aspect reduced to money (see Appendix 3 for more on TCO)
   - Total Value (which includes TCO but looks at the total of all the value elements)
2. **Collaborative Innovation** –
   the ability of FLEXTRONICS to work in conjunction with the customer to create real competitive advantage
3. **Speed and Time** –
   Lead-time, processing time, decision time, reaction time
4. **Reliability** –
   capacity utilization and surge, delivery, up time, quality
5. **Cost Functionality** –
   cost/benefit equation to assess return on a cost investment
6. **Expectational Volatility** –
   volatility out into the future, the dynamic element of value on both the functional and economic sides

To do this, you will have to have previously built a win-win relationship and a strong element of trust.

As a Co-Creative Negotiator, you will:

- Always Focus on Creating More together — an expansionary process — for both parties
- Aim for Designing the Competitive Advantage in the Future Together
- Create a Culture that Enables and Empowers Continuous Improvements and Breakthroughs
- Utilize the Different Capabilities and Strengths of FLEX and our Customer to Co-Create and Innovate
- Align on a Strategic Vision and Operating Principles that Strengths the bond between supplier and customer

Figure 1: Value Iceberg



Strategic Elements of Value Creation

Co-Creative Negotiations is, in large measure, about developing sufficient Vision and Trust to Engage in Co-Creation and Design a Synergistic, Innovative Future Together

Where there is No Vision and No Trust, everything defaults to Politics and Control

Remember these statements, because, when you are confused during negotiations, ask: "How clear is the vision? How strong is the trust?" If the answer is unsatisfactory at each of these levels, then some powerful work must be done to remedy the situation or both FLEXTRONICS and the Customer will suffer. Your commitment to a powerful vision and your integrity to honor the customer will be the foundation of the shift from win-win to co-creative negotiations.

Co-creative relationships that enable FLEXTRONICS to create competitive advantage for its customers are, by their nature, strategic. Therefore, you must think strategically before negotiating.

In Strategy…

…Knowledge is essential. Know what you want, where you are going, and what the other players are thinking…..

> *A thorough knowledge of one's own conditions as well as the conditions of the competitor is essential to winning. If you don't know the plans of your competitors, you cannot make informed alliances.*
> -- Sun Tzu, 300 BC

Thinking strategically means you carefully think through four critical interrelationships (see Figure 2):

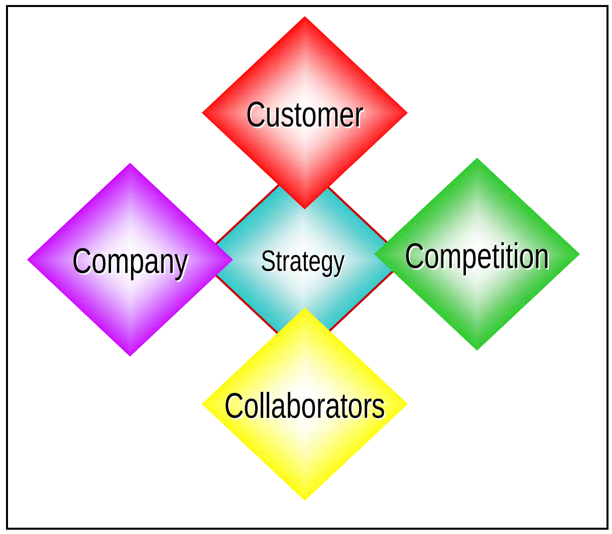
1. What is needed for strategic positioning in the marketplace?

2. What do our customers need in order to see FLEXTRONICS as their most vital provider of products and services?

3. What will competitors will be doing in order to take away the customer base from FLEXTRONICS and how they will respond to any competitive moves we and our close strategic suppliers and customers may make?

4. What is the possible array of potential strategic allies that are available to FLEXTRONICS, and the implications of choosing one over another.

Figure 2: The Four "C's" of Strategic Positioning



This is a highly dynamic and ever-changing environment, which requires frequent re-evaluation and repositioning in order to maintain a competitive advantage.

Many strategic relationships may be focused on developing new technologies and delivery systems in the marketplace. Because these relationships are often focused on new and emerging market places, in the initial phase of a product' life there may be little or no competition and technology products may be sold on the *basis of raw technical* power alone.

As competitors emerge, products and services will often be differentiated on the *basis of marketing* programs. Competitors become more sophisticated in their marketing and products are then differentiated on the basis of customer service within precise market segments and effective distribution channel management.

In Strategy …

… Shifting with the times is essential. Know when the old path will no longer take you to your destination:

When great intentions yield mediocre results,
When the tried and true ceases to work,
When every attempt to fix things is met with frustration and failure…
Then it's likely the design has reached its limits,
And the paradigm is ready to shift,
Opportunity is present,
Creative vision is called for,
And bold action in new dimensions
is the nature of things

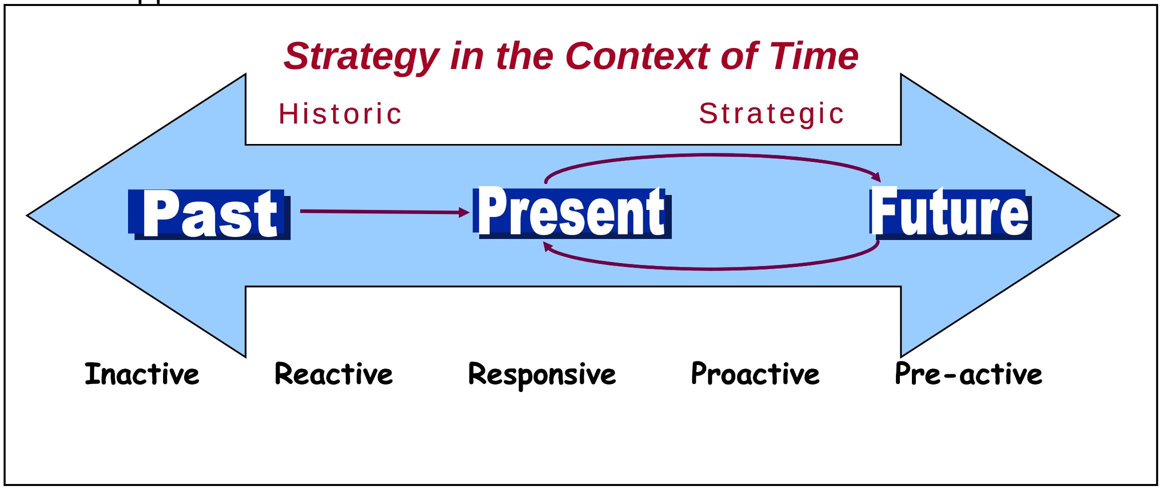
-- Robert Porter Lynch

… it's Important in all things to:

Keep your spirit open and un-constricted
Look at things from a high point of view
See distant things as if close,
while taking a distanced view of close things
Discern inevitable timing of rising and falling

From The Five Rings
Miyamoto Musashi (1584-1645)
Japanese Samurai Warrior & Strategist

Look at the Strategic environment broadly in a way so that you can see more than just what is in front of us at the moment … it's what's happened in the past and also what will or can happen in the future.



As a negotiator, you can set the stage for the future by being pro-active. But in today's very fast moving world, being proactive may not be sufficient. Being "pre-active" enables FLEXTRONICS and our customer to *design the future* together, to set the stage for what will be, to enable the customer to lead the market, thus creating competitive advantage. Also be aware that the new world we live in may no longer be a reflection of the past.

> In a rapidly changing, fast moving world, the most sustainable form of competitive advantage will be collaborative innovation.

In Strategy …

… Creativity is essential

> **Creativity is More Important than Knowledge**
>
> **We Cannot Solve Today's Problems**
> **with the Same Level of Thinking**
> **that Create the Problem**
> ***Einstein***

Einstein's two observations are more than just a nice platitude; it's essential to co-creative negotiations. Why is creativity more important than knowledge? It's worth understanding this profoundly, because knowledge exists from what we learned sometime in the past. And, today, with the profusion of the internet, knowledge is a commodity that can be acquired by anyone in the world at any time. Knowledge is no longer a critical differentiator for competitive advantage.

However, creativity is a massive competitive advantage because creativity enables the design of a future that is discontinuous from a future that projects of the past into the future.

Thus co-creative interaction produces a competitive differentiator for FLEXTRONICS that will give our customer a real advantage over their competitors – and we will be fulfilling our purpose: to [co-]create value that increases customer competitiveness.

The Strategic Environment

By answering the critical questions in the preceding paragraphs, you will have addressed the fundamental issues necessary to create a powerful strategic vision with our customers.

In addition, as a co-creative negotiator, you will want to be very aware of other issues in the strategic environment:

Be Aware of Driving Forces

How does an strategic relationship come together?

What keeps it together?

The answer to these questions reveals how powerful forces can keep some strategic relationships together for years, while others disintegrate rapidly.

Pressure on the Allies: "Driving Forces" keep pressure on the allies. Poor understanding of driving forces will result in defective strategic architecture, and the venture will not endure the winds of change. Imagine these driving forces as pressure put on the two companies like clamps or a vise (see Fig. 3).

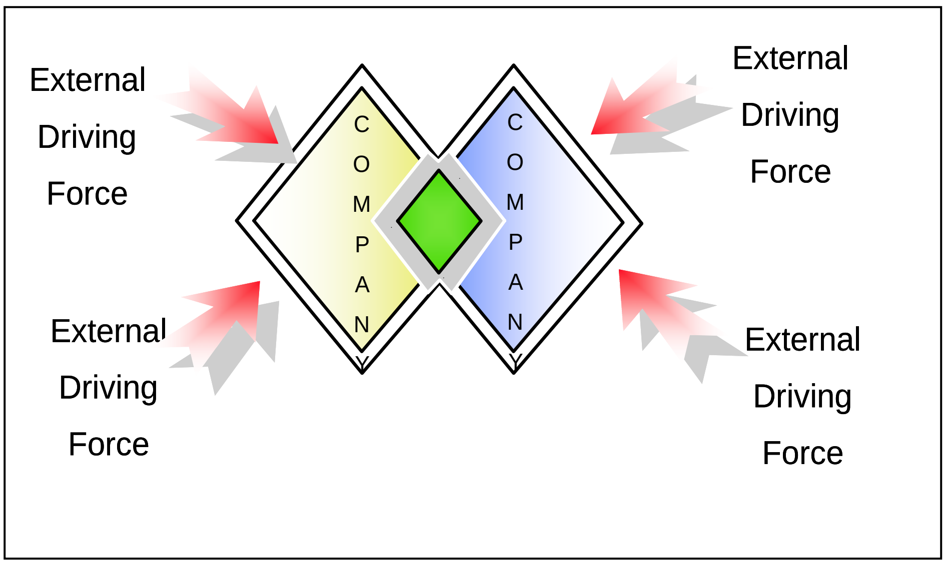


Figure 3 -- Driving Forces

Companies will not naturally stay together for long unless there are sufficiently strong driving forces to keep them in alignment. These forces are a major component of understanding the essence of strategy formulation and the nature of the strategic "fit." (see Figure 4 below for a checklist on some important questions to ask about Driving Forces)

Driving Forces Checklist

Key Strategic Questions

(Don't ask a question for which there is no measurable response

__ 1. What pressure is our customer facing?
Is there an actionable customer need?
___ 2. Will this relationship make our customer more successful? How?
___ 3. What new ways of doing business should we consider?
___ 4. Is a "breakthrough" in thinking possible? How?
___ 5. Do the strategic objectives of the relationship create competitive Value-added?
___ 6. Is a close alignment needed? Yes___ No___
___ 7. Have we been frank in our analysis of strengths and weaknesses?
___ 8. Do we know our potential alliance member's strengths, weaknesses? and strategy for growth?
___ 9. Do we know our competitor's present and future strategy?
Are we honest and realistic in our assessment?
Has it been "Devil's Advocated?" How do you know?
___ 10. What Competitive Profile must we have in order to be winning in this market 3-5 years? Is this empirically substantiated?
___ 11. Which major trends represent opportunities and which represent threats?
___ 12. What happens if we do nothing? Maintain current course? Go alone?
__ 13. What can we expect our competitors to do if we form a close relationship?

Ask these questions <u>before</u> commencing negotiations.

Then ask: "So what...? Does our alignment strategy fulfill all business goals, short & long term?"

Figure 4 -- Driving Forces Checklist

External Strategic Forces

While negotiating, critical questions should be asked of our customers, ourselves, and even our suppliers regarding their driving forces. Once the relationship is underway, remain keenly aware of these pressures, because they are vital to the continued understanding of and commitment to both ours and our customer's mission and purpose.

The first drivers to examine are a series of what might be very powerful External Drivers that affect the customer's universe. These drivers are forces that the customer probably has little control over. Think of these forces as those that are diminishing and those that are increasing in several categories:

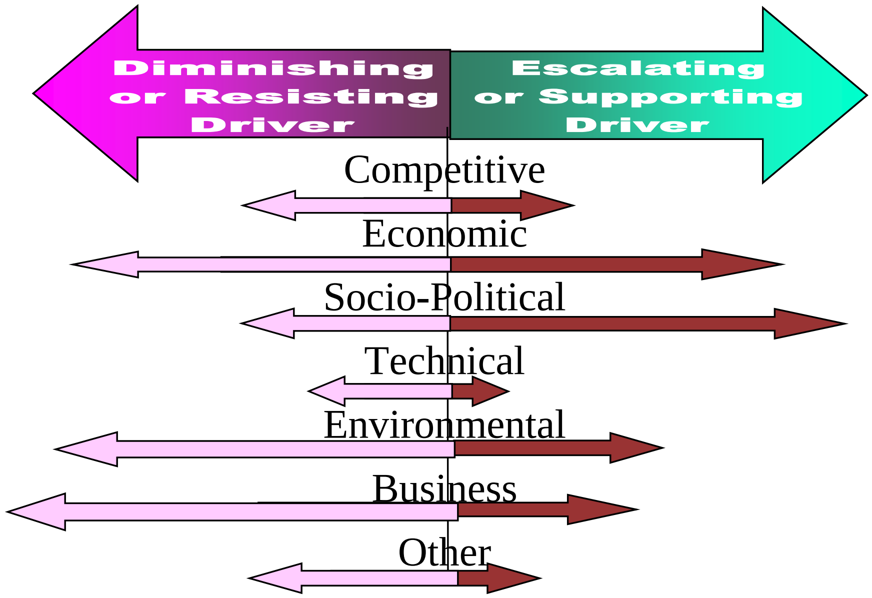


Figure 5 – External Strategic Driving Forces (adapted from Peter Schwartz)

These Drivers are usually quite dynamic, so do not make the assumption that they will always affect the customer in the same way. As a co-creative negotiators you will not only need to be aware of the drivers, but will also want to use their impact to create new products, services, technologies, usages, and integrations.

External Strategic Forces *Checklist*

(This is not intended to be a Comprehensive List, just a set of "triggers for your ideas)

◆ ***Competitive***
_ Competitors
_ Predators
_ Mergers & Acquisition
_ New Markets
_ Alliances
_ Legislation
_ Regulation
_ Judicial-Legal Rulings
_ Government Policy Changes

◆ ***Economic***
_ Wealth Creation/Distribution
_ Taxation
_ Investment
_ Expenditures
_ Jobs
_ Expansion/Recession
_ Industrial Attraction
_ Poverty

◆ ***Social***
_ Demographic Trends
_ Ethnicity
_ Health/Aging
_ Crime
_ Community
_ Family
_ Education
_ Housing
_ Abuse

◆ ***Technical***
_ New Technologies
_ Emerging Industries
_ Communications & Information
_ Medical Breakthroughs
_ Transportation
_ Building Materials
_ Job Displacements

◆ ***Environmental & Natural***
_ Environmental Protection
_ Use/Preservation of Natural Resources
_ Disasters
_ Land Use
_ Global Warming
_ Water & Air Quality
_ Weather Patterns

◆ ***Business***
_ Job Creation
_ Competitive Advantage
_ Reinvestment
_ Retraining
_ Unemployment
_ Investment
_ Taxation

Figure 6 -- External Strategic Forces Checklist

_ Tariffs & International Trade

Having a strong understanding of the External Strategic Forces will enable you to understand a company's over-all behavior, (but not necessarily an individual's behavior, which is usually determined by their performance metrics).

Strategic Driver Impact Analysis

It's then important to understand what impact these forces have on the Flex customer. Figure 7 below illustrates a Strategic Drivers Impact Analysis.

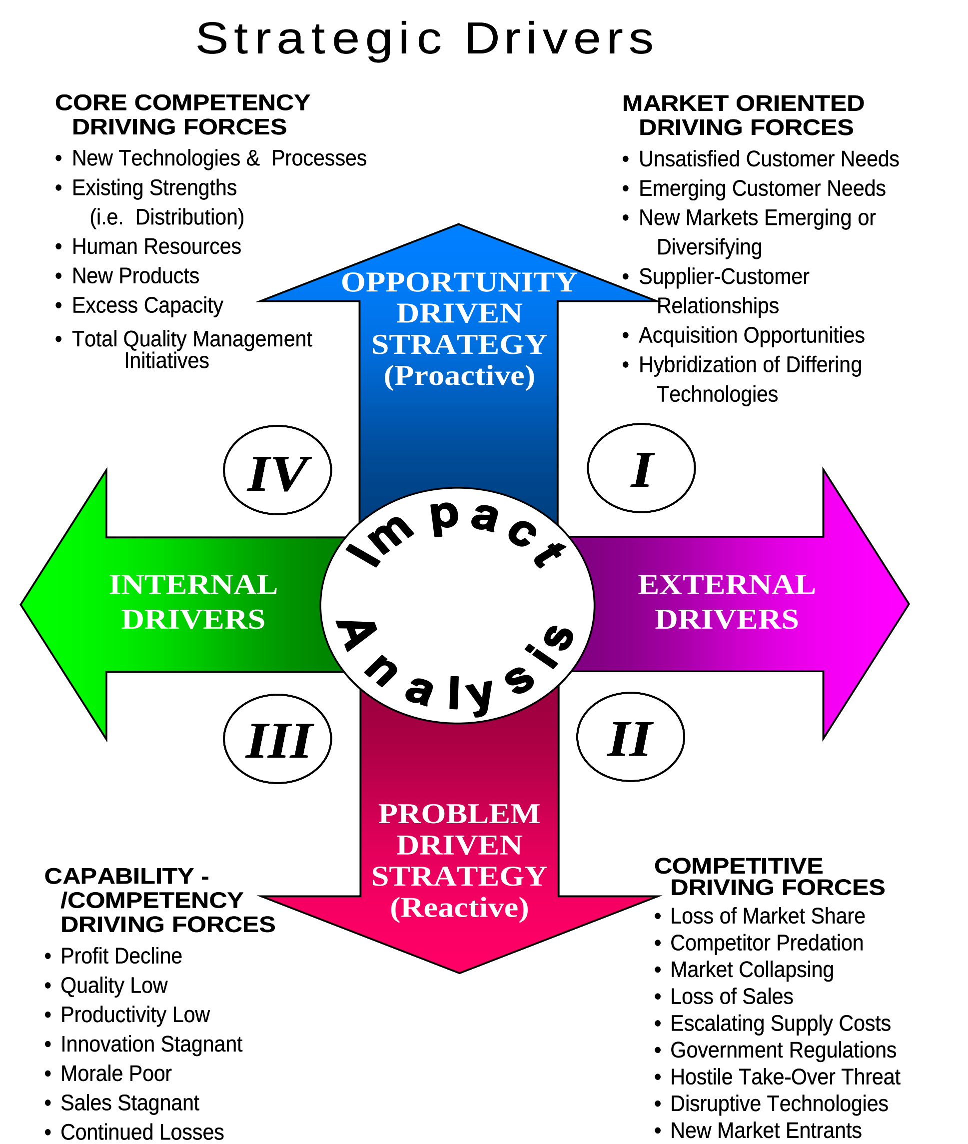


Figure 7 -- Strategic Drivers Impact Analysis

Examining each of the quadrants will reveal key issues that you must be aware of before, during, and after negotiations, because they are essential to the customer and their ability to create competitive advantage.

Strategic Drivers Impact Analysis – the Quadrants

Quadrant 1: Market Oriented Drivers

These are typically market Opportunities that are generated because there is demand for a product in the market place to satisfy a consumer needs or desire. Sometimes these opportunities are highly visible and recognized by our customer, but there may be significant number of situations where our customer may not have full/complete knowledge of the opportunity, especially if the opportunity is a new technology, product, or service which emerges from FLEXTRONICS' capacity to innovate. This is presents an opportunity for you, during negotiations, to create real value.

Customers that have a sufficiently strong set of market driven opportunities available have the potential to expand their sales, and engage in co-creative activities that can become a powerful competitive advantage, while building a long-term relationship over the long haul.

Quadrant II: Competitive Drivers

Our objective is to build competitive advantage for the FLEXTRONICS customer. Before engaging in negotiations, it's imperative to understand what exactly will create a competitive advantage. This means that FLEXTRONICS must provide better value to the customer than the next best competitor.

Similarly, as a co-creative negotiator, you must be aware of our customer's competitors – their strengths and weaknesses, their competitive strategy, their technologies, and their ability to create the next generation of product. The presence of a strong competitor is often a good motivating force because it provides a *threat* that keeps us and our customer on our toes, alert, and energized. A competitor is also a *benchmark* for excellence.

If there is no competition, questions must be raised about either the *existence* of a market (perhaps the market does not yet, or will not ever, exist), or the *timing* of market entry (the market may be very new and require large market development expenses on the front-end).

Quadrant III: Capability & Capacity Drivers

No company has all the resources and capabilities to accomplish anything and everything. The lack of capability/capacity is always a fundamental driving force behind outsourcing a product to Flextronics or another supplier. It is a combination of both *strengths* and *weaknesses* which propels our relationship with a customer. We have a strength they do not possess.

However, beware that our strength and the customer's weakness will create a tremendous tension in the negotiations (unless there is a strong antidote of trust). Customers that feel weak and out of control may react negatively, imposing controls, stiff legalistic contracts, and engage with us in an adversarial way to offset their perception of weakness. This can easily manifest itself as win-lose negotiations.

The antidote for a weakness that produces insecurity is to have a powerful shared vision, value proposition, and system of trust that helps ameliorate these anxieties and focuses energy instead on creating competitive advantage for our customer.

If our customer feels weak and insecure because we are not performing well, and senses that we too are a weak choice as a strategic supplier, then the foundation of the relationship will be eroding, thus negotiations, problem solving, and collaborative innovation will be replaced by blame, complaints, and win-lose thinking, ultimately undermining the relationship.

Be alert for situations where the driving forces in this quadrant are filled with problems for our customer. For example, they are experiencing declines in profit, dissatisfied customers, poor quality, low levels of innovation, poor morale, or losses in a division, these will have major impacts on your negotiations. FLEXTRONICS should be seeking finding ways to help offset these problems, not contribute to their agony.

Quadrant IV: Core Competencies

Value is best co-created, whether with large or small companies, where the core competencies of FLEXTRONICS, when combined with the core competencies of our customer, result in a powerful, synergistic combination, thus adding significantly to the customer's competitive advantage. Examine carefully what core competencies are needed and would be valuable to make our customer a formidable force in the competitive arena. These combined core competencies should enable innovation, spark consumer and market channel excitement, and sustain competitive advantages into the next product generation.

These core competencies are seldom located on a company's balance sheet, and typically reside in integrated team functioning. Be sure to assess key personnel both within FLEXTRONICS and within the customer's team, and seek ways to leverage mutual capabilities is designed to jointly produce a long-term stream of new competitive innovations. Figure 8 (below) is a checklist that will start your thought process (please modify according to your specific customer situation)

CHECKLIST: STRATEGIC DRIVERS IMPACT ANALYSIS

Quadrant I: Market Driven (Opportunities)

MARKET
___ Globalization of Markets
___ Access to Markets
___ Closeness to Customer
TECHNOLOGY
___ Hybridization of Technology
___ Development of New Technology
___ Commercialization of Technology
STRATEGIC
___ World Class Company Goals
___ Profitability

Quadrant III: Capability/Capacity Driven (Weaknesses)

RESOURCE
___ Production Capacity Limited
___ Management Resources
___ Technology Resources
___ Financial Resources
___ Territory Coverage Resources
RISK
___ Economies of Scale
___ Share Risk of Capital Expenses
___ Share Operational Risks
QUALITY
___ Increasing Quality Standards
PRODUCT
___ Increasing Customer Solution

Quadrant II: Competitive Driven (Threats)

REGULARTORY
___ Government Prohibitions
___ Legal Requirements
___ Taxation/Tariff
STRATEGIC
___ Competitive Positioning
MARKET
___ Changing Market Share
___ Loss of Sales
___ Distribution Capabilities
COST
___ Escalating Cost Structure

Quadrant IV: Competency Driven (Strengths)

INNOVATION
___ New Technologies & Processes
___ new Competencies
PRODUCTION
___ Control/Lower Cost of Supplies
___ Improved Quality & Reliability
___ Design for Manufacturing & Assembly
___ Excess Capacity
MARKET
___ Customer Access
___ Market Identification (Logo)
___ Sales Leadership

(Is this relationship being driven from a position of strength or weaknesses?)

Figure 8 -- Strategic Drivers Impact Analysis Checklist

Importance of Value Migration

In designing the strategy of the alliance, one must recognize from the outset that not only will the strategic drivers be changing, but the nature of value will also shift dramatically over time. This shift in value is called "value migration," and its impacts on the alliance will be profound. Figure 9 (below) illustrates the how value has changed for IBM during the 1990s. In the hardware market, had IBM not come to recognize that, overall, hardware was being commoditized, it would have gone out of business. Therefore, it was essential for IBM to focus on software and services to augment its hardware offerings.

> ~ CAUTION ~
>
> Every company exists at a moment in time in a particular strategic and operational environment. One thing that can be predicted with utmost certainty is that this environment will be different in the future. For some companies in dynamic markets and technologies, the future atmosphere may be rather stormy. For those in mature markets, it may be cyclical, with feasts followed by famines. And those in commodities may be subjected to great fluctuations in prices and supplies.
>
> Therefore, be keenly aware of these forces, because the ever-changing pressures require the relationship to be like a willow tree flexing in the strategic wind, and will enable you to be far more sensitive and proactive as a co-creative negotiator.

As a co-creative negotiator, it is important to understand not just how value is migrating in a market, but also how a particular product is migrating over the product life cycle.

Be very sensitive to the fact that as a product matures, the value usually becomes commoditized, and thus the ability to share in the value between supplier and customer becomes limited. Remember, a strategic negotiator is thinking not just of the immediate operational issues that face the relationship, but also the long term issues that will determine whether the customer is competitive in the future.

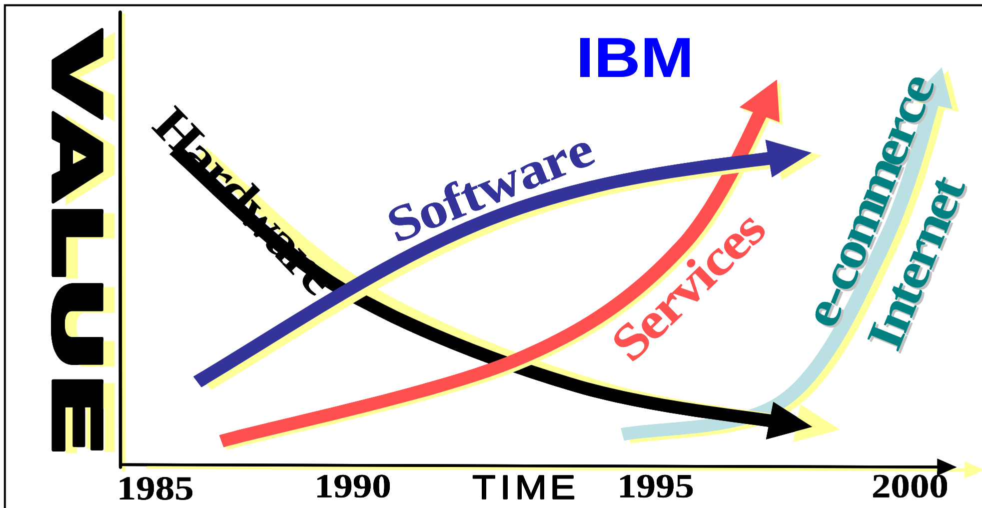


Figure 9 -- IBM's Value Migration during the 1990s

It is vital to have a common vision regarding these shifts, because both FLEX and our customer should be mutually positioning ourselves, our investments, and our technologies to capture the value on the upswing of the curve, as well as having a business model that enables us to engage in a win-win on the downside of the curve.

If the FLEX relationship is centered solely on riding the downswing of the curves, our customer will be seeking to consolidate and squeeze, engaging extensively in cost-cutting and rationalization. Low margins prevail here, and there will be very little margin for error and less profit to allocate to long term investment.

Why Value Migrates

- **Technology Changes**
- **Unmet Needs**
- **New Entrants with New Solutions**
- **External Environment Changes**
- **Companies with New Rules of the Game**
- **Cultural Differences**
- **Integrated Solutions**
- **Speed**

Innovation in the Supply Chain is Essential to Keep on the Value Migration Power Curve

Value Migration Checklist

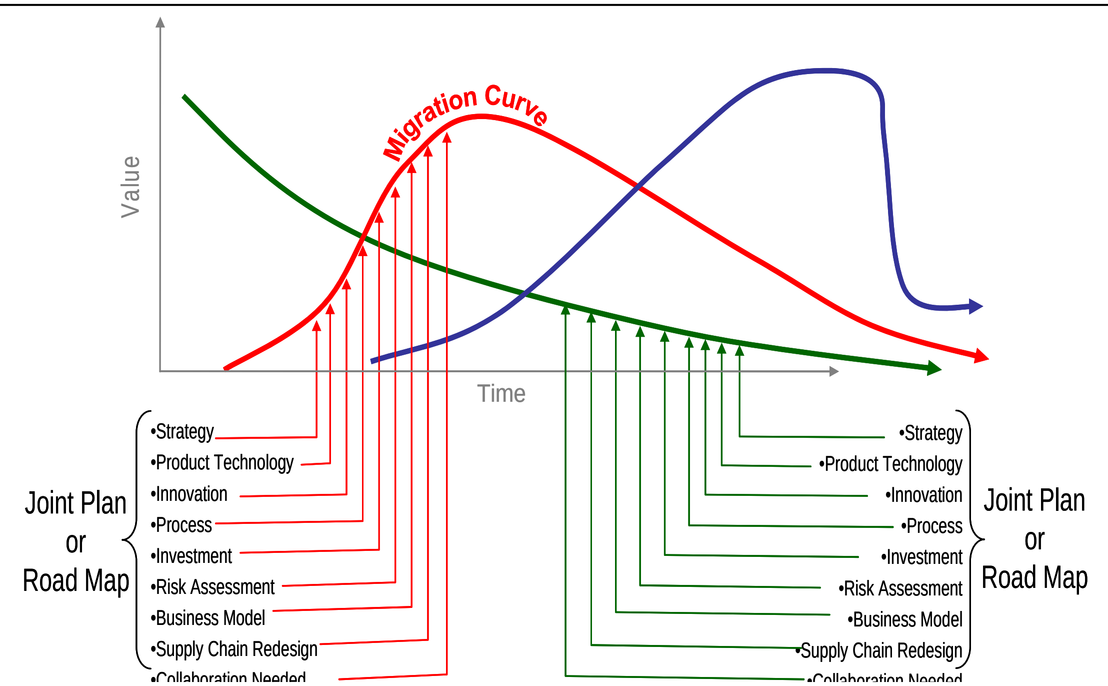
- **Customers**
  - ✓ Who is the Ultimate Customer/Consumer?
  - ✓ Are Decision Makers and Influencers changing?
  - ✓ What are the Customer's Economics and Process Flows?
  - ✓ Which customer needs are mature and require a more cost effective solution? Which needs are emerging and require a performance solution?
  - ✓ Given the customer's economics and needs profile, how are their priorities changing?
  - ✓ What do you think will be the customer's most important future needs?
- **New Business Designs**
  - ✓ How many distinct new business designs have been introduced in this industry segment in the past five years?
  - ✓ What is their customer and economic rationale?
  - ✓ How do their economics compare to yours?
- **Value Movement**
  - ✓ Map the Value Migration that enabled you to gain your present position.
  - ✓ What is the total market value of your industry? What is your share of that value? Who is gaining share of value most rapidly?
  - ✓ What is the next shift in value migration you can either anticipate or lead?
  - ✓ How will the rules of the game change in the new migration?

Figure 10 -- Value Migration Checklist

It's advisable to check on these value migration curves at least annually, because rapid innovation in the industry or changing customer demands may require the reconfigure our strategy to keep our customer competitive. See Figure 10 (above) for some things to think about (modify to fit the specific needs of your situation)

Co-Creative Negotiations is, in large measure, about having enough trust and vision to design a synergistic, innovative future together.

Think of the value migration analysis as a joint process between you and your customer in which you co-creatively come to a common vision of the dynamics of the industry, market segment, product offerings, and collaborative innovation needed to be successful and compete effectively in the future. This should culminate in a joint value migration plan or roadmap that is clear about what needs to be done for the customer and for FLEX to win together, no matter whether the migration curve is increasing or decreasing. See Figure 12(below).



] **Figure 12 -- Joint Planning for Value Migration** ework

Breakthrough Shared Value Proposition

For FLEXTRONICS to be truly successful in our relationship with our customer, we should be able to accomplish something that our competitors would find very difficult to achieve. This requires an ability to create a relationship with our customer where we provide extraordinary value that truly “delights the customer.” The Shared Value Proposition (SVP) becomes a means of crystallizing the idea of what Flextronics can do that will delight the customer and create competitive advantage. The SVP is a critical unification point because it focuses externally past our direct customer onto the ultimate, final consumer. When frictions arise with our customer, we should focus on the ultimate buyer using the SVP to coalesce the relationship around the bigger shared vision and strategy.

Shared Value Proposition (SVP)

The Shared Value-Added Proposition a “vision made measurable.” It explains what makes the FLEXTRONICS approach more valuable in that together we will produce something that is (choose one or more):

- Better
- Cheaper
- Faster
- Safer
- More Accurate
- More Reliable
- More Integrated
- More Compatible
- More ……..

This value will be judged by the ultimate customer and will significantly help create competitive advantage. Our customer should see, through the SVP, that using Flextronics will:

- *produce results* significantly better than could be produced by either our customer or our competitors.

The SVP makes it clear why our relationship is the best choice among the range of other competitive offerings.

Some Powerful Examples of Breakthrough Value Propositions

- **Moore’s Law**
  - **The Capacity of a Computer Chip will Double every 18 months and its price will drop by 1/2**
- **FedEx**
  - **We will deliver anywhere in the US by the next day**
- **3-M**
  - **40% of our sales will come from new products designed in the last 4 years**
- **Procter & Gamble**
  - **50% of our innovation will come from outside sources within the next 5 years, without reducing our internal R&D staff**
- **Edison**
  - **Our laboratory will create a minor invention every ten days and a big one every six months (1879) *“I will only invent things people want to buy.”***

Figure 13 -- Examples of Powerful Value Propositions

The Breakthrough Value Proposition enables the partners to align their vision on a very specific and tangible value for the ultimate customer. This requires a clear and explicit definition of what “Value” is actually going to be produced (see Value Iceberg earlier in this chapter).

Measurability Triggers the “WOW!” and “HOW?”

In the example of Powerful Value Propositions (see Figure 10 above), notice the impact of putting a measureable point of reference in the proposition. This separates fuzzy mission statements from compelling value propositions. Measurability *motivates the mind to action.* When we put a metric in the value proposition, one’s mind quickly shifts to “Wow, that’s unique and compelling” and “How are you going to do that?” The “wow” energizes the vision, and the “how” draws the vision toward implementation and action.

If You Can’t Measure It, You Can’t Manage It

One of the distinct differences between mission statements and value propositions is the fact that vision statements are typically overarching verbalizations of very broad views of the future. A value proposition is quite different – it specific, timely, and measurable.

Because the value proposition embodies metrics of value and tie, it becomes a leverage point for transforming ideas into something that can be directly linked to a strategy and a plan.

Remember, *If you can’t measure something, it can’t be:*

- *Managed*
- *Driven*
- *Seen*
- *Changed*
- *Resourced*
- *Valued*
- *Rewarded*
- *Sustained*
- *Celebrate, and*
- *Negotiated*

Thus the co-creation of a Shared Value Proposition (SVP) becomes a critical step in synergistic negotiations, enabling a joint measureable vision that inspires people to achieve at a greater level.

Create a Powerful Measurement System That Drives the Vision

Most people believe that metrics simply measure what has already happened. This is a myth. The reality is that a powerful metric when incorporated into a value proposition will actually stimulate and drive the vision into reality far more powerfully than a vision that is just a wishy-washing, fuzzy-wuzzy statement of vague value. To illustrate this, let's compare two statements:

1. *We will put a man on the moon and safely bring him back alive by the end of the decade*. – John F. Kennedy 1962
2. *We will win the space race*. – Numerous politicians of the time

The first statement is powerful, motivating, and filled with measureable imagery, while the second is ho-hum. Our brains register crisp, vivid images that they can see in the mind's eye. People are inspired by a value proposition that evokes a worthy goal, a powerful challenge, or a noble purpose. When negotiating with your counterpart, co-create with them this new, measurable vision that will help drive the relationship to new levels of performance and unified purpose, where we are required to make a long-term joint commitment with an aligned focus to attain a position of leadership in the market space. Figure 14 outlines some of the questions that should be asked to think through the creation of a Shared Value Proposition.

CHECKLIST: SHARED VALUE PROPOSITION

<u>Key Questions</u>

1. Who is the target consumer?
2. What specific benefits will this product provide to the consumer?
3. What is the right price point?
4. What are the demand curves for this product?
5. How does our customer's product/service offering make their consumer more:

-successful	-effective	-profitable
-competitive	-productive	-satisfied
-efficient	- etc.	

6. Why is our value proposition superior?
7. Has this Shared Value Proposition been <u>validated</u> by target consumer in the segment?
   Does it create more:
   -opportunities for growth?
   -opportunities to add more value?
   -difficulty for competitors to:
      - enter the market?
      - match our offerings?
8. Can you quantify acceptable returns on investment?
9. How will we and our customer outperform the competition?
10. Have we considered alternative value propositions?
11. Can our message be explained clearly and simply?
12. The Future
    The future may not be an extension of the past. What shifts in the value proposition might be expected in the next 3-5 years. How should we prepare for this shift?

(So what..? Does the SVP over-achieve the buyer's expectations?)

Figure 14 - Checklist for Shared Value Proposition

Defining Value

Perhaps the most difficult aspect of value creation is defining what value is. If you experience difficulty in this area, and the earlier information on the Value Iceberg is not sufficient, see Appendix #3: **The Myth of the Wrong Metrics – Changing the Cost Metric to Total Cost of Ownership.**

Collaborative Elements of Value Creation

Engaging in co-creative negotiations is not a one time, transaction driven event. In fact, co-creative negotiations will probably not look like nor feel like negotiations to many people because it is not burdened with the baggage of other forms of negotiations.

Rather, co-creative negotiations will probably feel more like spontaneous interaction, with the exception that there is far more planning and planning, strategic thinking, and conscious design behind co-creation.

Co-creation is a process that should occur every time FLEXTRONICS personnel engage internally as well as when we interact with our customers and suppliers.

It's more than Trust Alone

While the foundation of all co-creation is trust (see Chapter 8), trust alone will be insufficient to cause co-creation. It will require intense collaboration.

Collaboration means several critical processes are fully engaged on a regular, normative basis, including:

- **TEAMWORK** across boundaries
- **INTEGRATION** & **CONNECTIVITY** of Functions & Processes
- **INFORMATION** & **INNOVATION FLOW**

As a co-creative negotiator, it is your responsibility to ensure that teamwork occurs. Whenever people begin to isolate themselves into functional specialties, polarize into us-versus-them, or fail to link across "silos," whether they are Flex employees, our suppliers, or our customers, you must begin to use your negotiations skills to build bridges, engage in joint problem solving, and unify cultural differences, and translate needs into solutions. You will need to fully embrace the key skills of co-creative negotiators (see Chapter 7).

Teamwork (reinforcing what was said in Chapter 2)

Teamwork both within Flex and with our customers is the key to the collaboration that will produce excellent products and services for our customers. If, at any time you see that excellent teamwork is missing, this is an opportunity to engage in co-creative negotiations to shift people's perspective to a higher order of thinking.

Teamwork means thinking about your other teammates as much as you think about yourself. In the case of collaboration, your teammates are not limited to FLEXTRONICS – your customer and your suppliers are part of the FLEXTRONICS team!

Teamwork is the only way to succeed when we are under pressure to – perform and our customer has enormous demands and needs immediate attention. Therefore, teamwork is not just a nice word, it is the fundamental value upon which good service and competitive advantage is built.

Teamwork requires high levels of cooperation, consideration, and communication -- you must value these immensely to achieve the expectations of our customers and your fellow teammates. When these factors are not present, intercede with all your leadership and negotiations skills to bring them back into place. Don't be reticent. You may need to be confrontive of people who are showing non-collaborative behavior. Don't tolerate second best. If some is displaying behavior that is destroying teamwork, you must take action, even if the person is in another organization – this requires tact and diplomacy – the ultimate co-creational leadership and negotiations skills – but to do nothing is to watch teamwork being destroyed. Don't be afraid to address the consequences of destructive behavior openly and encourage those who know the importance of teamwork to be highly vocal. Peer pressure is highly effective.

Teamwork may not come naturally -- it is an art requiring practice, thought, discussion, planning, and more practice. It means being vocal about your expectations for your own performance as well as the performance of others -- and very carefully listening to the expectations of your teammates.

Teamwork means professional performance, and true professionals always give 100% effort, not because they are paid for it, and not because others expect it of them, but because *they expect it of themselves.*

Collaboration is more than Teamwork

Creating collaboration goes beyond teamwork; it requires you to ensure that integration and connectivity occurs across boundaries – across Flex's internal boundaries, and across the boundaries of our suppliers and customers. Good collaboration is essentially boundary-less.

Figure 15 illustrates a Non-collaborative Relationship between FLEXTRONICS and a customer. (This could just as easily be a relationship between our company and our suppliers.)

Often this is called a “bow-tie” arrangement, and is typified by a tactical, transactional, low trust relationship at the isolated point of limited interface between buyer and seller.

This type of “vendor” relationship is not conducive to a strategic alignment that produces high levels of value creation. More often than not, it results in distrust, fear, over-reliance on a contract, and ultimately a “protectional” mode of thinking that manifests as a win-lose negotiations style (or worse, will devolve into a lose-lose).

To avoid getting caught in this trap, we must be aware of the importance of integration across boundaries.

Figure 16 demonstrates a Collaborative Relationship, which is far more integrated and aligned. Information, innovation, and ideas flow across the boundary. If this is not occurring, it is your responsibility as a co-creative leader and negotiator to find where and why the breakdowns are occurring and remedy the situation.

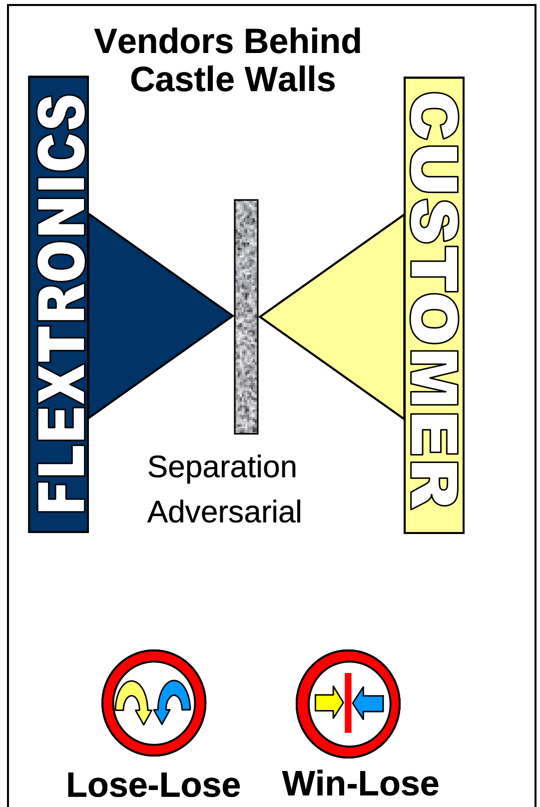


Figure 15 -- Non-Collaborative Relationship

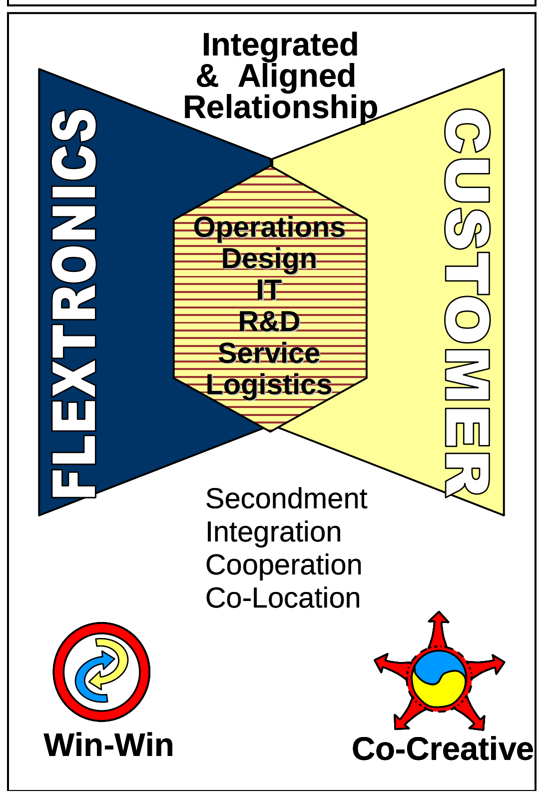


Figure 16 -- Collaborative Integrated Relationship

In a collaborative relationship there will be a high degree of cross-boundary process integrations, individuals who understand the needs and cultures of the other organization, even cross-training, co-location, secondment (temporary loaning of employees), cross-functional teaming, and other similar connection of people to ensure that ideas flow, co-creation occurs, and people see the bigger picture.

Negotiations in an integrated and aligned relationship will typically be of the win-win or co-creative order.

Building the Right Climate

In every study done on successful innovation, one of the common conclusions is that the number-one factor in creating innovation flow is to create a climate that fosters innovation and co-creation.

As a co-creative leader and negotiator, this is something to watch carefully.

In win-lose environments, the ability of real creative innovation drops dramatically. Win-lose is based on fear, positional power, use of deceptive and manipulative tactics, and the premise that the "pie" cannot be expanded, therefore it is our duty and obligation to squeeze the vendor to get as much out of the other side as possible, because, after all, that's what they will try to do to us!

Use Positive Power

As a co-creative negotiator, you have at your disposal the use of "positive power." (see Chapter 10 for more on this subject)

– Power of Knowledge: The simplest and most straightforward way to get people to work in a collaborative climate is to be sure people are dealing with facts and observable data, not opinions and distortions. Be sure people are speaking the truth about what really happened, not their emotional reactions to events.

– Power of Purposeful Commitment: When you focus people's energies around what there are mutually committed to, then trust builds. People who are willing to take joint responsibility for taking action, making their promises become reality, and consciously choosing to do what's in the mutual interest will have a major impact on moving the relationship in a positive direction. Your personal commitment to a win-win relationship will cause others to step to this higher ground.

– Power of Creative Possibility: Synergy is the deepest yearning in the human soul. The vast majority of people truly want to engage in co-creative activities to generate innovative breakthroughs, provided it is safe. Creativity is a natural state, just observe it an children! Adults want it too, but often are not convinced they will be rewarded for being visionary and risk-taking. Your willingness to be supportive (and protective) of people who want to be in this space will be essential for the shift into co-creative innovation to occur and sustain itself.

Beware of Swamp Talk!

However, the biggest killer of collaborative innovation are those who engage in "swamp talk;" a term that euphemistically refers to people who are engaged in pitiful judgment of others, constantly criticizing, attacking, undermining, blaming, and complaining about others. (see Figure 17 below).

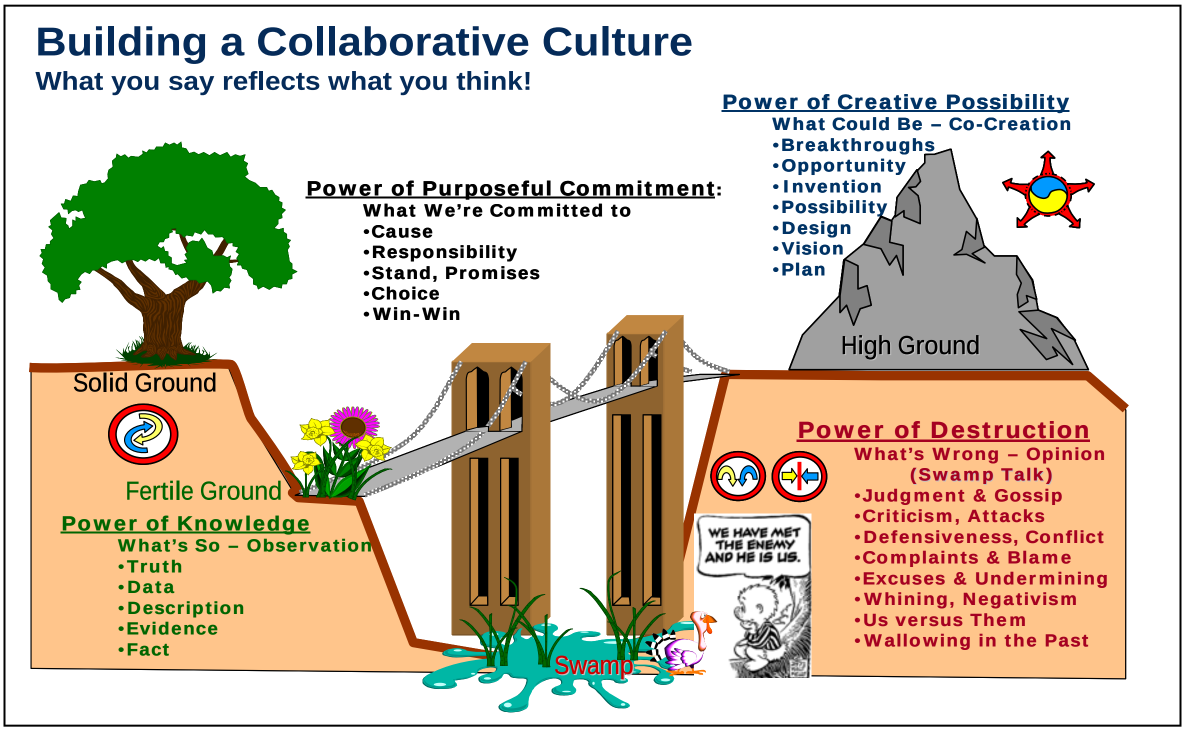


Figure 17 -- Building a Collaborative Culture

Swamp talk is all too prevalent in most organizations. It's easy to start blaming, complaining, finding fault, criticizing, and polarizing.

Bluntly stated, Swamp Talk and Co-Creation cannot simultaneously together. Where swamp behavior kills trust, co-creation, and innovation – these will wither fast and then fade into oblivion.

As a co-creative leader and negotiator, it will be imperative to eradicate swamp talk wherever it lurks.

Innovation Elements

Ultimately the co-creation of value will be nearly synonymous with collaborative innovation. For FLEXTRONICS, collaborative innovation is one of the most powerful means of creating new ideas that impact our customer's revenues as well as expenses.

"Simple" Innovation Definition

While there are many books written about innovation, we are going to address it very simply here:

Innovation is any Strategy, System, Structure, or Process that Generates New Sources of Value for an organization

As a co-creative negotiator, it is your objective to set into motion the catalysts for innovation. But first some let's explore the source of innovation.

Source of Innovation

All innovation comes when some one or some group thinks differently about a problem, opportunity, or situation. Thus:

***Differentials in Thinking* are the Primary Source of Innovation**

Innovation comes from people who see their world in new and different ways.

The old adage: *"if two people in the same room think alike, one is unnecessary,"* prevails. Therefore, bringing together people who don't think alike will actually generate more innovative ideas than a team of like-minded people who see the world from a similar perspective – provided they exist in a collaborative culture of trust and innovative thinking that rewards people for challenging the status quo.

The Battle of Value Chains

Ultimately, any of our customers must deal with the fundamental issue of how to deliver value and create competitive advantage in the marketplace. No company is an isolated organization, each is part of a value chain.

In the larger scope, winning the competitive game is more a question of how to create an entire chain of value that's more competitive than that of other rivals. Flextronics is a key member in the value chain of most of our customers. Thus our ability to engage in collaborative innovation with our customers and our suppliers is a critical ingredient in generating sustainable competitive advantage in the battle of value chains.

However, this cannot occur if the relationship with both our suppliers at the sourcing end of the value chain and the customers at the sales end of the chain is adversarial, transactional, or lacks integration.

A collaborative relationship with primary suppliers and customers is essential if innovation is to flow and flourish. Win-lose environments cause people with different perspectives to polarize, or worse, disregard or even destroy the value from those with whom they don't share a common perspective.

The role of the co-creative negotiator is to enable fluid access to the fundamental source of innovation and not let other forces destroy them.

Thus, by tapping into the co-creative energies of differentials in thinking, and aligning those energies positively, cross-boundary alignments unleash the innovative potential of the synergies of differentials.

Definition of Collaborative Innovation

We define Collaborative Innovation as:

The re-occurring interaction of co-creativity, knowledge, and mutual learning between two or more people working together toward a common goal of generating new sources of growth or wealth in an organization.

Power of Collaborative Innovation

We believe that:

In a Fast Moving, Rapidly Changing World, the Most Sustainable Source of Competitive Advantage is Collaborative Innovation.

Simply put, Collaborative Innovation is the most robust and regenerative way to create true value and growth.

Growth and innovation are top-of-mind priorities for senior executive in our customer base. Innovation is the critical difference between business success and failure; it's one of the most important elements in creating wealth.

Clarifying the Meaning of Innovation – Six Types

One of the biggest problems with innovation is its true meaning:

Fundamentally, *invention* is a sub-set of *innovation;* but all-too-often *invention* is confused with *innovation* – resulting in both a mystification and exclusion of non-technical people from innovation.

Innovation is far broader. There are six distinctive types of innovation powering the innovation engine, which can be used in combination with each other, to gain both strategic and operational advantage:

1. **Technology Inventions**
2. **System Solutions**
3. **Product Improvements**
4. **Process Improvements**
5. **Business Models**
6. **Market Extensions**

The good news for our business is that, with the exception of technology invention, an employee does not require an engineering degree to engage actively in the collaborative innovation process – making the majority of innovation available to everyone no matter what rank or educational level!

What Will Happen by Engaging in Collaborative Innovation

When applied to any of the six types of innovation:

- Corporate teams start thinking about innovation *strategically*
- Business units become *enthused* and *engaged* in innovation
- Innovation champions launch a series of highly inspired innovation *pilot projects*
- Innovation begins showing up as:
    - *Revenues* and *profits* increase
    - *Speed* improves – things will happen faster
    - Teams *work together* synergistically
    - Business units *collaborate outside their "silos"*
    - New *aligned relationships form* with suppliers, outsourcers, distributors, integrators, and customers and others.

In other words, be begin to create powerful competitive advantage for our customer, and ourselves.

Innovation tends to follow a serendipitous path:

Managers can expect the co-creative spirit of the participants in collaborative innovation will *generate new, but unpredictable, ideas, solutions, and opportunities*. As a company's internal business units, functional operations, and strategic relationships jointly focus their efforts on innovation and systematically *create alignments* both internally and across its value chain, the total *organizational network's thinking, awareness, and insights begin to shift*:

- People become invigorated, generating new, as yet unseen, opportunities,

- A deeper, more common understanding of the linkage between value and competitive advantage evolves across the value chain,
- People and their organizations that had been stereo-typed into little boxes begin to open their horizons, developing contributions that were never before imagined,
- Customer and market opportunities are discovered that would otherwise have been overlooked, while
- A new level of collaborative innovation spawns greater opportunities.

Secondary impacts are also likely to take the form of:

- Higher levels of innovation internally,
- Better internal/cross-functional collaboration,
- Better utilization of staff, and
- Greater alignment of internal and external stakeholders.

Collaborative Innovation is one of the most potent factors in creating real competitive advantage in today's corporation. It will be the foundation for solving the great problems companies face in today's hyper-competitive business environment. This epitomizes the Purpose.

Shifting from Win-Win to Co-Creative Negotiations

While Win-Win is a very desirable position for both FLEXTRONICS and our customers, it is actually sub-optimal. Win-Win should be considered the *minimum* acceptable position in negotiations. The co-creative approach enables more -- the range of possibilities expands -- and the FLEXTRONICS Purpose of *creating value that increases customer competitiveness* becomes achievable.

Tips on how to Manifest Co-Creation of Value

1. <u>You Must Believe</u>: To begin to shift into the co-creative mode, you must first believe it is possible!! *Those who do not believe it cannot manifest it!* (the same is also true of win-win). It only occurs when you can imagine it first in your mind.
2. <u>One Level at a Time</u>: It is not normally possible to shift a win-lose negotiator more than one level at a time in the near term. A win-lose negotiator can shift to win-win, but not into co-creation, *unless* you do not call it negotiations or even intimate it is negotiations. For example, a win-lose negotiator, if they think they are doing strategic planning, will often drop their

negotiations paradigm in shift into a different mode of thinking.

3. Quickly Rebuild Trust: Trust is not easy to maintain – often someone will do something to violate trust. When and if this happens, consciously call out the problem and take immediate action to rebuild trust. If someone slips into combative negotiations, move back up QUICKLY into the win-win zone. When someone becomes angry, address the issues right away. Remember the old adage: *“Let Not the Sun Set on Thy Wrath”*

4. Avoid Compromises & Concessions: The biggest weakness in win-win negotiations is that it often becomes an elegant way to compromise (and many people don’t really like compromise). Instead, use co-creation and collaborative innovation to come up with more insightful way to generate value. Use compromise as a last resort when all else fails.

5. Shift Thinking and Language: What is emitted from your mouth is a reflection of what is in your mind and heart (see Chapter 10, The Power of Language) Envision in your mind a picture of people working together as a team co-creating a synergistic and innovative future. Speak this language. If you revert to combative, us-versus-them dialogue, you will tear down all that you’ve built.

6. Power of Vision: Evoke the impact of seeing a clear view of what’s possible, the collaborative future where innovation prevails. Don’t settle for a vision and for values that are second rate, or that’s what you’ll end up with. Fear and maneuvering often exists where there is a “Vision Vacuum.” Ask Critical Questions about the future, such as:

   – *What do you see as the most important outcome?*
   – *What's the best way to beat the competition?*
   – *What would we be doing together that would cause the competition the most concern?*
   – *What's Missing? What's Possible? What Shifts in Thinking are Needed?*

   Without a mutual vision, there is no alignment of forces. Remember:

   – *Your Arrows are falling short because your aim is not high enough.* -- Zen Archer to his student

7. Avoid Evoking Fear: Where fear is overwhelming, the negotiations may likely degenerate to win-lose fight based on insecurity. Fear will sap your ability to channel the other side’s energy into a co-creative win and breaks the co-creative connection of the heart and soul, forcing ego to conquer ego – a battle that will degenerate into lose-lose.

8. People Trust those of Strong Character: Character is the confluence of strong values and clear vision. But having character requires courage. Remember:

   – *Courage enlarges, cowardice diminishes resources. In dangerous straits, the fears of the timid aggravate the dangers that imperil the brave.* ***--*** Bouvee (1820-1904)

   Stand firm on the critical values and operating principles (see Chapter 8) that will generate real value. Chemistry (trusting relationships) and Character are essential for a long-term relationship. Therefore, create an environment where integrity and trust can prevail.

9. Alignment: Create Alignment of interests, objectives, and outcomes.

10. Integrate: Find ways to connect, communicate, understand, bridge, and relate across boundaries and differences. Use co-location and secondment to understand what the issues and concerns of the partner are.

11. Power of Questions: Use questions and co-creative inquiry extensively to open up thinking, gain insights, build understanding, and solve problems. Discovery is the power of opening yourself to the wonderful realm of possibility -- a flexible, open belief system; while Defense is a rigid, closed belief system.

12. Champion the Cause: Stand powerfully for cooperation, mutual benefit, and the purpose of creating value that increases customer competitiveness. Don't waiver from this purpose, and be true to the FLEX values.

13. Stop Swamp Talk: Whenever people engage in blame, negativity, complaints, and polarization, intercede immediately, call out the consequences of this action, and shift the approach to the higher ground – focus on the power of creative possibility.

14. Evoke Einstein's Rules: Remember Einstein's Rules –

    – *We cannot solve today's problems with the same level of thinking that created the problem*

    – *Creativity is more important than knowledge*

    – *From clutter and chaos find simplicity and harmony*

15. Embrace Differentials in Thinking: Most people recoil whenever others look at the world differently, wanting to fit everyone into the same mold. Instead use these differentials to explore possibility, to see things from a new perspective, to co-generate new ideas for solutions and innovation.

16. Work Co-Creatively to Solve Problems: When problems arise – and invariably they will – bring those involved into the solution. Remember the adage:

    – *People support what they help create*

17. Use Conflict Constructively: Whenever conflict occurs, don't rush to smooth things over. In a negotiations environment, it's not the conflict itself that is the problem; it's our reaction to it. Conflict is just a notification that the issue is important, that people are highly energized, and there needs to be some form of resolution. Don't escalate the conflict, escalate the creative solutions. Resolving Conflict is rarely about who is right. It is about acknowledgment and appreciation of differences.

18. Turn Breakdowns into Breakthroughs: Every breakdown is an opportunity to create breakthroughs in thinking, new processes, innovations to accelerate cycle times, etc. Usually breakdowns come along with conflict and heated emotions, which fill the breakdown with anxiety. Use this energy positively. Avoid blaming and faultfinding.

19. Use Operating Principles as a Foundation: The FLEX Values are a good underpinning for co-creating a set of joint operating principles for the relationship. Be sure that our customer participates in the creation of these operating principles, and use them as part of the culture of collaboration. (see Chapter 8)

20. Recognize the "Collaboration Gene": Some people are inherently much better at teamwork and collaboration than others. These people are better integrators and co-creators. If you have people on your FLEX team that simply are not good at creating synergistic relationships and are not really committed to learning the skills and strategies of collaborative innovation, it is probably best to reassign them to something they are better suited for.

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Chapter 7 Key Skills You Will Need

The young manager, just learning negotiations, will, upon observing an experienced negotiator, conclude that the successful negotiator is highly skilled. This is partially true. Remember:

Great Negotiators are characterized:

Not by their:
- techniques
- or hard-nosed toughness

But rather by their:

- integrity
- ability to build trust with others
- breadth of capabilities,
- depth of business knowledge
- depth of discovery, listening and understanding
- insightfulness
- flexibility across a broad range of strategies and situations

…Yielding mutual possibilities and producing sustainable RESULTS

Your development into a great negotiator is dependent upon your *character* as well as your *skills.* Character is a function of your personal integrity, commitment, and adherence to a strong set of values. The skills outlined below are most effective only when coupled with the strength of character to enable them to flourish.

Know Yourself Self

Great negotiations begin first in your own mind, heart, and soul. This means you must first ready yourself by fully embracing the following attitude:

Negotiation is an opportunity to engage with another person or organization so that I can find new ways to bring greater value to the relationship

<u>Your Beliefs</u>: It you believe that negotiations is a battleground, a place to drive fear into to heart of the opponent, a means to manipulate others into getting what I want, then your negotiations will produce these results, and cause the other side to respond similarly – usually ending in irresolvable difficulties. What you think and believe is what you are most likely to produce in negotiations. Therefore be extremely conscious of your inner thoughts and beliefs.

Your Fears: If you have feelings of insecurity over your own capabilities, or feel threatened when attacked by a win-lose negotiator, these issues will become evident very quickly. These fears can include a multitude of things that are prevalent in virtually everyone. Common is it to have a fear of failure, or a fear of losing, or a fear of looking foolish, or a fear of betrayal, or a fear of not being appreciated, or a fear of being isolated, demoted, or even losing a job.

Fear is what a facile manipulator preys upon. In negotiations, it is essential to knowing your own fears and the impact they will have on you, your actions, your reactions, your response to conflict, and your relationship with your negotiations team.

Courage
Courage is not the Absence of Fear
But having a Commitment to a Vision
Much Larger than the Fear

Your Vision: For most negotiators, shifting into the co-creative negotiations zone means moving from tactical-transactional or interests-based thinking to a new arena where vision and values are the basis of negotiations.

Having a clear vision of what is possible is essential to the ultimate goal of creating value. If you find your vision lacking, link up you're your leader and your team and address the issue of vision and value propositions directly. (see Chapter 6)

In a Vision and Values Vacuum
Fear, Power, and Politics Predominate

Your Values: Being true to one's soul is critical to integrity, which is one of the pillars of trust. If you engage in doing or saying something that you do not believe is true, fair, right, or beneficial, discuss this openly within your own team. You will be a better negotiator when you function on the high-ground of creative possibility, not in the swamp of destruction (see "Swamp Talk" in Chapter 6 and Chapter 8, Importance of Trust)

Character is Destiny -- Heraclitus (B.C. 535-475)
Character is Higher than Intellect -- Emerson (1803-1882)

Thoughts Drive Destiny

Carefully Choose Your Thoughts.....

...they will become your values...
...which become your words and deeds...
...which become your habits...
...which then define your character...
...and ultimately determine your destiny!

Your Commitment: Central to knowing yourself is knowing what you are committed to. If you are committed to fighting, winning at all costs, making others wrong, or self-righteous aggrandizement, then you will make a poor negotiator. These forces will manifest themselves and drive unproductive outcomes.

Your Expectations: We all have expectations. Expectations are goals, hopes, needs, and desires that have not been articulated and expressed openly. These become “time bombs” ready to explode when they’re not met. And when they explode it can be with an emotional blast or with a passive-aggressive withdrawal, depending upon a person’s makeup. Take these expectations and turn them into clear, measureable goals or take them off the table.

Your Tolerance for Ambiguity and Uncertainty: Each person is different when it comes to their tolerance for ambiguity and uncertainty. For some, the tolerance is quite high, for others it’s low. Each negotiations team will have members at different levels of the Ambiguity-Uncertainty Spectrum. Be aware of what your needs are for clarity and certainty and the impact on the team.

Your Patience: Emotions, time pressures, culture, and personal style can have a major impact on your negotiations approach. If your boss is demanding something in a week, and the negotiations are dragging on, this will cause anxiety and result in a different negotiations than if there were no time pressures.

Your Insecurities: Each of us has a wide variety of personal insecurities that come from our experiences, fears, and upbringing. This Guide-book is not designed to eliminate insecurities, but to have you under-stand how insecurities will typically trigger emotions that distort reality, push tolerance over the edge, detonate illogical reactions, accelerate improper responses, and bring about attacks, counter-attacks, blaming, negativity, and adversarial interaction. These insecurities will skew any negotiations in directions that will cause the other side to act in less than favorable ways.

Typically insecurities make us feel out of control, and, in a futile attempt to bring our life back into balance, we invoke a “control reaction,” which, of course, usually invokes a compensatory control reaction by the other side – each side trying to control the other. As the control responses and counter-responses degenerate into manipulation, guilt trips, storming sessions, and accusations, it becomes increasingly impossible to build a trusting relationship. The lose-lose game is in full play, with little chance of pulling out of this death-spiral.

Knowing what "pushes your insecurity buttons" is essential if you are to be a great negotiator. The insecurity "button" is also known as your "hot button." Each of us has at least one, it comes with being human. (if you want to look at your "hot button" more introspectively, just watch who in your life knows how to push it mercilessly. Often it is your teenage child, or a parent, or an in-law or an authority figure.)

<u>Your Default Negotiations Style</u>: People behave differently when:

- under pressure or attack
- things don't go their way
- someone says "no," or uses coercion

Know your alternative (default) style and what it means. Know what triggers the default style. Know what you lose or are ineffective at when this style kicks in. Know what you become vulnerable to when you lose sight of the vision and values that you cherish.

<u>Your Ability to Listen</u>: Listening with empathy, understanding, fairness, and openness is not easy for most people. Most of us often listen with judgment and intolerance when we are frustrated, if we listen at all. Know what your limits are to listening are, and what the consequences of these limits have on your negotiations.

<u>Your Response to Blame</u>: Often a negotiator on the other side will blame you or FLEXTRONICS for a condition or situation. Most people become defensive, angry, or upset when blame inflames. In response, some will cast blame back. Usually these responses only make matters worse, but the inexperienced negotiator gets caught taking the bait.

<u>Your Response to Conflict</u>: Conflict can be present in many negotiations, especially when there is fear, change, insecurity, unmet expectations, miscommunication, emotional distress, and loss.

Conflict is Seldom the Real Problem, It's Your Reaction to It

The Kilman survey is a reasonable gauge of your response to conflict, either being cooperative, competitive, avoiding, compromising, or accommodating. Your response to conflict may differ depending upon the nature of the threat. Know your response to conflict and the alternatives described later in this chapter.

<u>Your Emotions</u>: Human beings are both rational and emotional. Emotions cannot be avoided – they will occur in all negotiations situations. However, if you are not aware of your emotions, you cannot manage them effectively, and thus will be a reactionary (i.e. in-effective) negotiator.

The two biggest problems with emotions is that they block rational thinking, and they warp the time perspective of all interaction, causing rapid-fire responses that block logic, analysis, synthesis, genesis, and co-creation.

When you are experiencing an emotional reaction during negotiations, the way to "BEAT' the impact of the emotion is to follow this sequence:

- **B**REATHE – take a deep breath, buy time, and center yourself. When you take a deep breath you can't speak. Hold onto the breath while you take the next step.
- **E**MPATHIZE – get out of your skin and into the other person's. Use active listening to understand the other's point of view.
- **A**CKNOWLEDGE – let the other person know you have understood and see from their perspective.
- **T**EST – suggest a way forward that will meet mutual interests and build a trusting and positive relationship going forward.

Emotions can actually be used to your deep advantage if you simply understand that emotions are the barometer of the alignment of what your ego expects, what your soul yearns for, and what signals reality is sending you. When your ego feels protected and secure, you're your soul is singing with joy, and reality is telling you everything is fine, your emotional well being is signaling: "fair weather, sunny skies, set all sails and stay on course."

Emotions are the Barometer of Alignment Between the Ego, Soul, and Perceived Reality

However, when your emotional barometer is angry, fearful, upset, hurt, anxiety ridden, or confused, this is the signal for "stormy weather." Pay attention to the signals. Determine what is happening. Why are you upset? What is out of kilter? Why is my ego bent out of shape? What had I hoped would really be happening? What reality is occurring that I thought should or would not happen? Why is the other person responding to me in such an adversarial way? What do they fear? Where is the common ground where we can all feel secure?

Reframing Time

Heated emotions compress time. Whenever people are upset, argumentative, angry, or uneasy, clock-time is replaced by emotional time, which is lightning speed. And, with few exceptions, when we engage in emotional time in negotiations, everyone suffers because logic dies and feelings get hurt, often irreparably.

Buy Time
to Move From
React** to **Reframe

Whenever you feel trapped in a fast-time shoot-out of wits and rapid-fire retorts, try this technique for slowing down time:

> Imagine the person you are matching wits with having a gun in their hand. Their antagonistic or sarcastic or more authoritative statement is the bullet in their gun. When they shoot the antagonistic bullet at you, in your mind's eye, slow it down. Imagine the bullet coming out of the gun at a snail's pace. Breathe, gather you composure, move out of the way, and watch the bullet go by harmlessly. Don't respond if you have put your own trigger-finger on your own gun. Wait, ask a question, and wait. If the other party fires back again, duck. Then use time to reframe the situation – see it from another point of view.

Listening with Commitment

Great negotiators are intense listeners, adhering to the adage that *we've been given two ears and one mouth, and should use them in that proportion*.

Listening is a pivotal skill to the negotiator, because without listening their can be no understanding, insight, or inquiry. To create value, one must be able to listen to queues that will give us the depth of understanding the value and competitive advantage equations for the customer.

In addition, when there are breakdowns, listening, when coupled with creative inquiry, will insight into how to create value.

Listening with commitment implies that you truly value another person's perspective, their issues, their priorities, their trials, and their pressures. If you do not value them, you cannot listen with commitment.

"Three Dimensional" listening means you will be aware of three key things:

- **Content** – the facts, story, message, theme
- **Emotion** – the feelings, subjective essence
- **Intention** – the goal, purpose, meaning

Unfortunately, good listening is often more difficult in practice, because their may be habits in the relationship where we don't listen because we already think we know what someone is going to say, or our emotional reactions create distortions, or, especially across cultural boundaries, the same word has different meaning or connotations.

Figure 1 illustrates three different styles of listening.

Detached Listening: The detached –distanced style is typified in win-lose negotiations where the two parties are critical of each other, defensive, judgmental, focused on knowing the right answer and making the other person wrong. This is not a productive means of listening or communicating.

Connected Listening: This style creates a relationship by connecting and creating rapport. The communications tends to focus on understanding, relating, caring, and being supportive of the other person's point of view. This may create a great relationship, and identify mutual interests, and even build trust, but it might not create great value. Reflective Listening can defuse highly emotional situations by restating a person's feelings and priorities to demonstrate you are actively hearing what they are saying. By acknowledging a customer's feelings, you are not admitting fault or blame, but only that you care enough to validate their point of view and understand that something is critically important. This approach can open up discussion so that the door is open to new ideas.

Committed Listening: By listening through creative inquiry, deep

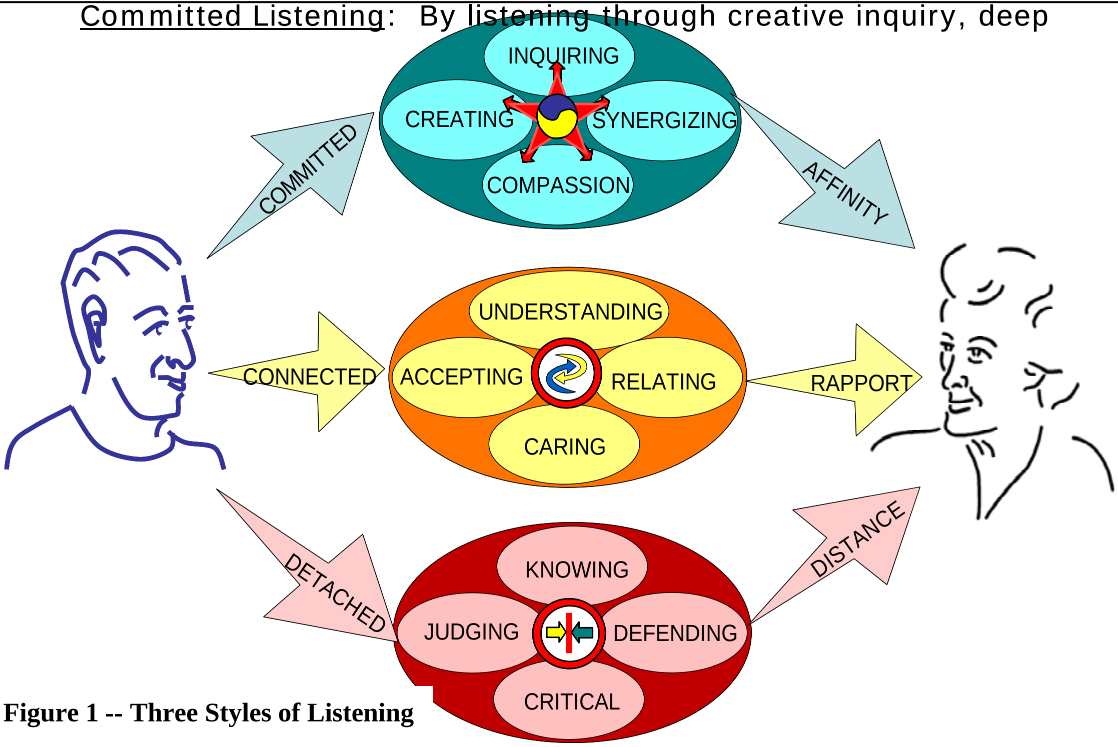

Figure 1 -- Three Styles of Listening

compassion, and with the intent of creating a synergistic relationship, an affinity for each other and for a broader vision evolves. The committed listener is sincerely concerned about the future of the other party and the quality of the relationship.

This requires embracing differences, creating an environment where dialog can become the field in which new ideas and insights can be generated. The path into this field is through inquiry and discovery.

Inquiry & Discovery

> I have not failed. I've just found 10,000 ways that won't work.
>
> Because I readily absorb ideas from every source – frequently starting where the last person left off – I am sometimes accurately described as "more of a sponge than an inventor."
>
> Thomas Edison

All great negotiators are explorers and discovers. To be a co-creator, one must first start from limiting assumptions and expectations – letting the heart of the mind be an "open vessel" to what you think is reality and be willing to create a new reality. Assumptions and expectations are "blocking paradigms" that impair our ability to see things as they really are, or could be.

This means moving out of the detached listening mode and suspending judgment, blame, condemnation, anger, and defensiveness. The other side must be given the power of dissent, to take an opposing view. This is the tough, courageous moment which opens the conversation to be heard and validated, and takes the leap of faith that maybe an even higher order of possibility may be established.

To drive win/win negotiations, use questions that are open-ended, non-judgmental, exploratory, neutral, and sincere.

As people engage, look for intention, hidden meaning, opportunity, paradigm shifts, breakthroughs, unique needs.

As you engage in discovery, begin the mapping process. There are at least three maps you should create:

<u>Territorial Map</u> of:

- Decision-makers
- Visionaries
- Champions
- Power-brokers
- Implementers
- Integrators
- Supporters
- Influencers
- Early Adopters
- Scouts
- Skeptics, Contrarians, Cynics, and Saboteurs

The Power of Questions

- Questions are more Important than:
  - Answers
  - Demands
  - Criticisms
  - Excuses
- Questions Draw People In:
  - Curiosity opens awareness of discovery & co-creation
- Types of Questions:
  - Creative Possibility
    - what's the possibility of ….?
    - Is there an analogy that …..?)
  - Interrogatory
    - Who?
    - What?
    - Where?
    - When?
    - Why?
    - How?
  - Action
    - Will you do …..?
    - Can you get …..?

This map will enable the FLEXTRONICS team to understand who is playing within our customer's team and what approach they are likely to take toward negotiations. However, be careful not to be too rigid in stereo-typing people, as it will limit your ability to engage them positively in the co-creation of value.

Values Map of their:

– Core Values: both they espouse to the public, and those they truly use and reinforce

This map will let you understand their culture, which exists inside their beliefs, vision of the future, purpose & mission, leadership styles, communications styles, processes & practices, risk taking & decision making, planning and timing, and language of action. Also, determine what their last "failure" was; and understand how they responded to it – from it you will learn what happens in their risk environment.

Measures and Rewards Map:

– Rewards: what people are rewarded for accomplishing, avoiding, or maintaining
– Measures: what metrics are used to determine proper performance

Understanding the rewards and measures are essential because ….

Metrics Drive Behavior

While strategic and operating forces control corporate behavior, individual behavior in an organization is controlled, in large measure, by how people are measured and rewarded. As a negotiator, it is essential to understand how people are measured and rewarded, because it will be difficult for them to operate far beyond those measures and rewards systems.

If you believe that FLEXTRONICS is measuring and rewarding the wrong things, and thus creating dysfunctional behavior, then bring it to your supervisor's attention. While you cannot control the customer's rewards and measures, it is noteworthy to bring dysfunctional systems to their attention with the intention that they might consider changing.

Transcending Conflict

Conflict can show up at virtually anytime in business, not just in negotiations. No matter when it occurs, it is something that must be dealt with proactively, and not allowed to linger and fester. Denial, flight, or smoothing over conflict are seldom effective in the long run.

Conflict can come from a wide range of causes, such as fear, betrayal, competing interests, ego battles, stress, unfulfilled expectations, among a number of others.

Whenever disagreement arises (and it will, for wherever there is change, their will be disagreement and conflict), great negotiators are careful to focus on ideas and issues, steering clear of ego entrapment games, such as “who's right or wrong,” or “what's good or bad” that will rapidly descend into the pits of defensive self-righteousness and intractable conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. As one collaborative negotiator articulated:

> *“Without conflict there will probably be no buy-in. I just have to be careful I do not take conflict personally as an attack on myself. Conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in this business.”*

Most organizational relationships exist in a world of constant flux, and therefore need frequent and continual adjustment. If those responsible for the strategic relationship use win-lose negotiating techniques, always angling for self-interested advantage, then each side will lose synergy potential. But worse, this approach will then generate conflict, which will soon become unmanageable as trust and commitment rapidly evaporate in an enflamed atmosphere of fear and protection.

To transcend conflict, let’s first look at the underlying causes of conflict.

Insecurity due to fear, not strength, is the basis of most conflict. Transcending conflict is first about becoming aware of the other party’s issues and concerns (i.e. fears), our own issues and concerns (i.e. fears), what’s needed, what’s missing, what’s possible, and what shifts in thinking are necessary. But courage, and inner knowing, and persistence will be necessary to transcend conflict.

Conflict is Seldom the Real Problem, It’s Your Reaction to It

What keeps conflict in play is simple: making conflict a “contest” where beating the other side becomes more important than other business objectives. Transcending conflict starts with seeing the larger vision, adhering to more important values, and giving up the need to win at all costs.

Think of conflict not as a battle to be won, but as an opportunity to turn a breakdown into a breakthrough. In other words, conflict is not inherently negative, it is an moment of urgency, energy, and time for action; things are ready for change.

Turning Breakdowns into Breakthroughs

Synergy is the process of "joining energy[1]" to create more. When you see the energy of conflict, embrace it and the differences that need to be linked in a new, more aligned way. But it will mean being co-creative; giving up the structures, forms, and patterns of interaction of the past; starting in a new way.

The co-creative spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking.

Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation.

Instead of taking "positions" on issues – a certain sign that conflict is brewing – the effective leader seeks to find mutual interest, joint advantage, shared vision, common values, and combined strength to stake out a new future and a shift in thinking.

The co-creative leader/negotiator will not be a great compromiser between the diverse elements, however, unless every other avenue has been explored. A compromise is usually seen as a poor second choice, the forsaking of a dream. Forging a new unity from seemingly diverse values and thinking will be the relationship champion's first choice. This unity becomes a new order of interaction, better than the original, thereby creating a *super-ordinate* culture for the alliance.

Very often conflict occurs because of isolation and polarization – a disconnected *us-versus-them* approach. To shift away from conflict, focus on connectedness, integration, clarity of purpose, and making people part of a unified team. Embrace those who appear to be your antagonists as part of the whole.

> Resolving conflict is rarely about who is right.
> It *is* about acknowledgement and appreciation of differences.
> - Thomas Crum, *The Magic of Conflict*

Use your powers of inquiry and discovery to get under and over the conflict. Being open to someone else's point of view creates openness in the negotiations crucible than enables co-creation. Because rigid systems must be defended, the more rigid and closed you are, the

[1] Synergy – from the Greek words *syn*: to join; and *ergos*: energy

more you will reinforce rigidness and closed thinking in other, thus reinforcing conflict.

Discovery is a process of opening, and thus needs not defense to protect its boundaries. Listening with commitment is like putting heat on ice, the hardness softens.

Everyone wants meaning and purpose in their lives. When there is conflict, all too often the game is too small. In a vision and values vacuum, strife, power, and politics prevail. Shift thinking to the larger purpose and value proposition. Focus energy on beating the competition together and creating competitive advantage for our customer.

Embracing Differences

Great negotiators understand that differences are the ingredients that make up the innovator's "secret fuel." Co-creation requires differentials in thinking are the fuel of the innovation engine running. If everyone thinks alike, sees the problem the same way, and agrees about everything, then complacency is the order of the day – no innovation, and therefore no competitive advantage will be create.

It will be essential to understand and embrace differences. This does not mean you must agree that some else's perspective is "right." It does mean you must acknowledge that it exists and is a place to start.

To embrace differences, one must refrain from constant judgment and evaluation. Instead, it may be useful to "walk a mile in someone else's shoes." If necessary, take some time to sit in on their team meetings, listen to the pressures they face, experience their reward systems, and put yourself in their position.

Your Domain of Control

Most of us like to think we are in control of our lives. In the negotiating environment, command and control is not possible – you cannot control another person or organization on the other side. For some people this can become very frustrating.

Let's examine what you can control:

- Your Attitude and Insight
- Your Response and Reactions
- Your Ethics and Values
- Your Reactions to Adversity
- Your Speech and Listening
- Your Outlook and Perceptions
- Your Respect for other people
- Your Risk Taking and Priorities
- Your Emotions and Response to Conflict
- Your Decisions to Fight, Flee, Accommodate, or Co-Create

> God grant me the serenity to accept
> the things I cannot change;
> the courage to change the things I can;
> and the wisdom to know the difference.
> -- Reinhold Niebuhr

Chapter 8 The Importance of Trust

The High Cost of Distrust

Distrust is one of the most insidious and corrosive forces in any organization. Distrust saps people's energies, disorients them from focusing on important issues, and causes innumerable maneuvers to protect them, including over-burdensome contracts, litigation, fruitless blaming, escalations, and a never-ending stream of other non-value added activities.

Our objective at Flextronics is to engage our customers in a manner that will engender trust, which can then enable faster decision-making, more co-creation, better problem solving, and, ultimately, real competitive advantage.

Trust Building

Trust in a business relationship has a major impact on success. Without trust, strategic relationships fail, period.

Trust is the Foundation of All Cooperative Enterprise

Trust is the hallmark of the personal relationships between the people who constitute the team. Without this trust, no legal agreement, no strategy, no structure, and no process can achieve its objectives. These personal trusting relationships distinguish great team leaders from their transactional cousins who bring the *Fool's Golden Rule* into the relationship:

"He who has the Gold: Rules."

The best strategic relationships tend to use three "metallic" rules:

Golden Rule: *"Do unto others as you would have them do unto you."*

Silver Rule: *"At least do for yourself what you would do for others."*

Iron Rule: *"Don't do for others what they can do for themselves."*

Trust is the glue that binds personal relationships and the grease that prevents frictional differences from becoming fractious.

Trustworthiness is a Powerful Competitive Advantage in a Fast Moving World!

The Power of Trust

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the teams to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the relationship more fun, thereby building human energy.

Elements of Trust

Trust is the sacred cloth of business relationships; a cloth whose fabric is composed of four interwoven threads of effective co-creative negotiations:

1. **Values**
2. **Integrity**
3. **Mutuality**
4. **Commitment**

1. **Values:** Flextronics has very powerful values upon which to build a trusting relationship inside our team, with our customers, and with our strategic suppliers:
   - **Intense Collaboration**
   - **Passionate Customer Focus**
   - **Thoughtful Fast Disciplined Execution**
   - **Tenacious Commitment to Continuous Improvement**
   - **Relentless Drive to Win** (a win for FLEX and a win for our Customer)

     (see Chapter 2 for more detail on these FLEX values)

   These values are powerful elements of our trust foundation. By adhering to them, you will build a strong relationship with your team and your customers.

   - **Honor:** The idea of honor is powerful, but seldom appreciated in today's modern world. Honor means your will keep true to your values and value others – your teammates, your customers, and your suppliers. Honor means you will do nothing to dishonor another person, you can be trusted and will not tolerate back-stabbing, sniping, and behavior that tears the team apart.

- **Openness:** Being open means being open to new ideas, open to constructive feedback, open about your intentions and goals, open to making things happen in ways not yet explored. People who are open tend to be co-creative; closed people are stuck.
- **Compassion:** Having a trusting relationship means you care about the other person and their organization. Win-Lose relationships lack compassion and sensitivity, becoming cold, over-bearing, and filled with the polarity of blame and attack.
- **Alignment of Priorities:** Most Win-Lose relationships are so filled with people positioning and posturing that no one is focusing on how to ensure priorities are clearly aligned. Synergistic relationships take the time to ensure that priorities are aligned. One characteristic of dysfunctional relationships is typically priorities are not aligned between the players.
- **Respect of Differences:** The French have a wonderful saying: "Vive la difference!" meaning "differences bring us life and vitality." This attitude is the foundation of respect, but more – it gives us the place to begin the co-creative process.

2. **Integrity:** Integrity means you are what you say you are, that your word is your bond, and you will do what you say you will. Integrity is not easy, and often it's painful. But without integrity, people won't trust you.

   Integrity is more than just being honest or trustworthy. Integrity means being true to oneself, to one's deepest values; and the benefits are ultimately both a divine blessing and a liberating freedom.

   "Integrity resides in the ability to constitute yourself as your word. As such it is a home, an anchor, a self-generated and continuing commitment to honor your word -- despite contrary thoughts and feelings if need be. It is a consistency of being, speaking and acting that shapes who you are -- to yourself and to others."

   Anonymous

   Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others. For Gerry Dehkes, an alliance champion when he was at Telcordia, *"Integrity includes setting expectations and consistently meeting them. Doing both is important. Making sure that your counterparts will know (and be able to trust) that you will act in a certain way in a given situation. Then meet or beat that expectation consistently. This extends beyond the individual to the rest of the people in the alliance partners organizations.*

Or better, in an old Minnesota expression; 'Underpromise. Over Deliver.' View problems or barriers, especially early on, as opportunities to show your trustworthiness, meeting the expectations you've set with your partners. These have strong impact beyond the decision of the moment. They engender trust that later on you will indeed act that way, thus inviting reciprocal actions."

Integrity liberates us to live our relationships forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a disingenuous life.

Several of the components of integrity include:

- **Certainty:** Doubt and ambiguity erode trust. In times of change, people around you must be certain that you will be there for them when you are needed.

- **Predictability:** This goes hand in glove with certainty. Predictability means someone knows they can count on you to act in a rational, enthused, and collaborative manner, no matter what the conditions of adversity.

- **Honesty:** An honest person is hard to find. Honest people speak the truth, shun deception, and account for them-selves as accurately as possible. Deception and the creation of illusion are not part of the honest person's repertoire.

- **Walk the Talk:** Congruity – constituting yourself as your word and deed is essential to your integrity. Otherwise you are not believable as a person.

3. **Mutuality:** Being in something together, for the "greater good of the whole" is the fundamental premise behind mutuality. We stand together, you for me, me for you, us united together to create more than we could independently.

Mutuality embodies the idea that we must treat each other as teammates, fairly, justly, and honorably. We will not polarize into silos and functional specialties, nor will we tolerate double standards.

The rule of "do unto others as you would have done unto you" is essential to building the trust for negotiations to proceed powerfully. Without mutuality, trust will be shallow and difficult to achieve.

Unilateral decision-making without consideration of the consequences to the other party is taboo in a mutual arrangement.

The chart below (see figure 1), outlines the range of thinking about mutuality.

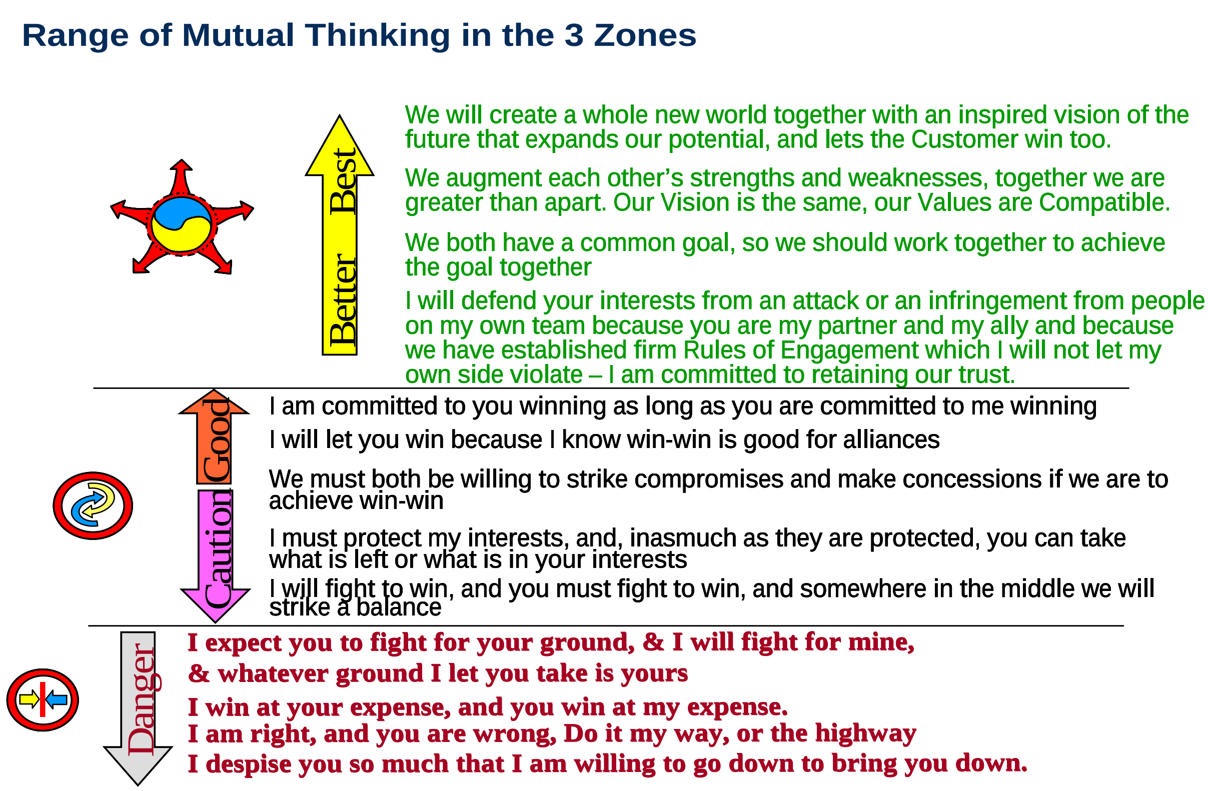

Figure 1 -- Range of Mutual Thinking

- **Win-Win:** This is not just a negotiations strategy; it is a state-of-mind, a core value, and a goal to be achieved. Win-Win means you are not going to sacrifice the other side to achieve your goals – both must come out winners. Win-Win is the minimum boundary of acceptable relationship behavior that will continue to build a foundation of trust.

- **Reciprocity:** Co-creation is based on sharing of ideas, information, opportunities, insights, resources, and capabilities. Reciprocity builds possibilities, which create the expansion of knowledge and the creation of more, thus impacting competitive advantage of our customers.

- **Shared Risk-Reward:** Sharing risks and rewards links two parties together because each has "skin in the game." By fairly sharing risks and rewards, both become mutually committed to a joint outcome.

- **Fairness & Flexibility:** The "fairness" doctrine is an essential underpinning to mutuality. Always attempt to be fair and expect fairness in return. Fairness may be relative to the circumstances. What is fair today may not fair next year. For example, if a price is quoted based on conditions now, and those conditions change that dramatically impact pricing and costing, fairness demands a reexamination of the terms.

- **Communications:** Two-way communications, with clear listening and mutual exchange of ideas is essential. When problems arise, using the appropriate from of communi-cations is essential. For example, use of emails to solve urgent problems is not appropriate in most circumstances.

4. **Commitment**: Commitment is measure of desire, motivation, and integrity to honoring promises and intentions. Without it, there can be no trust.

   Building trust in a relationship comes not from golf games and dining together. It's built in the heart, and on the field of deeds; it's held in the commitment to transform values and beliefs into concrete actions, it's founded on the commitments to the integrity of one's word.

   Trust is knowing you won't be intentionally hurt by your partner in times of adversity

Trust and Integrity are but hollow concepts until vigorous commitments are put into place. For it is with commitment we transform promise into reality by words that reflect intentions, and actions which speak louder than words. Commitment is making the time when there is none; the daily triumph of vision over skepticism, of conviction over fear, of cohesiveness in the face of adversity.

Commitment is the willingness to take risks, even when past experience calls for caution. Commitment is crossing the chasm of fear and danger to meet the needs and hopes of your partner.

Commitment is the willingness to look from the past into future possibilities; the willingness to move enough to release anger and hurt to enable our rising to a higher level, seeking to turn breakdowns into breakthroughs.

Commitment is the power to transform the reality of relationships. Commitment is the willingness to take the leap of faith when there is little justifying evidence, because one believes in the other's values and integrity.

Relationship leaders always remark that they are accused of being traitors to own organizations when they stand tall and strong for their alliance partners.

Brian Ferrar, alliance champion at HP-Compaq recognizes how this bonding impacts the relationship between champions:

“An alliance manager and his counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance.”

However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty. It is from this loyalty, commitment, and integrity that relationship managers build a camaraderie that lasts for years.

- **Dedication:** Knowing that you are dedicated to a mutual endeavor is a powerful trust builder. When people are dedicated to a cause, a vision, a breakthrough, it is contagious. This is a sign of reliability and honor.
- **Competency:** Putting competent people in positions is also a sign of our commitment and reliability. If we put an incompetent person in a position, we must either train

them or remove them. Otherwise people will not trust our commitment to achieving extraordinary results.

- **Dependability:** When we can be depended upon, particularly in times of adversity, pressure, stress or priority product introduction, we will be trusted, and more mutual opportunities will be presented to everyone.

- **Focus:** The ability to stay centered on the target, to keep critical priorities in focus, and to eliminate superficial distractions is essential to trust-building. People who lose focus get scattered, diluted, and lose concentration. Focus on what needs to be done to succeed, not peripheral minutiae.
- **Discipline:** Collaboration and Innovation is a discipline that requires practice, understanding of the concepts, and constant attention. Professionals are trusted because they are disciplined at their art and craft.

Below are the results of a survey that shows what builds and busts trust (see figure 2)

Building and Destroying Trust

How Executives Saw Trust Being Destroyed or Created

❖*Trust Busters*		❖*Trust Builders*
➢Act Inconsistently in what they say and do	69%	➢ Maintain Integrity
➢Seek Personal Gain above Shared Gain	41%	➢ Openly Communicate Vision & Values
➢Withhold Information	34%	➢ Show Respect as Equal Partners
➢Lie or Tell Half Truths	33%	➢ Focus on Shared Goals not Personal Agendas
➢Be Closed Minded	29%	➢ Do the Right Thing Regardless of Personal Risk
➢Be Disrespectful to Employees	28%	➢ Listen with an Open Mind
➢Withhold Support	16%	➢ Demonstrate Caring Compassion
➢Break Promises	14%	➢ Maintain Confidences
➢Betray Confidences	13%	

Source: Manchester Consulting, 1997 – survey of executives at 215 companies

Figure 2 -- Trust Builders and Busters

Building Trust through Joint Operating Principles

A strong, enduring, trustful relationship can be bonded by co-creating a strong set of joint operating principles. These operating principles then form the foundation of interaction, joint decision-making and inter-organizational behavior.

Below are several examples of joint operating principles that were co-created by several different cross-boundary organizational groups:

Principles of Cooperation

for Condominium Members

As a Member of our Condominium Community, I hereby pledge to:

1. **Build a Spirit of Cooperation among our Community**
   — Work for the Greater Good: "All for One, One for All"
   — From Chaos Seek Unity, From Discord Find Harmony
   — Tolerate No Divisiveness, No Polarization, No Back-Biting

2. **Engage & Embrace all Members with Respect**
   — Respect Everyone's Need for Solitude, Peace, and Tranquility
   — Respect and Listen to those with a Different View
   — Seek Always to Bring Out the Best in Others

3. **Build Relationships based on Trust, Integrity, and Ethics**
   — Speak only the Truth, Otherwise be Silent
   — Give People the Benefit of the Doubt
   — When wrong, Acknowledge, Apologize, then take Corrective Action

4. **Speak Only the Language of Cooperation**:
   — Seek Solutions, Not Blame
   — Neither Speak nor Spread any Gossip
   — Forgive those who Apologize for their Transgressions

5. **Disagree without being Disagreeable**
   — Be Critical without Criticizing
   — Never Threaten, Attack Issues but not People
   — Do whatever Can Be Done, and Gracefully Accept what Can't.

6. **Try to Bring a Spirit of Joy to All**
   — Dwell Not in Negativity
   — Complain Not about Petty Things
   — Receive Everyone with a Cheerful Face and Open Arms

7. **Keep a Positive and Caring Attitude**
   — Listen with Empathy and Compassion
   — Hold our Responsibilities as Dearly as our Rights
   — Respect the Minority's Needs, even though the Majority Rule

8. **Live by the Spirit, not just the Letter, of the By-Laws**
   — Live with the Intention of Peace & Harmony
   — Live to Create Advantage for Everyone, not take advantage for yourself
   — Respect the Law for the Guidance it gives,
   not for loopholes that may create an advantage for one over others

Principles of Cooperation

❖ **Our Core Values are:**

√	**Focus:**	**On the Customer and creating superior Added-Value**
√	**Commitments:**	**Meet Commitments and Milestones on Time**
√	**Communications:**	**Open & Honest, go past meeting halfway**
√	**Changes:**	**Notify Quickly & Honestly, Face Reality**
√	**Decision Making:**	**Quickly, Team Ownership**
√	**Champions:**	**Stay ahead of things, sustain momentum**
√	**Relationships:**	**Build solid, long-term relationships based on trust**
√	**Problems:**	**Address problems before escalation, fix quickly**
√	**Ethics:**	**Environmental Responsibility, Highest Business Ethics**
√	**Support:**	**Help each other out when necessary**
√	**Spirit:**	**Create opportunities for growth & breakthroughs**
√	**Fairness:**	**Neither Party benefits at expense of Other**
√	**Flexibility:**	**Change with the times and new pressures**

Fear of Betrayal

The noble quest for co-creation and synergy is, all-too-often, thwarted by betrayal (even the fear of betrayal, which is one of our deepest fears, most tormented anxieties, and horribly painful lessons is often enough to make the brave seek protection).

To attain synergy, it's essential to understand its polar opposite – the fear of betrayal. For it is the juxtaposing of these two themes – betrayal and synergy -- that has created on the one hand: wars, divorce, political upheaval, and tyranny, and on the other hand: civilization, technological innovation, institutions of commerce, healing, and learning, and even transcendental glory.

The interplay between the "Quest for Synergy" and the "Fear of Betrayal" is so profoundly engrained in our society's institutions as to be nearly invisible. To discover its roots, however, one needs only to examine the archetypal sources that are so imbedded and intertwined in our society. Examining the historical records will cast great light on early civilization's yearning to attain the Quest and battle the Fear.

The Old Testament's Book of Genesis, chronicling the origins of Judaism, starts with God creating a synergistic universe, then creating

Principles of Cooperation
Strategic Alliance Charter of Expectations

1. ***Alliance Management:***
   - The alliance managers are committed to using the Best Practices outlined in the Alliance User Guide.
2. ***Assignment of Personnel:***
   - We will insist that high quality people are assigned to work in the alliance to help ensure high performance.
3. ***Performance Review:***
   - We will conduct a strategic and operational performance review every six months, and make corrections rapidly when required between reviews.
4. ***Risk/Reward:***
   - We will encourage informed risk taking in achieving the alliance shared vision
5. ***Urgency for Change:***
   - Having asked our boards to support the alliance, we need to consider every decision's impact on achieving promised short-term results
6. ***Achievement:***
   - We seek to reward *shared* achievement, balancing individual excellence with team accomplishment
7. ***Approval:***
   - Middle and front line management will be able to make the investment decisions necessary to resolve customer issues on the spot
8. ***Power/Control:***
   - We will share power with our customers. Customers will have the ability to modify orders (within parameters) up to 24 hours in advance without penalty
9. ***Learning:***
   - Mistakes will not be punished or seen as failures, but be treated as learnings and opportunities to turn breakdowns into breakthroughs.
10. ***Decision Making:***
    - Decisions will be made at the lowest levels possible
11. ***Support:***
    - We will engage all employees in the change process and work with those whose skills are no longer needed to seek gainful employment elsewhere
12. ***Conflict Resolution:***
    - Immediate and aggressive handling of conflicts will be the norm. Disputants will candidly but constructively share concerns and grievances
13. ***Time Perspective:***
    - We will focus our energy and talents on creating a shared future, not on advancing our individual organizations or living in their past successes
14. ***Relationships:***
    - Teamwork and cross-process/cross-function collaboration must characterize all our interactions
15. ***Budget & Resources:***
    - Alliance managers are committed to be strong advocates for sufficient resources to be allocated to the alliance to ensure its success.

a synergistic union with Adam, Eve, and God in the Garden of Eden. Then: the betrayal. Eve and Adam are cast out of the garden for betraying God's commandments. The source of the betrayal is no less than Satan. Later, Cain betrays Able by murdering him.

In ancient Greece, Spartans were betrayed at the Battle of Thermopylae by a traitor bribed by Xerxes. Homer wrote of the abduction of Helen as the Trojans betrayed their alliance with the Greeks.

In the classic Roman betrayal, Caesar was assassinated by Brutus. Emperor after emperor was betrayed in a never-ending saga of self-interested ego-maniacs who care less for their country than for themselves.

Shakespeare capitalized on betrayal in some of the most memorable literature in the English Language, embodied plays such as *Hamlet*, *Macbeth*, *Othello*, *Romeo and Juliet*, and *Julius Caesar*.

Rape, incest, molestation by clergy, murder, and theft (particularly in one's home) are all examples of what we consider the ultimate forms of betrayal. These sins are so emotionally laden because they violate the very trust and belief we have deep in our souls – the quest for synergistic relationships that create more for everyone.

In the attempt to protect ourselves from our fear of betrayal, we have created a legion of laws, new fears, and protectionist policies that draws us farther from the synergy. No lawyer can create a legal document protecting us from betrayal, and neither can a family or friendship protect us. Only a powerful commitment to honor, a mutual standard of win-win, and an unwavering standard of integrity can protect oneself against betray and its ancillary: the fear of betrayal.

Too often the fear of betrayal is in and of itself enough to trigger protectionist behavior that, in turn triggers the betrayal fears in others, thus generating a vicious circle of more fear, more distrust, and more betrayal.

Perhaps no story imbedded in our collective psyche could be as compelling as the medieval legend of King Arthur and the Knights of the Round Table.[1] As the legend has evolved, it may be the ultimate story of the Quest for Synergy and the Tragedy of Betrayal. King Arthur dreamed of Round Table of honorable and chivalrous knights who, together united in a common vision and ideal, would protect their kingdom, prosper, and flourish. Joy would prevail throughout the land.[2]

[1] The power of the Camelot story is the compelling desire for unity, friendship, happiness, trust, and release from fear – the essence of synergy. The story is powerful not because it is legend, but because it touches in each of us the yearning for a world that lets us be gallant, elegant, committed, and filled with team and community spirit. The Round Table symbolism appears in numerous cultures; in the Oriental culture, it's the Yin-Yang symbol.

[2] The movie version of Camelot starring Richard Harris and Vanessa Redgrave is a superb illustration of the power of betrayal and the conniving character of Mordred.

The penultimate betrayal is revealed with the unkindly arrival of Mordred,[3] who is Arthur's illegitimate son (and thus heir to the throne) into the court of Camelot.

Mordred is the classic conniver, a no-holds-barred schemer whose only intent is to relentlessly destroy the trusting relationships among the Knights of the Round Table. Playing one off against the other, setting each out to destroy the values and ideals that created Camelot's synergy, Mordred systematically undermines everything that Arthur dreamed or created. Portraying himself as a realist who can act appropriately in the arena of *real politic,* Mordred, in the most sinister of plots, excommunicates nearly all of the knights, who, now marginalized, ignominiously join forces to become Arthur's enemies and overthrow Camelot, destroying the ever-present and forever lingering dream of synergy.

Despite Arthur's passionate but unrequited hope that Mordred might have a spark of goodness in him, Mordred persists on his destructive path. The Mordred story is like the allegory of the frog carrying the scorpion across the river, then being stung to death by the unappreciative passenger who says to the dying frog "it's in my nature." Mordred's essence is destructive, not through direct aggression and attack, but by undermining, by indirection, by manipulative abuse to cause others to do his bidding, by guise and guile.

The Mordreds in our organizations will undermine all co-creative negotiations. These people have neither the desire nor ability to collaborate, synergize, and synchronize, but go to the opposite extreme, and purposefully (either intentionally or unintentionally) destroy synergy, teamwork, co-creativity, and spiritual community. When done unintentionally, it usually takes a variety of forms, such as selfishness or insecurity, and manifests as: blame, criticism, attack, negativity, complain, or fault finding. When done intentionally, the result is usually far more insidious, destructive, and often horrifying.

During the middle ages, to counter the seemingly prolific manipulators Niccolo Machiavelli[4] wrote his classic tales: *The Prince* and *Discourses,* as a handbook for power and control. Machiavelli, a student of *real politic,* details the use of initiating manipulative techniques to offset, counter-balance, overthrow, or combat others engaged in Mordred like activities. The age of intrigue was formalized, making betrayal, conniving, conspiracy, and scheming its own art form.

[3] Mordred is most likely a combination of the French word *morte* (as in mortician) for death, and old English word *draden*, meaning terror or fear, from which the current word *dread* is derived.)
[4] It's worthwhile to note the important distinction between Mordred and Machiavelli. The former was insidious, self-centered, and evil; the latter amoral and practical almost to a fault.

Machiavelli's Prince is not strictly evil, he is a fox. And a fox he must be in a world of Mordreds, where there may be limited options to slay the dragon Mordred. Cunning was a requisite skill in a kingdom well populated with Mordreds.

It has been in the world of Machiavellian thinking that the Win-Lose approach to negotiations was born and continues to flourish.

In our world of emerging value networks, alliances, and cross functional teams, it is essential for every leader to be cautious and observant regarding the potential Mordred on the team. As one respected leader told me recently:

> "I'm leaving my organization to join another. My boss hired a person for our team who has been so disruptive that now everyone is being played off against the other. I spend all my time now worrying about who is going to put a knife in my back. I used to be a high flyer. Unless I leave I'll have no future."

Another executive lamented about her subordinates:

> "I hired the most qualified people I could afford. But they are always breaking down, working for their own self interest. There is no teamwork, no synergy, and no synchronicity. We don't coordinate well. No amount of team building seems to work."

Unknowingly, she made the mistake of hiring her team based on competence, not character,[5] which inadvertently resulted in a majority of people playing Mordred death-spiral game.

How an organization creates a culture of collaborative innovation is critical in either stimulating or repressing the Mordred and Machiavellian behavior. As a senior manager from a large corporation lamented:

> "There is no real innovation here and little collaboration. We all have a fear of failure because people are fired if they fail. If we do make a mistake, we are criticized in front of others. So no one takes any risks. We talk of innovation, but we don't walk it. No one collaborates unless someone else is willing to take the risk and responsibility if something doesn't work out. When we try to work in alliance with other companies, there's an attitude that our products are always better, and theirs are junk. We see only a very limited set of options. If someone does have something good, our approach is arrogant: 'We'll just buy them.' When we do, we kill all their innovation."

[5] Japanese corporations are more skilled at getting teamwork to prevail. They hire on the basis of character weighing in at 80% of the person's value, and competence at 20%. American companies typically base their decision on just the opposite proportion.

This was said by a man of courage and vision who had been struggling for years to rally his small team against the overwhelming power of an antithetical culture. Yet we cannot expect those of vision and courage to act forever like fools. Unless new leadership is brought in, or alternatively, those of courage join forces as a "band of brothers," each of the courageous visionaries will be picked off, one-by-one, or be relegated to live a sorry life of disillusionment and despair.

How to Recover when Trust is Destroyed

Trust can be destroyed far faster than it takes to build it. If someone transgresses the boundaries of trust, it is essential to use the "triple A" approach:

- **Acknowledge**
- **Apologize**
- **Act**

Make whatever corrections must be made to put the trust back in place. Do not make excuses or find fault, just fix it.

High Levels of Trust Enable:
- Very High Performance
- Greater Innovation, Creativity & Synergy
- Expansion of Possibilities
- Enhanced Problem Resolution
- Faster Action/Implementation and...
- Lower Transaction Costs
- Ability to Sustain Synergy

Institutional and Individual Trust

Two levels of trust will exist in any business situation. The first level is most basic – the trust that exists between individuals. Without individual trust, the day-to-day activities of business are difficult to maintain. In a negotiations situation, your ability to be trusted as an individual is critical for success.

In a fast moving, rapidly changing world, Trust may be the only thing that can and must remain solid and stable – the "anchor to windward.

At the institutional level, trust also plays an important role. One trusts institutions to be reliable, stalwart, resolute, and strong. The reputation of an institution's trustworthiness carries a lot of weight because it strongly influences how people will react and respond to you as an individual. For example, if a hospital in your area had been charged with fraud, malpractice, administering drugs improperly, or poor management, you would be reluctant to choose that hospital for your next operation.

Always be aware that every action you take, every statement you make, and every response to every problem all influences the institutional trust our customers and suppliers have in FLEXTRONICS, and thus affect our negotiations around the globe.

When individual and institutional trust are both strong, what is often known as "chemistry" will manifest. Without "chemistry," the energy, vitality, and trust of the strategic relationship missing, and, no matter how good the strategy or operations, human interactions will fall short of their mark. Chemistry is the essence of the psychological and social contract; it's far more important than the written legal contract.

Chemistry, like mortar between bricks, fills gaps between imperfect strategic and operational "fits" and helps keep the partners glued together when the business relationship is under stress. If, perchance, the strategic vision fails the acid test of reality, or the operational plans show themselves to be faulty, it is them the chemistry factor that is the pathway to use to rebuild, reorient, restructure, and reform the relationship. One can count on markets changing, technology becoming obsolete, development processes being superseded, political forces intervening, and any number of unexpected occurrences interfering with the future vision. Without excellent chemistry, no mount of strategic planning or crisis management can cause an excellent realignment.

> Leaders with the right chemistry guide with vision, not coercion. They are creative in the face of adversity.

IBM's founder, Thomas Watson believed he would succeed in direct proportion to the trust customers had in IBM. Several quotes from IBM's Code of Conduct Guidelines are noteworthy because they are clear representations of a value structure conducive to strategic alliances:

> "Don't make misrepresentations to anyone you deal with. If you believe the other person may have misunderstood you, correct any misunderstanding you find exists. Honesty is integral to ethical behavior, and trustworthiness is essential for good, lasting relationships."
>
> "Never us IBM's size itself to intimidate, threaten or slight another person or organization."
>
> "Everyone you do business with is entitled to fair and even-handed treatment. This is true whether you are buying, selling, or performing in any other capacity for IBM."

Chapter 9 ORGANIZING THE NEGOTIATIONS TEAM

Creating Value is not a spectator sport – it requires a highly engaged and committed team that has the depth not only to create value, but also to engage our customer in a dialogue that sparks their imagination, and can also bring about a well synchronized implementation.

The Problem when Teams are Not Used

Strategic relationships that are attempted "lone ranger" style, with a single individual doing the negotiating are usually doomed before they start. Seldom can a single individual understand all the complexities of strategy, operational integration, cultural interrelationships, financial management, and technology.

To overcome these deficiencies, legal counsel to "protect" against all the uncertainties and ambiguities with a protective legal agreement that shifts all risk to the other side, thus destroying the trust needed for a successful relationship later.

While it's valuable to have legal counsel review all final versions of any contracts, lawyers should not serve as lead negotiators.

But more fundamentally, the lone ranger does not have the support of the key middle managers who will be required make all the integrations work once product development and later product launch has been initiated.

As those who are needed to implement the arrangement have been left out of the original negotiations, they consequently have little commitment to its final outcome and wonder why they were not consulted in the very beginning.

The Fundamental Rule:
People Support What They Help Create

Ultimately our relationship with our most strategic customers lies not in the legal agreements, but upon the fundamental strategy and the successful design of day-to-day operations

Advantages of Negotiations Teams

While there are some disadvantages to negotiations teams, such as the problems if there are too many big egos on the team, and more complex decision-making, normally these disadvantages are clearly outweighed by the advantages:

– <u>More Complete Preparation</u>: Different members can address a far broader set of issues more deeply than a single individual

– <u>Ability to See Bigger Picture</u>: By including people with different skills, roles, and backgrounds on the team, you will get a far better understanding of the real needs, problems, and opportunities.

- Matching Team Members to their Counterparts in the other organization: Building relationships and discovering unique conditions within the customer's organization can be done best by those who held similar positions at FLEXTRONICS.
- Less Prone to Getting Caught in Tricks & Traps: If the other organization utilizes individuals who are adept at the tricks and maneuvers of win-lose negotiations, a multi-dimensional team is more likely to reveal even the best disguised ploys.
- More Effective Decision Making: The best decisions come when those involved in the execution have had an opportunity to assess the situation fully before making final commitments.
- Greater Adherence to Your Highest Goals: Even the best negotiators can get discouraged, frustrated, or thwarted in their ultimate vision. A team often buoys the spirits of the disillusioned.
- Ability Simultaneously to Listen, Assess, and Speak: A team can have one member speaking, another listening for content, intent, and emotions, and other assessing the process and the result at the same time. This is extremely difficult for a single individual to accomplish.
- Greater Multi-Dimensional Understanding: Many negotiations will happen in a global environment where multiple cultural differences, market segments, and business units are involved in the negotiations. This level of complexity will require FLEXTRONICS to understand the complex dynamics by using a multi-member team.
- Implementers are More Committed to Final Outcomes: All too often those who are required to implement a project have had little or no input into negotiations; thus they were not able to provide valuable input into problems that might occur in the future – thus not being committed to the outcome.

Team Composition

- Size: The best negotiations teams tend to five people (+/- 2). Teams that are too small (less than three) don't have the advantages of a team, and teams that are too large (>7) are often cumbersome.
- Roles: Be sure each person on the team is clear about what role they should play, which counterpart they should link with, who should be spokesperson, who plays technical expert, who is

watching the relationship issues, who should be a process observer, who should be focused on strategy, etc. It is typical for people to play multiple roles.

- Strategic Alignment: Each team member should be clear about strategic vision, the value proposition, the history of the relationship, the customer's last big breakdown or failure, and the nature of the competition.
- Negotiations Training: Because the FLEXTRONICS approach to negotiations is so distinctly different from virtually every other negotiations framework, it is essential for negotiations team members to be well acquainted with the FLEXTRONICS architecture and language of *Creating Value through Negotiations*.

> Allocate Time During Negotiations Discussions On:
> - Building Trust & Teamwork
> - Operations Planning
> - Management & Personnel Selection
> - Who Should Be Part of the Integration Teams
> - On Practical Decision Making Procedures
> - Early Warning Systems
> - Maintaining Good Communications
>
> *and designate key team members to take individual responsibility for each of these factors*

As a co-creative negotiator, you will also want to have our customer have the most effective negotiations team as well. On the customer team, you would want to see the end-user, someone from procurement who will be handling the acquisition and logistics, technical and engineering, operational management, relationship management, marketing/sales, and a contract expert. If there is an essential member of the customer's team missing, you should inquire about the reason, for a missing member could cause difficulties later, as this person might not be committed to their own organization's decision.

Here's what you might expect from the customer's negotiations team members:

- End-user: This is more likely a Program Manager who is responsible for the Flextronics product being brought successfully into the market-place, on time, on budget, and with flawless quality. The Program Manager may carry a different title, but, ultimately this person is going to bear the responsibility of a successful product launch. This person can help link internal groups together, and will be effectively the "champion" of the product and the relationship with FLEXTRONICS. Every problem encountered, solution created, and evolution of the product through multiple generations of technology will be within this person's purview.
- Procurement: This is often the professional negotiator who is paid to get the lowest price, on-time delivery, and ensure

the right contract is put in place, for which they are measured and rewarded (these measures and rewards may be fundamentally different from those for the Program Manager). They are paid to anticipate problems and ask tough questions. They will often see Flextronics as a "vendor" not a strategic ally. Often they will play the "devil's advocate" role in negotiations, but in reality do this only because it a role, not necessarily because they are firmly committed to being tough for toughness's sake. However, if something goes wrong, they will likely revert to this role and mean it.

– Technical & Engineering: These are often FLEXTRONICS' strongest advocates who have told procurement and program management that they want our approach for a good reason – they have assessed the other suppliers, and think, overall, we are a good solution. It is vital that we integrate closely with this section of the customer's organization so that the specifications, design, and innovations are clear, understood, and evolve in an orderly manner. Typically technical people want every "bell and whistle" available, often to the consternation of marketing and finance.

– Operational Management: Operations is responsible for integrating the FLEX product into other products or product lines, ensuring the flow of materials, bringing technical resources to bear, etc. This management may also be a senior executive for whom strategic value, competitive advantage, and understand value migration. Their support for the agreement will be critical in maintaining long-term value creation.

– Relationship Management: The relationship manager is often not part of our customer's negotiations team, and they may not have one at all. However, this is increasingly becoming a critical role in strategic relationships. The relationship manager is responsible for making sure strategy, chemistry, co-creation, integration, and communications occur effectively between the two organizations.

– Marketing/Sales: The products FLEXTRONICS makes for its customers are designed to produce revenues for our customers. Often our products are some of our customer's most critical revenue streams, and therefore essential to the creation of competitive advantage. We should be absolutely clear what marketing and sales need in order for our current and future generations of product lines to be competitive.

– Contract Expert: The contract expert may be from the legal department or from procurement. This person's role is to create a contract that will benefit their client, which, for all intents and purposes, means shedding risk, not sharing risk. Their ideals for a contract are often rigid and legalistic, designed from protectionist thinking, not from co-creative innovation.

These different roles and match-ups can be a blessing (if we match ourselves to their needs and issues) or a curse (if we fail to operate as a FLEXTRONICS team and divide ourselves along the lines of function specialties)

(**More To Be Completed in Next Edition**)

Negotiations Planning

Great Negotiations Teams engage in great planning. Before going into negotiations, you should know

– Your Objective: What is the definition of a "win" for Flextronics? How do we expect to create competitive advantage for our customer? What will be the evolution of the product over the value migration path? Etc.

– Your Role: What role will you play? Who do you connect with in the other organization? What expectations do you have? What are your responsibilities?

– The Other Team: Who is on the other team? What are their objectives? Roles? Concerns? Metrics of Success? Who are the champions? Integrators? Skeptics/Cynics?

– The Culture of the Other Company: What elements of culture drive the customer's behavior? Are their international issues to be concerned with? What is rewarded or punished by the other company? Who makes decisions? How are decisions made?

– Their Typical Negotiations Style: What does the other company have in their mind as a negotiations style? Strategy? Do they see Flextronics as a "vendor" or a "strategic ally?" Do they care about creating a Win-Win?

– Their Strategic Drivers: What are the driving forces for our customer? What are their competitors doing? How successful is our customer financially? What is their vision for the future?

– Key Factors for Success: What will make this relationship truly successful? What will cause it to fail? What has our history been with this customer? If we've not met expectations, what will we do to make things right the next time around?

- Issues Determining Competitive Advantage: How is competitive advantage determined in this industry? What constitutes "value?" How rapidly is this industry changing? Who are the leaders in the industry? What do our customer's customers want/need now? In the future?
- Their Metrics for Success: How does our customer measure success with us? Are these the best measures to get our best performance? What should we be measuring to ensure that we create value together?

Chapter 10 Using Your Power Positively

The strategies, practices, methods, and tools that you've been given to this point are powerful and transformational.

Power is the ability to influence, to activate, to make things happen. Power is, inherently, neither positive nor negative. Positive or negative simply defines the outcome of how the power was used.

Negative Power is used to destroy, to hurt, to deny, to diminish.

Positive Power is used to create, to enliven, to access, to build.

How anyone uses power is a matter of choice and intention – something that should be done with conscious awareness of the consequences.

Offsetting Negative Power with Positive Power

There will be many times in the course of negotiations when negative power will be used against you. This negative power will take a variety of forms, such as those listed on the left in the chart below.

When negative power is used against you, you have the choice of resisting and retaliating with negative power, or using positive power, such as those listed on the right in the chart below. By using positive power, you have an excellent chance of shifting the negotiations climate from combative to a higher order (collaborative and co-creative).

Negative Powers

1. Power to Dominate
2. Power to Control
3. Power to Manipulate
4. Power to Deceive
5. Power to Criticize
6. Power to Divide
7. Power to Coerce
8. Power to Threaten
9. Power to Humiliate
10. Power to Trick & Trap
11. Power to Overwhelm
12. Power to Argue
13. Power to Conceal
14. Power to Demand

Positive Powers

1. Power of Listening
2. Power of Language
3. Power of Architecture
4. Power of Collaborative Intent
5. Power of Commitment
6. Power of Purpose
7. Power of Discovery
8. Power of Inquiry
9. Power of Vision
10. Power of Values
11. Power of Differentials
12. Power of Trust
13. Power of Integration
14. Power to Co-Create

Study this list carefully and discuss it with your negotiations team. You may have to reconfigure your reactions and habits, which may be conditioned to fight force with force. (more to follow in the next edition)

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Appendix

1. Power of Value Networks
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APPENDIX 1: THE INNOVATIVE POWER OF VALUE NETWORKS

by Robert Porter Lynch

Note: an abridged version of this article appeared in

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Cooperation Brings Profitability

Tapping Into ... Competitive Advantage — Suppliers Yield Innovations

More and more organizations are discovering that suppliers can be used as a strategic source that gives them a true competitive advantage.

Ask virtually any CEO about their top corporate priorities and invariably growth and innovation are top-of- mind. Then ask precisely how they expect innovation to manifest, and watch the withdrawal into slogans, platitudes, or other vague allusions to the importance of innovation.

But even at a time when supply management is beginning to gain inroads to the C-suite, few have fully explored the potentially rich territory of their supply chain to reap innovative rewards.

Considering that many times, 50 percent or more of the corporate budget is expended on suppliers, suppliers represent one of the most influential means of creating value and competitive advantage. However, because suppliers have traditionally been seen as "vendors," their potential as innovation partners has often been overlooked, and thus undervalued.

Today, companies can no longer afford to simply adhere to traditional thinking. Supply management must face the ultimate reality that a company cannot cost-cut its way to long-term prosperity. And worse, in numerous instances, wholesale hacking of suppliers has resulted in a severe diminishment of the supply base, leaving fewer options and alternatives. In addition, global competition is forcing companies to recognize that they must double, and even triple, their innovation output if they are to remain competitive. More and more, executives are invariably coming to the conclusion that in a fast-moving, rapidly changing world, the most sustainable source of competitive advantage is collaborative innovation.

Shift in Business Environment

For the vast majority of senior executives, their certainty about innovation sources quickly turns into puzzlement and ambiguity, not because of poor leadership, but because of the bewildering pace of fundamental changes in the business world.[1] From the perspective of managers who have been in the commercial environment twenty five years or more, their perceptions of the combined rate of *change*, *speed*, and *complexity* is nothing less than a sea change.[2] Amazingly, for over 90% of the executive responses the curve looked thus (Figure 1)[1]:

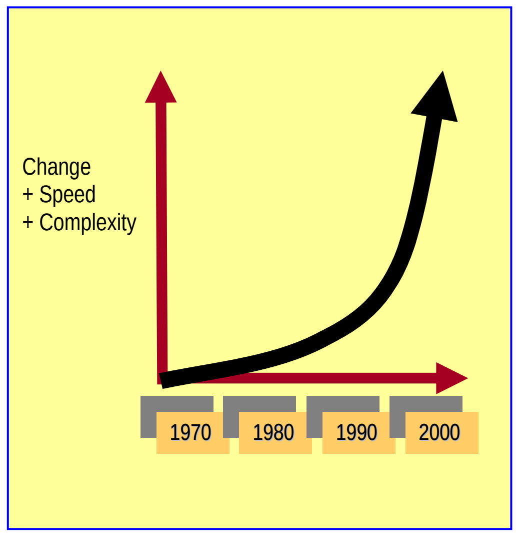


Figure 1 -- Graphic Depiction of the Rate of Change in the Business World

This astounding concurrence of managerial opinion represents the dazzling shift that has rocked the very foundations of organizational thinking. With this shift, executives have been caught flat-footed. In the first half of this era (1970-1990), the industry was slower moving, characterized by five and ten year strategic plans, three year sales forecasts, and hierarchical, stand-alone organizations. Managerial rules of management in this slower era had been developed from years of experience, handed down through generations of tradition and the esteemed learning from our business schools.[3]

The mid-1990s brought a permanent shift in the rate of change. Fired by multiple forces[4], what was once a somewhat predictable world almost instantaneously suffered a tectonic shift, becoming fast, discontinuous, and unpredictable. Long term strategic plans were suspended, sales forecasts scaled into shorter horizons, and alliances burgeoned to enable adaptation to the shift. With less predictability came stiffer pressures for profit and penalties for non-performance from Wall Street. Downsizing and rightsizing increased profits, while outsourcing and sales of manufacturing plants increased return on assets.

But far more important: These shifts have fundamentally shifted the rules of engagement in business, the nature of organizations, and the means by which competitive advantage is generated.

Furthermore, these massive changes in business structure have left executives stripped of their normal internal resources for innovation while at the same time demanding a quantum jump in innovative output to ensure

[1] Author's Note: The implications of this phenomenon, from a predictable, slow-time world to a integrated fast-time world are massive. It affects every aspect of management.

business survivability. The overwhelming majority of our survey group concurred that:

"In a fast moving, rapidly changing world, the most sustainable source of competitive advantage is innovation."

Innovation is the most effective strategy for combating competitors with low price structures. Most companies cannot continue to cut costs indefinitely without killing their supply base.

The Battle Of Value Chains

As a strategic issue, supply chain innovation should be an executive committee issue, directly faced not only by supply management, but also by marketing, operations and finance. Ultimately, any organization must deal with the fundamental issue of how to deliver value and create competitive advantage in the marketplace. No one company is an isolated element. Each is part of a value chain, which is a systematic approach to examining the development of competitive advantage first written about by M. E. Porter in his book, Competitive Advantage (1980). The chain consists of a series of primary and support activities that create and build value, culminating in the total value delivered by an organization. In the larger scope, winning the competitive game is a question of how to create an entire value chain that is more competitive than that of other rivals. This cannot occur if the relationship with both our suppliers at the sourcing end of the value chain and the customers at the sales end of the chain is adversarial. A collaborative relationship with primary suppliers and customers is essential if innovation is to flow and flourish.

Problem with Current Models/Thinking

Our current business and economic models are all founded on the frameworks of thinking that take the view that commercial enterprise is based on independent stand-alone organizations. This can be misleading. A new order of thinking must be established that carefully and critically examines the premises of our currently accepted wisdom and challenges its presumptions.

The importance of new ways of thinking is substantiated in a recent study conducted by The Warren Company's Engines of Innovation group, which concluded that the best companies regarding innovation across business boundaries have undergone a deep rethinking about their core business, which includes the following.

> **Internal versus inter-organizational business models.** The best companies see their business as part of a more interconnected value chain or network and create a strategic system for creating, aligning and managing the creation of value. This involves a very intensive rethinking of what value

means to their businesses and to their customers, and is clearly communicated into the supply chain.

Strategic value of suppliers. During the last 50 years, spending on outside suppliers rose from a paltry 20 percent of total organizational expenses, to nearly 70 percent (in some cases, more) of expenses. This fundamental shift has made what is now called "supply chain" a major strategic issue that has not been effectively addressed by scholars or businesses. Too many organizations still treat suppliers as "vendors," reflecting an old-fashioned mentality. The best ones segment their suppliers into at least two categories — strategic suppliers and commodity suppliers, the former receiving special attention for the co-generation of innovation streams.

Power of collaborative innovation. As innovation becomes more pivotal in business decisions, and suppliers more critical to the generation of value, the best companies create more effective strategies, architectures and models for cooperative creativity than what has been relied upon in the past. The best companies recognize that collaborative innovation is one of the most powerful means of creating new ideas that impact revenues as well as expenses. They recognize that differentials in thinking are the primary source of innovation, and this can only come from having a broad series of alliances both internally and externally. Here are some of the areas that can benefit from collaborative efforts:

Negotiations and risk management. Current models for cross-corporate negotiations, contract management and risk management are based on shedding risk, maximizing value for one party while minimizing for the other and managing relationships tactically or transactionally. These methods have a diminished or even negative impact in a fast-moving, interconnected world when applied to both primary suppliers and customers.

Outsourcing of Mission Critical Functions: Our outsourcing models have been based on outmoded transactionary strategies that prevent innovation and strategic relationships from being established in highly sensitive fields such as IT, HR, F&A, thus resulting in poor optimization of outsourced relationships.

Revenue Impact of Suppliers. The flow of innovation from suppliers can have major impacts on revenue as well as cost for the modern enterprise. A strategic review of this impact is essential. The best companies look deep into their supply base for new ideas, products, technologies, services, solutions and business models that could enlarge their top line. Supply management links with R&D and marketing to explore these possibilities.

Impact of Critical Drivers of Competitive Advantage. With the change in the driving forces of competitive advantage, where the traditional drivers based on size, positional or transactional power and financial clout have been superseded by speed, aligned or collaborative power, and innovative agility, a new model of competitive advantage is essential. (For an example, visit www.Engines*of*Innovation.com. Burt/Lynch Model of World Class Supply Management)

Pivotal Role of Innovation

As the nature of business has changed*, innovation* has emerged as the pivotal leverage point for organizations to adapt to the new business order. Innovation plays a major role because it becomes the centerpiece and rallying point for a number of core issues:

- Strategic thinking regarding the role of suppliers in the creation of core value
- Engaging people and teams across the value chain in using differentials in thinking to generate innovation
- Developing more powerful innovation architectures
- Focusing on Best Practices in Innovation
- Building Strategic Relationships with key suppliers to produce the "Synergy of Compatible Differences"
- New leadership roles that connect companies, teams, people, and innovation systems
- New evolutionary economic model that can harness the value of collaborative innovation
- New Tools and Metrics that link to the new strategies

Six Elements of the Innovation Engine

Addressing the issue of innovation means creating a much clearer understanding of the nature of innovation than the old adage that "invention is a flower, and innovation is a weed." Fundamentally, there are six types of innovation, each having its own intrinsic value. The six variants each play a vital role in the supply base, and companies must be aware of their different strategic impacts in creating competitive advantage:

1) technology invention (for example, patentable);
2) product improvement and design;
3) systems solutions and integration;
4) process improvement;
5) new business models; and
6) market extensions.

What makes this six-dimensional model of innovation attractive is that it empowers nontechnical people to engage fully in all but one of the types of innovation.

How The Value Network Beats The Competition

When collaborative innovation networks are pitted head-to-head with legacy supply chain models, the value networks win time after time. It is important to understand why. Our research and operational experience has shown there are a number of reasons, the most important of which is collaboration. A cooperative system enables strategic alignment, flow of innovation, mutual interest and speed of decision-making. These factors eliminate or reduce non-value-added friction costs in the business system, thus enabling greater profitability, long-term planning and investment horizons, integration among network entities and better flow of useful information within the network.

Strong, visionary leadership is required in such a situation, as well as the ability to interact at the senior levels of the members of the value network. But good intentions and eloquent words are insufficient. A powerful system based on collaborative relationship-building best practices, along with powerful championing skills, will be required to make the mind-set shift, the culture shift, the strategic shift and the operational systems shift together to benefit everyone.

Our research and hands-on implementation experience gives us a rich insight on how these value networks actually operate. Some of the examples of Value Network power include IBM Global Services & Software Solutions, P&G, Cisco Systems, and many others. In our analysis, we will also be including other examples, such as Toyota, Harley Davidson, and the Rolls Royce Starfish supplier network.

Impediments and Fallacies in Current Thinking and Models

As a result of the empirical evidence gathered from our groundbreaking research, we have also identified a number of fallacies in commonly accepted thinking about business systems, negotiations theory, relationships, and flow of knowledge, innovation, and information. Among those fallacies and commonly accepted ideas we wish to dispel are:

- Myth #1 – Because Buyer and Seller have differing assessments in how value is gauged in the transaction, in practice they have objectively conflicing interests.
- Myth #3 – Power is the primary basis for relative strength of the buyer-supplier relationship.
- Myth #4 – In a world of Scarcity, Win-Lose negotiations is the best approach
- Myth #5 – Win-Win is too fuzzy, it's basically anything you are happy with.
- Myth #6 – It's not in the interests of Buyer & Seller to Maximize their benefit
- Myth #7 – Exchange is at the heart of all human existence

In place of these myths, based upon our research and empirical evidence, we will be proposing a more empowering set of principles. (the next article – Appendix 2 Beyond Win-Win – outlines these seven myths and their counterbalance)

Unleashing the Economics of Abundance

The power of the value networks and their ability to capitalize on the acceleration of flows of innovation, speed, and integration has increased the visibility of what, in effect, has become an understanding that there are two parallel economic systems interacting in the network. One system is the traditional "Economics of Exp***e***ndables" which work under the well-versed rules of economic engagement. The other system, just as powerful, less visible and more virtual, is based on the "Economics of Exp***a***ndables."

Our analysis will demonstrate the new economic systems and postulate how companies can effectively capitalize on "Exp***a***ndables" in their day-to-day business interactions, using the co-creation power of innovation to produce synergies across the network. However, such "exp***a***ndables" are difficult to unleash in a transactional world. New principles, architectures, skill sets, mind sets, and metrics are essential when companies make the shift from transactional buy-sell arrangements to value network relationships.

Sustaining Innovation in a Value Network

Value networks are complex integrated adaptive systems, and therefore are not easily managed without a disciplined, rigorous architecture based on clearly defined and tested best practices. For those companies that have taken the time to put such systems in place, the results have been quite rewarding. However, on the opposite side, organizations that have used the "intuitive" approach held in the minds of but a few key managers, have had unenduring, ephemeral results. For example, Motorola has, at times used the intuitive approach to supplier value networks, without sustainability as other managers were unable to grasp the strategic or operational principles. However Cisco Systems has taken a more systematic approach to its supplier networks, and shown stronger sustainability.

The "connective tissue" of the network that links the network together is a critical element to the success of the network. One school of thought has promoted the "information system" as the core binding tissue. While this is important, it is but one small element of the systematic set of linkages that are necessary.

Another school of thought has believed that social network architecture should be effective as the connective tissue, but this has proven to be a effective in very loose networks. However, strategic alliance architecture, with its three dimensional framework focusing on strategic fit, chemistry/culture fit, and operational fit has proven to be a highly effective underpinning for the connective design of the network where high levels of integration and strategic alignment are required.

The fundamental architectural framework for any practitioner seeking to create an innovation-driven value network will be to start with six essential Leverage Points to trigger the process:

1. Strategic Imperative

- Establishing a Strategic Imperative for Innovation in the Competitive Environment
- Policies & Programs to Launch an Innovation Program
- Using Innovation Stratagems to beat the competition
- Develop a Strategic Innovation Portfolio Management System
- Innovation on the Edge: Using Alliances as Engines of Innovation
- Keeping Innovation Alive after an Acquisition

2. Leadership & Relationships

- Innovation is a Senior Exec's Responsibility to transform into a top priority and program
- Senior Leadership must develop new thinking & new architecture
- Vision without Execution is Hallucination
- Without effective leadership leading the charge failure is inevitable
- Innovation Leaders must be highly focused and capable:
  - Strategize
  - Organize
  - Nurture the Transformation
- Innovation is Another Form of Change
  - Change Creates Conflicts
  - Power Bases Disrupted
  - Organizational Norms Reconfigured
  - Core Processes Replaced
  - Organizations must Designate & Empower "Innovation Champions" to Drive the Shifts

3. Legal, Contractual & Intellectual Property

- The Value of IP is short-lived in a fast-moving world, and therefore its renewal and regeneration and future new royalty streams are just as important as its protection of current IP & royalty streams:
  - IP is often generated by Multiple Parties, often in Alliance with each other
  - IP is a Continually Renewing set of ideas that need to be Regenerating, therefore IP must be proliferated & shared in order for it to Expand
  - To retain Competitive Advantage, the Co-Generation of new IP among alliance partners is critical, and the establishment of a Regenerative System of Continually Improving IP is more important than being stuck with an old, dysfunctional IP that is outdated soon after it is created.
  - Ensure Getting Right Agreement in place will Never Delay Joint Projects
  - Ensure Contracts are Flexible enough to change quickly with the rate of change in the strategic environment
  - Build Innovation Relationships between parties that ensure continuous streams of innovation from the system of relationships

4. Organizational Design, Structure, & Culture

- Most organizations were designed for functional efficiency, not innovation. This creates a number of natural barriers to innovation. Three major organizational areas must be addressed:
  1. STRUCTURE & INTEGRATION
  - Shifting the Organization to Handle a Fast Moving Innovative World
    - Managing Ambiguity & Uncertainty
  - Internal Organizational Connectivity
    - Cross Functional Teams
    - Linking Innovation to Functional Units
    - Cross Business Unit Integration
    - Managing Innovation at Every Point in the Value Chain
  - External Organizational Connectivity
    - Alliances Relationships
    - Business Process Outsourcing Relationships
    - (IT, HR, Manufacturing)
    - Linking Solutions Providers or Systems Integrators or Compatible Suppliers
    - Build network nodes where talents & ideas are aggregated
  2. ATTITUDES, BELIEFS & CULTURE
  - Culture of Collaborative Innovation
    - (The Number One influence on successful innovation)
    - Values – Interpersonal & Discovery
    - Behaviors & Rewards
    - Prevention of non-synergistic Actions
    - Managing Knowledge & Learning
    - Prevention of the Ill Effects of "Not Invented Here" and the "Politics of Innovation"
    - Impact of Culture and Trust on Network Innovation
  3. NETWORK DEVELOPMENT & CAPABILITY BUILDING
  - Developing the skills, abilities, and infrastructures throughout the network to improve individual, team, and cross-functional capability to perform at world-class standards

5. Performance Processes

- A comprehensive and systematic approach must be taken to ensure processes and practices are up to the task of producing valuable streams of innovation. A number of issues must be addressed, including:
  - Innovation Triggers
  - Innovation Blockages
  - Innovation Generation Processes
  - Filling the Pipeline with Innovation
  - Triaging Innovation & Integrating Innovation
  - Managing Cooperation & Co-Creation
  - Fast Time Processes
  - Managing Breakdowns
  - Legal Processes for Joint Collaboration
  - Combating "Not Invented Here"
  - Integrators & Integration
    - Eclectic Resourcing
    - Cross Breeding

- ➢ Non-linear Thinkers
- ➢ Synthesis & Genesis
- o Mechanisms
  - ➢ Connecting to the Customer
  - ➢ Linking the Value Chain
  - ➢ Breakthrough Thinking
  - ➢ Continuous Improvement Initiatives
  - ➢ Cross Training, Co-Location, Secondment
  - ➢ Cross-Functional Teaming
  - ➢ Breakthrough "Tiger Teams" and "Skunk Works"

6. Economics & Metrics & Reward Systems

It's abundantly true that "if you can't measure it, you can't manage it." So also is it true that without metrics you can't sustain it, reward it, or nurture it. Metrics focus on identifying where value is created, lost, destroyed, or opportunities are overlooked, while avoiding the creation of "metrics spaghetti" where so many metrics are intertwined that everyone is spending all their time measuring, and no one is creating. Once metrics are clearly aligned with strategy, then rewards must be aligned to ensure a symbiotic effect between strategic objectives, metrics, and rewards within the network. In the end, the right metrics don't just measure innovation, they actually drive innovation and ensure that the network doesn't just innovate for innovation's sake, but creates useable, sustainable, and valuable innovation. This involves:

- o Basic benchmarking:
  - ➢ What is the Current Baseline?
  - ➢ What are the Key Metrics?
  - ➢ Is each member of the network "Best In Class"?
  - ➢ How far behind is the network?
  - ➢ What does it cost to be less than best?
- o What is the Total Cost of Ownership across the network?
- o What are the critical "Leading Indicators" of innovation and competitive advantage?
- o What are the Key Risk Factors?
- o What is the Right Success-Failure Proportion?
- o How well are the rewards systems aligned with the strategic objectives and metrics?
- o Are the Risk-Reward relationships properly allocated across the network to produce the results required to be innovative?
- o Is the network measuring and rewarding "synergy?"

How to Move from Supply Chains to Value Networks

Making the shift from stand-alone businesses operating with suppliers in a tactical-transactional mode into a value network is a massive paradigm shift requiring a change in strategies, management capabilities, structure, metrics, and culture. This is not a shift for the timid or leaders without experience in the field. As the Burt/Lynch Model of World Class Supply Management indicates, the priorities, processes, and practices are dramatically different at opposing ends of the spectrum. Organizations without world class alliances are severely disadvantaged in making such a shift.

Any executive wishing to makes such a shift will need to know the inter-related complexity of managing multiple shifts simultaneously, including:

1. **Integration**
   - Commercial Integration of Multiple Products & Services
   - Technical Integration of numerous systems, such as hardware, software, networks, voice, & data
   - Cross business unit collaboration and alignment typically required to provide the integrated solutions
2. **Value Proposition**
   - Must demonstrate Substantial/Quantum improvement over competitive alternatives
   - Measured by Customer's Metrics, not vendor's performance
3. **Customer Base**
   - Large enough to justify customization, integration, and alliance coordination costs.
4. **Engineering & Sales Forces**
   - Strategic integration of technologies, processes & sales forces
   - Often requires intimate knowledge of vertical market needs
   - Different sales cycles and different metrics
   - Cross-Function Integration across disparate businesses
5. **Pricing**
   - Not based on Component Cost
   - Based on Total Value to the Customer or Total Cost of Ownership
   - Customized Solutions require unique pricing
6. **Implementation**
   - Alliances required to provide basic elements of the product-service solution
   - Careful Control of Roll Out to ensure successful delivery of products, services, and solutions
   - Voice of the Customer and Voice of the Supplier to be heard across the network
   - Multiple forms of communications and information flow across the network

Strong, visionary leadership is required in such a situation, as well as the ability to interact at the senior levels of the members of the value network. But good intentions and eloquent words are insufficient. A powerful system based on best practices in alliance and innovation architectures, along with powerful championing skills will be required to make the mind-set shift, the culture shift, the strategic shift, and the operational systems shift together.

Appendix 2: Myths of Win-Lose Negotiations

Beyond Win-Win, Creating Sustainable Competitive Advantage with Suppliers

By Robert Porter Lynch

Myth: Definition: *a deceptive explanation popularly believed to be true combining a partial truth with a falsehood, which presumably explains events.*

As a new era of Supply Chain Managers transform supply chains from transactional engagement into value networks, the question of how to deal with suppliers must be addressed from a practical and realistic perspective. Economic and Negotiations *theory* is only as valuable as it can predict and direct operations people in the field to take actions that will, with consistency, produce effective results.

When eras shift, as they are doing now, paradigms from the past become obsolete, ineffective, or marginally correct as new paradigms, architectures, operations, and metrics shift thinking and practices. As old paradigms die, they are like dying stars: burning brilliantly in their final stage with a tour-de-force as they try to maintain their old dignity and position of prominence.

To illustrate the dramatic nature of the shift, it’s useful to look at the more archaic thinking that currently exists, where it came from, and its implications and consequences:

Andrew Cox, Professor of Supply Chain Management at the University of Birmingham has postulated that the Buyer-Seller negotiations are based on a number of critical assumptions about how the world works. In many cases, Cox’s assumptions are actually “myths”:

1. Myth #1 -- The Purpose of Business is: To Make Money
(or its Wall Street Derivative: To Create Value for its Shareholders)

This is a myth based on oversimplification.

The real purpose of business is: *to serve customers profitably*. Customers are the only source of operational revenues with which to create profits. There is no profit without customers. If the purpose of a business was primarily to make money, then the business should just liquidate itself, take the money, distribute it to its shareholders, and call it a day.

While there might be some marginal utility in this type of a definition for larger, publicly held businesses, the definition is troubling when applied to small and medium sized enterprises. Every examination of the rationale for creating start-up companies demonstrates that the primary reason for launching a startup is not to make money – that’s usually the second reason. The primary reason is to control one’s destiny or its axiomatic derivative, to do it better than my big bureaucratic elephant company.

Holding on to a mythical understanding of the purpose of business has major implications on negotiations, procurement, supply chain, and competitive advantage.

If two negotiators are trying to transact business between each other, it's in each business' *interests/purpose* to make a profit, regardless of the definition. A win-lose strategy for negotiations means one of the parties will be faced with *not* operating in its best interests. Most companies will not put up with this option for long, if at all. If they work outside of their purpose/interest, they will ultimately be faced with bankruptcy. Therefore, they will, somewhere in the transaction, either get even, get out, or both.

For example, as a consequence of facing its suppliers with draconian negotiations tactics, General Motors, which often accounted for 25-50% of its supplier's volume, drove many of its suppliers into situations where it had to sell to GM at a loss. When confronted with this reality, they had a ready made tactic for getting even: make back the losses on GM's change orders. Some chose consolidation with the hope of reducing operational overhead, with little success. The bankruptcies of Dana Corp. and Delphi are just a few examples of the fallacy of this approach.

At the small and medium enterprise (SME) level, the opportunity for avoiding win-lose negotiations may be deeper. Many owners simply opted out of the GM supply chain, choosing the relatively more friendly Honda or Toyota buyers. Still others chose to get out of the industry totally or partially.

2. Myth #2 – Because Buyer and Seller have differing assessments in how value is gauged in the transaction, in practice they have objectively conflictual interests.

This myth is a myth because it is a part truth and a part misconception. What is truthful is that two parties engaging in a transaction have differing value gauges to determine whether it is in their best interests to engage in a "deal."

The parts of this myth that are either: obsolete, secondary, or misconceived are important to the understanding the fundamental nature of supply chains.

First, procurement is only a small component of how supply chains create value. A supply chain is fundamentally engaged in *transformation* of labor, materials, and technology into products and services that are of more value to a customer than a competitors products and services. Therefore, the procurement, deal-making, and bargaining processes must be viewed not in isolation, but how they affect the transformation processes into strategic competitive advantage. The critical element here is therefore not just price/cost, but how well the parties regard each other as a team to produce customer value. The key components of this transformation are the ability to create strategic and operational synergies, specifically:

- The ability to coordinate work together, hence trust each other
- The ability to co-create together, hence innovate together
- The ability to align together, hence synchronize their operations together
- The ability to adapt to changes in the strategic environment, hence reposition together

Second, as the world has accelerated its clock speed, having to produce more and more with less and less and in far less time, the differentials of interests between buyer and seller have to be sublimated by necessity to the realities of speed, innovation, and integration. There is simply no room for bickering and dickering, which leads to excessive non-value added costs, dysfunctional behavior, and wasted time which all translates into potentially devastating impacts on competitiveness. In addition, in a world of high complexity of technologies, unnecessary switching costs can produce lag times that are competitively crippling. For example, a decade ago, when GM wanted to introduce its new model of Sunbird and Cavalier at their Lordstown plant, the two models comprised a significant portion of GM's market share. Driving too hard a bargain with their suppliers in the false assumption that their suppliers were making inordinately large profits, GM squeezed their suppliers mercilessly for cost cuts. They received the cost advantages, on the surface. However, quality control and parts integration suffered horribly, resulting in an 18 month delay in new product introduction. Customers went to show-rooms and found no cars available. They bought Toyotas and Hondas instead. What GM had hoped for in cost savings of about $2 billion, instead resulted in a loss of about $8 billion in revenue, making the cost savings a Pyrrhic victory. Today these two models are marginal entries in their class.

Third, Relationships are a very important component of the value analysis in any buyer-seller interaction. If the buyer and seller are to engage in a one time interaction, what they think of each other may not matter for much. But this changes entirely if the buyer and seller are to interact over a period of years or generations. Memories are long lived. If a seller gets a raw deal, is not paid the proper amounts, is abused, is treated as a lowly "vendor," is the recipient of the worst end of a one-sided contract, is forced to stretch receivables interminably, then this will have a major impact not only on the next round of negotiations, but also on whether there are any negotiations at all, what the price will be to compensate for the abuse, and who gets the next round of new innovations. For example, a well conceived and positive relationship with a supplier of Intuit's produced a virtually exclusive flow of all the new innovations from the supplier. Similarly, Honda and Toyota receive their suppliers innovation streams from their supplier, with whom they have the most positive relationship; while GM and Ford get the short end of the stick based on a poor relationship with suppliers. Procter & Gamble's supplier relationship program has paid of handsomely with innovation streams from suppliers, which translates directly into bottom line profits.

3. Myth #3 – Power is the primary basis for relative strength of the buyer-supplier relationship.

Again, like all myths there is an element to truth to this, but that small truth should not be extrapolated into a universal truth.

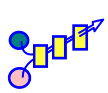
Here's is what's true: In some markets, some buyers and some sellers are dominant, to the point of having a monopoly. Consider Microsoft in software, Wal-Mart in retailing, or many airlines in their hub where they have a dominant position and therefore presumably control pricing with near monopolistic behavior. Or AT&T before the breakup. In these cases, the dominant player may control.

What happens in markets there either buyer or seller are dominant, a monopoly occurs. Monopolies are inherently dysfunctional because innovation is stifled. Eventually other forces will destroy a monopoly, just as the railroad and steel monopolies were destroyed.

The issue of "who has the power" is also based on a very narrow definition of how power is used in any relationship whether it be inter-personal, inter-organizational, or inter-national. Power can be used in three fundamentally different ways:

- Dominance: Positioning Forces *Against* to *Overwhelm* an opponent an opponent in a Win-Lose Game

- Balance: Equalizing Forces in a series of *Trade-offs* and *Compromises* to achieve an Quasi-Win-Win



- Alignment: Coordinating Forces with a strategic ally to create a *Synergistic, Synchronistic,* and *Systematic* Win-Win

Power Dominance probably prevails in 20 percent or so of the cases. In the other 80 percent of the situations, Power Balance or Power Alignment are far better options, and the effective negotiator will be adept in their use.

4. Myth #4 – In a world of Scarcity, Win-Lose negotiations is the best approach

As Andrew Cox, one authority of the old paradigm recently stated: “Your purpose in a world of economic scarcity is not to be nice – it’s all about win-lose. Win-Win is B---S---.” This idea is both dangerous and impractical.

In a world of Scarcity, win-lose can only be used in a short-term, one-time play. Two examples will illustrate:

<u>Labor Management Negotiations</u>: This is a buyer (management) and seller (labor) relationship. Using win-lose approaches, which is the norm for many such negotiations, usually results in a lose-lose. General Motors has always lost in a strike, as have their UAW counterparts. GM’s Japanese counterparts engage in win-win, and strikes don’t happen. When win-lose begins, trust is broken. In environments of low trust, many grievances are filed. The total cost of ownership of a single grievance is between $10-20,000. Win-Lose usually produces losses for everyone but the lawyers in a long-term relationship because the loser will always try to get even in the next round.

<u>Commercial Airplanes</u>: Airlines must replenish and modernize their fleets. In the large aircraft world, there are essentially only two competitors left – Boeing & Airbus -- now that Lockheed has opted out of the business and McDonnell-Douglas has merged with Boeing. Win-Lose negotiations on the part of buyers drove supplier consolidation. Should one or the other drop out of the market for lack of profits, the industry will be left with having to buy from a monopolistic supplier, who could and probably would raise prices to make a fine return on investment. A win-win approach would have been better from the start.

However, win-win is not just a matter of price. Innovation is a critical component of any supply chain. Win-Lose shifts the focus of the paradigm into negotiations and deal making instead of strategy and value creation.

While win-lose negotiations may have value in a world of commodity procurement where there is an infinite number of suppliers, it has no practical value in a world where these conditions exist:

- too few suppliers
- most suppliers making marginal profits
- supplier is strategic to your value creation
- possibility of killing the supply base
- innovation is critical to competitive advantage

In most supply chains today, innovation is a critical element of competitive advantage. Win-lose negotiations will never create continuous streams of innovation. To the contrary, win-lose will stifle all innovation. Consequently, win-lose, as a practical matter, has no business in most businesses.

The issue of win-lose is tied directly to the presumption that we live in a world of scarcity, and there is only so much to go around. This is the basis of the "haves and have nots" approach to economics. Ever since Malthus' dismal pessimism proved mathematically (based on the geometric growth of population and the arithmetic growth of food suppliers) that the world could not produce enough food to support its population growth

> "*The power of population is so superior to the power of the earth to produce subsistence for man that premature death must in some shape or other visit the human race. Sickly seasons, epidemics, pestilence, and plague, advance in terrific array ... gigantic inevitable famine stalks in the rear, and with one mighty blow levels the population...of the world*."

The Malthusian fallacy is the failure to either acknowledge or stimulate human capacity to innovate by increases production methods in the food supply chain.

Similarly, innovation becomes the antidote for scarcity in many (but not all) situations. The reasons for this are based on the existence of not just one, but two economic systems working in parallel and simultaneously.

The first economic system is classical economics, run by the laws of supply and demand in the environment of *scarcity*.

> For example, oil and gas are becoming scarce commodities priced according to supply and demand. As demand increases, supply diminishes, and price increases. As price continues to escalate, new innovations will come into play which either increase supply or create alternative fuels. In the world of scarcity, most players will chose to *horde* their resources.
>
> The Economics of Scarcity could also be called the Economics of Exp***e***ndables.

The second economic system is virtual economics, run by the laws of synergy and creativity in an environment of *abundance.*

> For example, software is one of the most cheaply reproduced products in the world. Most of it can be transmitted on the internet for virtually nothing. Then, once it is installed on a computer, the more it is used, the more valuable it becomes. Using more of it does not create less of it; to the contrary it

produces more of it. When it's replaced, its substitute is presumably better, faster, more reliable, easier to use. It is seldom replaced by something of just equal capacity or functionality. Therefore, the traditional economic laws of supply, demand, and price do not prevail in the economics of abundance.

Other examples proliferate. Creativity also exists in the world of abundance. When a person, team, or business partners engage creatively to invent a new product, process, technology, or idea, their creative "juices" are not used up when they are put into play. Quite to the contrary, their creativity expands based on their trust of each other and their willingness to *share* resources.

The Economics of Abundance might be termed the Economics of Exp***a***ndables.

In the world of Supply Chain Management, it is crucial to understand how to negotiate a win-win so as not to create adverse reactions in the world where scarcity prevails and, just as importantly, to know how to stimulate a parallel flow of innovation in the world of abundance.

5. Myth #5 – Win-Win is too fuzzy, it's basically anything you are happy with.

Understanding the dynamics of win-win is to be able to understand the metrics of winning, from three perspectives: the user, the buyer, and the seller, and be sure all three are in alignment. By alignment, this means not the same, but parallel, compatible, symbiotic. If the metrics of winning are misaligned, some one of the three will lose, making the value proposition insufficient or unappealing.

Procter & Gamble aligns its supply chain to two moments of truth: When the customer *buys* the product, and when the customer *uses* the product. Should either of these critical value propositions be unsatisfying, the customer will not return, P&G will not receive long term revenue, and the supplier will lose accordingly. Supplier's measure of a win must be linked intimately to the customer's. Every customer is potentially a long-term relationship with the provider.

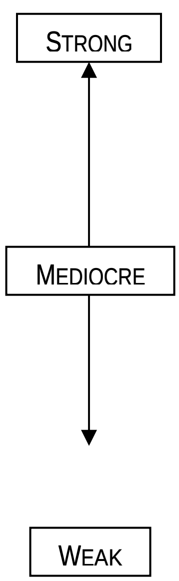
Excellence in win-win negotiations is first based on knowing the "elements of victory" for each party, and then being committed to manifesting the idea of a win-win.

Elements of Victory: The most effective means of engaging in a win-win is to be clear, from both party's perspectives, what measurable results will represent a "win." This should be clear to each party. When negotiating the elements of victory, it's usually effective to understand that it is nearly always more than just money that the other party desires. In fact, if it is only money that's considered valuable, then the relationship is probably neither strategic nor innovative, and therefore is merely a tactical, making win-win a minor issue. The multi-dimensional analysis for measuring the win are:

- Market Impact
- Competitive Advantage
- Innovative Capacity
- Performance Effectiveness
- Financial Return

To keep the elements of victory in long-term alignment, a clear customer-focused value proposition should be the ultimate, over-riding aim of the relationship.

<u>Commitment to Win-Win</u>: A effective win-win is not a chance occurrence, but the result of a carefully architected process. Because win-win may require a delicate alignment of forces which can be destabilized by people who do not understand the nature of the relationship, the best win-win arrangements are managed by people who make it their business to be committed to the win-win. The level of commitment can be arrayed on a spectrum:



- We will stand together, committed to our mutual winning to achieve a common goal, and defend the other in the face of adversity from within because we have established firm Rules of Engagement which I will not let my own side violate – I am committed to retaining our trust.
- I am committed to you winning as long as you are committed to me winning, I will let you win because I know win-win is good for our long term relationship
- We must both be willing to strike compromises and make concessions if we are to achieve win-win
- I must protect my interests, and, inasmuch as they are protected, you can take what is left or what is in your interests
- I will fight to win, and you must fight to win, and somewhere in the middle we will strike a balance
- I expect you to fight for your ground, & I will fight for mine, & whatever ground I let you take is yours

As an additional observation: A win-win is only possible if *both* parties *believe* a win-win is not only possible but essential to the future of the relationship. Should one party not believe in a synergistic mutual future, it is highly unlikely it will or could occur.

6. Myth #6 – It's not in the interests of Buyer & Seller to Maximize their benefit

This is true only in the following limited circumstances

- The Relationship is:
  - Tactical
  - Transactional
  - of limited duration
- Distrust is so prevalent and irretrievable that the only protection in the engagement is a strong legal contract
- Innovation, Process Improvements, and Integration are not valued in the transaction

Where these conditions prevail, there is little value in trying to create synergies that will forever remain illusive and idealistic.

However, in a fast-moving, rapidly changing world, where innovation, speed, and integration must manifest and suppliers are strategic to the buyer, it is not only in each party's interests, it is imperative to maximize benefit simply to maintain competitive advantage as conditions change rapidly. For example, one of the primary reasons General Motors and Ford have lost significant market share is because the competitors have created a powerful, aligned, and synergistic value network that produces innovations faster, better, and cheaper than the combative relationships at GM and Ford.

7. Myth #7 – Exchange is at the heart of all human existence

The veracity of this statement depends solely upon what paradigm one stands in.

- *TRANSACTIONS* are the centerpiece of the *exchange*-based *procurement* world.

- *TRANSFORMATIONS* are the centerpiece of the *fast-time, integrated, innovation*-based *value chain/network* world.

A transaction-based world is a small micro-economic world looking at the exchange of relative value, usually translating the value into monetary terms. If I am buying apples at the local supermarket, I exchange my money for the market's fruit.

A transformation-based world is larger and spans time. If I am a professional buyer of food for a supermarket chain, I want to know not just the price today, but what I might expect in terms of logistics, temperature control during shipping, organic growing methods, inventory control to prevent spoilage, new packaging innovations, shelf life expectation, returns policy, information technology integration, and, especially how the final consumer will react to the purchase. Procter & Gamble knows this reality well when it says;

> There are Two Moments of Truth: When the Consumer *Purchases* our Product, and When the Consumer *Uses* It.

P&G thrives on this simply principle which exemplifies a much more complex value management system to back up their product. (General Motors and other Detroit auto manufacturers would benefit enormously by adapting the P&G Principle and adding a third element: When the Consumer *Sells* or *Trades* It.)

How the product is *transformed* from the ground to the hands of the ultimate buyer is important, not just the exchange of money for goods.

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Appendix 3: The Myth of Wrong Metrics

Changing the Cost Metric to Total Cost of Ownership

by Robert Porter Lynch

For centuries professional bookkeepers and accountants have poured over their cost analyses looking to cut costs and increase profits. Their approach is quite universal around the world. The traditional Profit and Loss Statement is composed of:

Revenues
- (minus) Cost of Goods
  - Cost of Purchased Material
  - Cost of Value (Labor & Manufacturing) Added
  - Cost of Manufacturing Overhead

= (equals) Cost of Goods Sold

- (minus) SARD	or	SAG
Cost of Sales		Sales
Cost of Administration		Administration
Cost of Research &Develop.		General Expenses

= (equals) Operating Profit

This seemingly obvious system presumably accounts for everything. Engaging in simple cost-based accounting was perfectly acceptable in a world that existed when:

1. Your company wasn't connected to other companies except by "hands-off" supplier arrangements and transactional sales forces (pre-alliances, franchises)
2. Integration of complex systems (solutions, computer hardware & software, etc.) was not needed
3. Speed was not much of a factor in inventory, time to market, product innovation, etc.

However, while using simple accounting may have worked in the past, and may still work for balancing your check book or for paying your taxes, in reality, this type of accounting is blind to many factors that impact your competitive advantage in business.

When measuring innovation, especially process improvements such as cycle time, reduction in non-value added work, time to market, it is critical to use a measurement system that looks at things holistically, otherwise the metrics may be will highly distorted.

Remember the Yugo!

Let's illustrate the dichotomy between the simple cost-based accounting and a total-cost-of-ownership accounting with a simple example from the 1980's: The Yugo automobile was introduced into the U.S. as a low cost car, and soon sales increased as customers were attracted to what they thought was the successor to the 1960's Volkswagen.

The Yugo began to bloom. Yet wasn't long before customer complaints began flowing in torrents. Brakes failed, engines sputtered, and transmissions died. Parts were scarce. Cars spent more time on the service lifts than on the road. Repair bills skyrocketed. Yugo sales plummeted as its reputation turned to mud. Public floggings appeared in the press. Resale value was nearly zero. Junkyards became littered with nearly new Yugos.

What occurred was a perfect example of Total Cost of Ownership (TCO, and sometimes referred to as Total Life Cycle Cost, TLCC).

When the buyer added the cost of acquisition, the cost of repairs, the losses upon resale, and one's time out of work or play during repairs, it soon became evident that the Yugo was far more expensive to own than a Mercedes! Yet the cost of <u>*acquisition*</u> was quite low.

Unfortunately, this lesson has not been learned by many in either the automobile industry nor in other industries. Today, General Motors' warranty costs exceed their profits. Ford and Firestone's recall costs on failed tires will ruin Ford's annual profits and may very well be nails in Firestone's coffin.

A Lesson to be Learned

Recently I gave a speech at the National Association of Procurement Professionals, a very prestigious group composed of the best purchasing agents of the finest American corporations. Their membership reads like a Who's-Who in procurement. As I commenced my speech, I asked several questions of the audience of about 200 people.

> <u>First</u>: *"How many of you understand the concept of Total Cost of Ownership?"* Everyone in the audience enthusiastically raised their hands in affirmation.
>
> <u>Second</u>: *"How many of you believe Total Cost of Ownership is a very valuable tool in procurement decisions?"* Nearly everyone in the audience enthusiastically raised their hands in affirmation.
>
> <u>Third</u>*: How many of you use TCO as a regular regimen in your buying decisions?"* This time only 2 people of the 200 raised their hands.

Why if the issue is so important, do only 1% of the companies have the knowledge, discipline, and rigor to use it on a regular basis? While I don't have statistical evidence to give a rationale for such behavior with any certainty, an informal poll of professionals in the field indicates that usage of TCO is limited because of several reasons:

1. It's *harder to use* because it is more complicated than simple component-based cost accounting
2. There's *no software available* to provide ease of use
3. Many *financial managers don't use it*, either because they are not familiar with it, or because Wall Street doesn't use it, or the Financial Accounting Standards Board (FASB) doesn't endorse it. Talking TCO to financial officers is often like talking to a brick wall.

Regardless of the reasons, Total Cost of Ownership is a compelling process for creating competitive advantage, as the following case study will indicate.

-Them new shoes you got there?
-Yep.
-How much they cost?
-Dunno, ain't finished wearin' 'em yet.

* *

Case Study #1: Scott Paper

(Author's Note: This case study was contributed by R.P. Lynch to World Class Supply Management by Burt, Dobler, & Starling[5])

Prior to being acquired by Kimberly Clark several years ago, Scott Paper was one of the world's largest producers of paper, with 20 plants in nearly twenty countries.

The paper making process requires that wet pulp slurry be deposited uniformly on a continuously moving fabric belt. The fabric belt (known as "fabric" in the industry) is approximately 12 feet wide and the belt is about 60 feet in circumference. Fabrics are woven to enable the water in the pulp to be drawn out through the fabric, so that when the pulp leaves the end of the belt, it is in a semi-solid, rather gelatinous form. Once leaving the fabric belt, the pulp goes onto other machines, which further dry and then press the pulp into paper. Fabrics cost approximately $25,000 each.

For years, each plant's procurement team had negotiated with fabric vendors. Knowing that the sales price was about $25,000 (simple "component cost" to Scott), the procurement directors were always rewarded for driving costs down. Every buyer was trained in being a tough negotiator; they all knew that there was 5-10% that should be driven out of the sales price. Each year the procurement group aimed to push down the prices, thereby driving down the profit for the fabric manufacturers. At the end of the year, rewards were allocated to those buyers who got the most favorable pricing. And for years, Scott Paper's procurement department patted itself on the back for doing a wonderful job at keeping both the supplier's profits and Scott's prices low.

However, Scott Paper's profitability was among the lowest in the industry, making it ripe as a takeover target. But the purchasing managers were all confident that they were doing their part to get costs down to the lowest level possible.

In 1994, a new VP of Procurement, Ted Ramstad, arrived on scene and began challenging the traditional thinking. In an effort to understand the real cost of the fabric, began conducting a reevaluation of cost. Internal data was gathered:

- While replacing fabrics, the paper machine must be shut down, at a cost of nearly \$100,000/day to the paper company (because paper manufacturing requires a continuous process, and the machine is considered efficient only when it runs 24 hours a day)
- It takes about 8 hours to put fabric on a paper machine
- Fabrics lasted an average of 40 days
- Most fabrics broke on the machines
- When a fabric broke, it normally had less than 10% wear
- Seventeen companies supplied fabrics to Scott around the world. Each plant manager had a "favorite" supplier, but there was no compelling reason for using one supplier over another. Procurement assumed it could use the large number of suppliers in a competitive manner to keep the costs low.
- Cost of Goods Sold (COGS) for most suppliers was about 35% and R&D was 3-5%
- Most plants had 4-6 fabrics in inventory

While most of the buyers were unconcerned about this information, Ramstad and his team, applying TCO thinking, began probing and asking more questions:

- How can we lengthen the time a fabric lasts on a machine?
- How long should a fabric last?
- Are we getting the *best* fabrics from our suppliers, or just the *cheapest?*
- What suppliers are providing the research and development to give us better performance from our fabrics?
- Would few suppliers give us volume-purchasing power?
- Could we build win-win incentives to get more value from our suppliers and their fabrics?
- Where is there significant "non-value added" in the system?
- What benchmarks should we be using to be "best in class?"
- If the "absolute component cost" of a fabric is \$25,000, what is the "Total Cost of Ownership," and how does this compare as a "relative competitive advantage (or disadvantage)?"

Armed with a new focus and an energetic spirit, Ramstad's team began a world-wide search for answers. Fabric suppliers were interviewed, and information was gathered regarding competitors, indicating:

- The industry average fabric life span was 60 days
- The industry benchmark fabric life span for one paper producer was 470 days
- Only three suppliers were interested in helping Scott increase fabric longevity
- None of the suppliers believed their fabrics were at fault for Scott's low life span; all blamed either the operators or the machinery manufacturers.

A Crucial Juncture

Now came the real test. In a "Simple Accounting, Component-Cost" world, fabrics clearly cost \$25,000 apiece. But Ramstad stuck his neck way out and maintained that this was only true in a narrow, "absolute" sense. In a broader, "relative advantage" perspective, the formulation of cost looked radically different. Here's what Ramstad's TCO calculations looked like:

- **Fabric Cost:** If the highest standard benchmark life is 470 days and Scott's standard is only 40 days, the relative cost of the fabrics Scott was purchasing is really 470/40, or 11.75 times the highest benchmarked competitor.

  Therefore, 11.75 x 25,000 unit purchase cost = $293,750.

  (To understand Relative Competitive Advantage, think of relative motion. Consider the analogy of driving down a highway at 40 miles per hour in the right hand lane. The average competitors are in the middle lane, passing you at 60 mph. But the Best-in Class competitor flies by in the left lane at 470 mph. This is the Relative Competitive Advantage view of costing)

- **Down-Time Cost**: Add an additional 8-hour portion of $100,000 per day to reflect the downtime for changing the fabric. (8hrs/24hrs x $100,000 = $33,000) Relative to the best in class competitor, Scott has to make 11.75 changes to the best-in-class competitor's one change.

  Additional relative cost to Scott is 11.75 X $33,000 = $387,750.

- **Burdened Labor Costs:** It takes two men 8 hours to change a fabric. At a burdened labor rate of $45/hour, the labor costs are 2 X $45 X8 = $720. Relative to the best in class competitor, Scott has to make 11.75 changes to the best-in-class competitor's one change.

  Additional relative cost to Scott is 11.75 X 720 = $8,460.

- **Total Cost of Ownership:** Adding these figures, the results are overwhelming. Relative to the best in class, Scott's "relative disadvantaged cost" is $689,969! A far cry from what was thought by procurement to be a $25,000 belt.

The procurement group had naively engaged in myopic thinking; they were playing the game "too small." Squeezing the supplier for a 5-10% discount made no sense when the stakes were really about how to gain an advantage of nearly $700,000. This is a "strategic systems" view of cost, (versus a component cost view) that views *"Relative Competitive Advantage" as a major strategic goal.*

Ramstad was relentless, not stopping here. He saw the relative disadvantage to be multiplied by the number of plants globally. Therefore, by multiplying the "relative single plant competitive disadvantaged cost" by the 20 plants throughout the world, there was nearly $14 million of advantage to be gained on this single line item alone.

(Note: the standard accounting systems at Scott could not measure this factor, and therefore it was "invisible" to the Chief Financial Officer, who steadfastly called this accounting hocus-pocus.)

Undaunted, Ramstad pressed on. He advocated that the problem was even worse, since much of this inventory was actually scrapped due to product redesign before the inventory was utilized. What's more, he took the position that if Scott bothered to add the time-value of money for financing the inventory of belts (because of frequent breakage several extra belts had to be kept on hand) that the extra inventory was tying up capital. Eventually Ramstad was able to eliminate $20million in inventory.

And it doesn't stop here. By selecting the best-in-class suppliers, thereby reducing the number of suppliers to two or three globally, and negotiating long term contracts, Ramstad was able to convince suppliers that they no longer needed to make sales calls on Scott's procurement officers. Because Sales Costs were 35% of the component price, he persuaded the remaining suppliers to lower their prices 25%, increase their R&D budgets to focus on continuous innovation that would provide better products, provide technical support, and work with the machinery companies who manufactured the equipment to improve sensing and tuning devices.

Because of the higher volumes for the remaining two suppliers, the supplier's actual profits were substantially higher under the new model than before. And by not handling a continuous stream of bidding and purchasing, which previously accounted for 3-5% of the cost of ownership, Ramstad was able to reduce the procurement force significantly as well.

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Comparing Traditional Procurement with TCO

Compare Ramstad's approach to the way most procurement professionals are taught: *beat the supplier down on price, and when the supplier screams, you are only beginning to get what you want.*

In the Scott Paper example, there was nearly $14 million of potential saving lying fallow in this one line item, totally unrecognizable by traditional bookkeeping measures. The $14 million was ready to fall to the bottom line as profits. The traditionalists had been placidly cruising in self-congratulatory low gear in the right hand lane, drinking their own bath water, with their blinders on, as competitors flew by them in the left hand lane driving a fast new paradigm.

But to get the money, you had to use a totally different measurement system. Remember: "*If you can't measure it, you can't see it, change it, nor manage it.*"

How does TCO compare with Traditional/Simple Component Based Accounting? In the traditional system, price is price, cost is cost, and the relationship between buyer and seller is "transactional," in that one provides cash in exchange for a product and/or service.

TCO is more analytical. Calculations are done to determine costs related to each of these factors:

- **Requirements Definition**
- **Source Identification**
- **Acquisition**
- **Storage & Inventory**
- **Operations, Installation,**
- **Maintenance**

- **Breakdown, Scrap & Waste**
- **Warranty & Service**
- **Retirement & Disposal**
- **Future Strategic Positioning**

In manufacturing environments, typically Acquisition Costs represent only 25-35% of the TCO. (if this seems strange, you are still "wired" into the old paradigm. Remember Scott Paper and the Yugo.)

TCO requires rigor – hard work, data collection, insightful thinking, and intuition. However, in complex systems, where the suppliers and providers must be carefully linked to provide a totally integrated set of services and products, TCO has major competitive advantages.

However, TCO is just the first step in entering a new world of competitive advantage. It opens new avenues to far more possibilities, once one is ready to change the measures and relationships between buyer and seller, or between manufacturer and distributor.

The following excerpt about Total Cost of Ownership may be helpful in furthering this understanding:

Total Cost of Ownership

By Dr. David N. Burt, (from World Class Supply Management[6] used with permission)

Three Components of Total Cost

ONE: ACQUISITION COSTS

Acquisition costs are the initial costs associated with the purchase of materials, products, and services. They are not long-term costs of ownership, but rather represent an immediate cash outflow. Scrutinizing purchase price, planning costs, and quality costs to determine the lowest total cost of ownership/usage may provide significant savings.

Purchase Price The price paid for direct and indirect materials, a product, or a service is often a major component of the item's total cost. Acquisition costs may include freight and delivery, site preparation (capital purchases), installation and testing. Supply management professionals can reduce acquisition costs by negotiating effectively, obtaining quantity discounts, standardizing specifications, and completing a value analysis. In addition, strategic cost analysis offers methods to analyze and understand suppliers' costs – allowing for more fruitful negotiations and enhancement of supplier relationships. The purchase of used materials and equipment of acceptable quality is another way to lower acquisition costs. A supply management professional must not compromise long-term ownership costs by focusing on purchase price alone.

Planning Costs Costs incurred during the acquisition process include the costs of developing requirements/specifications, performing price and cost analysis, supplier selection/sourcing, contract determination, initial order processing, and monitoring. Increasing the spending in these areas while following World Class Supply Management^{sm} principles and processes can reduce future ownership/use costs. For example, during the development phase of a new product, time spent with engineering representatives and the supplier to replace custom parts with standardized ones will generally reduce the initial purchase price, as well as facilitate future repair, replacement, and inventory carrying costs.

Subscribing to e-procurement, B2B e-commerce, or electronic supply networks provides many businesses with a means to lower acquisition costs by reducing or eliminating overhead such as the time consuming research and paperwork often associated with ordering the best product or service to satisfy specifications. The higher initial development and start-up costs are negated by the benefits of better communication, more information, reduced clerical overhead, and lower purchase costs.

Quality Costs The higher initial cost of engineering-in quality during the design phase generally lowers future ownership and post ownership costs for both the purchaser and the customer. Selecting and certifying a supplier to obtain the optimal level of quality and monitoring the results using, for example, design of experiments and statistical process control, ensures the achievement of the desired quality. In addition, the *quality* of the relationship established during this process can have long run benefits. Long-term strategic relationships improve communications and may facilitate product innovation and cost reduction, especially in a cross-functional environment.

Taxes *There's a weak link in the supply chains of many companies – and they don't even realize it's there. The link is a multitude of hidden costs, especially taxes, that are causing companies to lose money.*[6] According to Richard Janis, a partner with KPMG LLP, a firm that sources internationally must address the impact of taxes, both direct (e.g., duties, processing fees) and indirect (e.g., foreign fuel taxes, tolls, facility fees), on the cost of procured materials and products. When sourcing nationally, the firm must consider differences in state and local taxes. Experienced tax professionals must be included in the cross-functional team when taxes are a concern. Three examples of solutions to reduce acquisition costs by minimizing taxes include:

- **Customs Duties and Tariffs** - focus on compliance to eliminate penalties, and on planning to ensure the proper tariff classifications with the lowest rates

- **Regional Trade Agreements** – source and/or produce in free trade areas that reduce or eliminate duties on all or part of a product
- **Income-Base Shifting** – use transfer pricing to legally shift income from high tax areas to lower tax areas

The impact of taxes can be significant. The added cost of addressing domestic and international tax issues, up front, may have a significant effect in reducing purchase price.

Financing Costs – Whether purchasing inventory and materials, opening new facilities, or investing in equipment, the acquisition team should consider the quantitative and qualitative costs of financing alternatives, which are considered ongoing acquisition costs. A business can finance an acquisition using surplus cash, debt financing (e.g., secured and unsecured term loans, mortgages, revolving lines of credit, capital leases, sale-leaseback arrangements, bonds, securitization of receivables, etc.), or equity financing (e.g., issue different classes of stock, form new partnerships and joint-ventures, etc.). Each form of financing has costs and benefits. The creditworthiness of the firm (e.g., cash flow, profitability, debt load, future sales) and the expected return on the investment are key variables in making this determination. The cost of money is normally not a supply management professional's concern, but must be considered by the firm

TWO: OWNERSHIP COSTS

Ownership costs are the costs, after the initial purchase, associated with the ongoing use of a purchased product or material. Ownership costs are both quantitative and qualitative. Examples of costs that are quantifiable include: energy usage, scheduled maintenance, repair, and financing (e.g., lease v. buy). Qualitative costs, although difficult to quantify, remain important considerations when making purchases. Examples of qualitative *costs* include: ease of use (is it a time saver), aesthetic (psychologically pleasing to the eye), and ergonomic (maximize productivity/reduced fatigue). The sum of both types of costs may exceed the initial purchase price and have a significant bearing on cash flow, profitability, and even employee morale and productivity. Understanding and minimizing these costs can have strategic significance. The supply management professional considers the following additional cost categories before making a significant purchase decision.

Downtime Costs Making a purchase decision based solely on purchase price may have long run implications depending on the reason for the lower price. A seller may discount a premium item to move excess inventory and to increase sales. It may also want to dump a troublesome product on an unsuspecting purchaser. A new entrant in the market may discount an unproven product in an effort to increase market share. Often the selling price is representative of the quality of the product – presumably, the higher the price, the higher the quality. Whatever the reason, the long run costs associated with a purchase may include non-value-added downtime. Costs associated with downtime include, for example:

- Reduced production volume and idle resources in a manufacturing environment due to unreliable and/or *inflexible* equipment, or direct materials that are substandard or mis-specified in the design stage
- Undelivered packages, unhappy customers, and high repair and maintenance costs in a delivery service because of a *great deal* on undependable vehicles, or
- A prolonged recovery period due to poor surgery and follow-up by a doctor who *cost a lot less*.

  Careful scrutiny of initial cost vis-à-vis reliability and dependability can reduce the cost of employing any resource or service.

Risk Costs Keeping extra inventory *just in case* can be a wise decision or a needlessly costly move. Weighing the risk of an inventory stock-out in a retail or manufacturing business against the opportunity cost of maintaining excess inventory is an important issue. Some costs of excess inventory include those associated with financing, reduced cash flow, lost interest on cash flow, obsolescence, theft, and additional floor space.

Consider risk costs, for example, when purchasing from new suppliers (issue: dependability - risk avoidance maneuver: multiple sourcing); using new materials, processes, and equipment in manufacturing (issues: reliability, flexibility, suitability – risk avoidance maneuver: parallel processing); hiring new employees (issue: adaptability – risk avoidance maneuver: additional training and backup personnel), or choosing legal representation (issue: expertise – risk avoidance maneuver: multiple representation).

Careful investigation and the development of appropriate sources of supply will reduce the inherent risk associated with the unknown, untried, and unproven. The appropriate place to begin is in the planning or acquisition stage where a risk assessment study should be conducted. Spending upfront to reduce risk is an investment in the long run efficiency and profitability of any firm.

Cycle Time Costs Whether decreasing a new product's time-to-market, or increasing the number of items produced in an hour (throughput), reducing cycle time can foment increased profitability and ROI via lower total costs. An organization that subscribes to the WCSM^{sm} vision and philosophy will apply the principles discussed throughout this text to shorten the time to complete all relevant purchasing and production activities. Practices that a supply management professional can employ that may have significant impact include implementing JIT materials management, forming strategic alliances with key suppliers, and establishing cross-functional alliances within the organization. The higher initial cost of establishing and implementing these goals will provide long run savings in the cost of direct material, direct labor, and manufacturing overhead. In addition, qualitative *savings* may accrue in the form of a smoother running, more *user-friendly* organization.

Conversion Costs Buying the wrong material whether in quality, form, or design can increase the cost of conversion (the application of direct labor and manufacturing overhead to direct materials to create a product or service). As discussed earlier, material not optimized for the production process can increase labor and overhead usage and thus, because throughput is decreased and the cost of maintaining the quality of the finished product is increased, the total cost of production. In addition, machine time, labor requirements, scrap, and rework may add to the unit cost. Spending too little time (and money) in the acquisition of materials may result in spending more time and money during production.

Other areas that affect conversion costs include production methods (e.g., assembly lines v. cells, labor-intensive v. automated production), employee training and working environment, and the methods of accounting for product costs, especially in the application of overhead costs to units of product. A well-informed and well-trained supply management professional may have the ability to influence decision-making in these areas when working in a cross-functional environment.

Non-Value Added Costs Non-value-added costs flourish in most businesses. It is estimated that some 40% of all costs add little or no value. Examples of non-value-added activities that add costs to a product or service include:

- Moving and stockpiling batches of direct materials and work-in-process inventory due to a poor factory layout
- Maintaining cumbersome operating procedures that duplicate efforts and steps for no apparent reason
- Routing daily service appointments in a random fashion rather than designing routes that minimize travel time

  Total quality management (TQM), activity-based costing (ABC) and activity-based management (ABM), are tools that help identify non-value added activities. Process reengineering is a more sweeping approach to change that focuses on simplification and elimination of wasted effort.

  Supply management professionals with a background in management, operations/manufacturing, finance, IT/systems, and logistics are qualified to make suggestions to suppliers (and suppliers' suppliers) that reduce non-value added costs. A successful strategy, when possible and cost effective, is to visit a supplier's manufacturing site and observe how production takes place. Careful scrutiny may reveal a number of non-value added costs that the supplier can reduce or eliminate, thus allowing for negotiations on lowering the supplier's price. Observing a service provider's processes, either on-site or at their place of operation, may reveal non-value added costs that, when eliminated, will provide savings to both parties.

Supply Chain Costs "If you process-map a supply chain and examine the material movement alone, such as the ins and outs of material flow from one organization to another, you will find many opportunities to eliminate waste."[7] Of course, waste adds unnecessary costs to purchased materials and services, as well as to logistics.

James E. Morehouse, a vice president for A. T. Kearney in Chicago asserts that extended enterprises are beginning to develop and will hasten improved efficiency and cost reductions along the supply chain. He believes that "organizations will be outsourcing transportation, purchasing operations, manufacturing, warehousing, order entry, and customer service…as a result, organizations will be more integrated with their suppliers and customers in order to manage the total supply chain from raw materials to the ultimate customer, the only source of revenue." Consider the interrelated areas below for developing better cost reduction strategies:

1. **Forecasting** – Improving customer demand forecasting and sharing the information downstream will allow more efficient scheduling and inventory management (logistics).
2. **Administration** – Implementing EDI within an organization and between members of the supply chain will facilitate communication, thus reducing purchasing time, paperwork, and errors.
3. **Transportation** – Streamlining material movement through the chain will reduce supply chain cycle time.
4. **Inventory** – Embracing a JIT-type philosophy will help reduce unnecessary stockpiling and movement of inventory, suppliers can share inventory type and level information.
5. **Manufacturing** – Improving capital budgeting procedures, and designing and developing manufacturing processes that provide quality, efficiency, and reliability will lower costs and improve quality.
6. **Customer service** – Listening to the customer will help identify supply chain inefficiencies and blockages.
7. **Supplier selection/relationships** – Determining the appropriate source of supply and type of relationship (transactional, collaborative, or strategic alliance) with each supplier will minimize administrative overhead and focus on the lowest cost at the required quality.
8. **Global sourcing** – Expanding sourcing internationally will provide cost savings and quality improvements by focusing on an international supplier's comparative advantage and utilizing EDI and available low cost transportation.

Well-trained supply management professionals armed with this knowledge and the World Class Supply Management[sm] philosophy and vision can bring fresh insight to the tables when developing TCO models, and in negotiations within the supply chain.

THREE: POST-OWNERSHIP COSTS

In the past, salvage value and disposal costs were the major inputs required when estimating post ownership costs of capital purchases. These costs could be estimated as cash inflows (e.g., sale of used plant and equipment), or outflows (e.g., demolition of an obsolete facility). For many purchases, there was an established market that provided data to help provide an estimate of reasonable future values (e.g., Kelly blue book for used automobiles). An appraiser of industrial equipment could help estimate the future worth of plant and equipment. Often companies made investments with *absolute certainty* of future appreciation, although estimating actual appreciation required more information than was available (e.g., property in a major metropolitan area). Today, supply management professionals must address these issues. In addition, three other factors with potential long-term impact must be addressed when performing a TCO analysis on equipment, a plant, direct materials, a product or service: long term environmental impact, unanticipated warranty and product liabilities, and the negative marketing implications of low customer satisfaction.

Environmental Costs Gasoline stations in California have faced the unplanned expenditure of replacing the underground gas storage tanks with more environmentally friendly models. They have also been required to sanitize the soil near the tank if leakage has occurred. This expenditure has cost many independent operators their businesses, devalued the property (if polluted and unsafe), and increased the margin required on each gallon of gas sold to help recover the expenditure. This type of post ownership cost is becoming more common as environmental problems persist.

Warranty Costs A poorly designed/produced product may have unanticipated warranty related costs. Tire tread difficulties that occurred between 1978 – 1980 and again in 2000 resulted in such a problem for Firestone. In 2000, General Electric, in cooperation with the Consumer Product Safety Commission, recalled selected dishwashers manufactured between April 1983 and January 1989 to rewire a defective slide switch (as an option, GE offered a rebate toward a new unit). After sale costs (replacements, returns, or allowances) can accrue to service providers (e.g., a carpet cleaning company whose poorly trained employee inadvertently uses a cleaning solution that fades the carpet fibers), and retail companies (e.g., department store that misrepresents a product capabilities). A well trained supply management professional participating in a cross-functional team in product or service design may point out potential warranty/recall costs early enough so that more emphasis is placed on designing and producing a defect free and reliable product or service.

Product Liability Costs Companies engaged in all types of business have faced unanticipated product liability costs due to poorly designed and/or produced products and services. Fuel tanks that explode on impact due to poor design; tire treads that separate due to poor design, inferior materials, and/or improper inflation by end users; faulty ignition switches that cause cars to stall at inopportune moments, ground beef with the *E.coli* bacillus due to improper processing; lawyers and accountants who have not performed their services according to professional standards; and retail outlets that sell defective merchandise. This list is long and the remedies usually require unanticipated out of pocket (*Deep Pocket*) expenditures, often not covered by insurance reimbursement.

Customer Dissatisfaction Costs Some 75% of field failures in consumer goods can be attributed to defects in purchased materials. Field failures lead to customer dissatisfaction. When a customer is unhappy with a product, he or she frequently shares this unhappiness with many friends and acquaintances, some of whom may be potential customers. This flow of negative publicity frequently results in lost sales or "customer dissatisfaction" costs.

From Dr. Burt's description (above), one can easily see that TCO is more complex than simple component cost analysis. But for strategic supply questions, it is essential to understand as the following case illustrates.

* *

Case Study #2: GM's Sad Saga of the Lordstown Cavalier and Sunbird

In the early 1990's, in an effort to reduce costs, General Motors redesigned and reengineered its plant and supplier relationships to produce the second generation of Sunbirds and Cavaliers – a model which had been extremely popular, contributing about $8 Billion in revenue over the model run. Proudly boasting that the new system would save GM $2 Billion in production costs, Chief of Procurement, Ignacio Lopez was anxious to prove his hard-handed dealing with suppliers would result in renewed profits for GM.

However, as indicated in the article below, Lopez had not understood the value of strategic alignments, integration, or Total Cost of Ownership.

What Has It Cost To Not Open On Time?

By Greg Gardner

Knight-Ridder Newspapers

If there is a model of how General-Motors is trying to make itself more competitive, Lordstown, Ohio, would appear to be it.

GM spent nearly $1 billion to gut and retool the plant to assemble two of its most important new cars – the redesigned '95 Chevrolet Cavalier and the Pontiac Sunfire.

The cars' design was simplified to require fewer parts and allow the assembly line to be shortened. Employees agreed to rotate shifts and were trained to work under a new system that empowers them to stop production any time they see a defect.

But two months after building the first '95 Cavalier, Lordstown is more a symbol of how far GM has yet to go.

The plant's building only about 50 cars a day. It was scheduled to build 4,400 cars in September. It assembled fewer than 900.

October's production schedule initially called for it to build more than 21,000 cars, a target Lordstown won't come close to meeting.

Engineers and other GM officials say everything from the new assembly line rules to late design changes and **untested suppliers** has contributed to the slow start.

Not only is Cavalier GM's best-selling car, it's the fourth best-selling car in America and the top-selling compact. Joseph Phillippi, a leading auto industry analyst for Lehman Bros., has called it "a monumentally important" car for GM.

When asked why Lordstown is stumbling, GM engineers and officials point to four factors:

1) Too many totally new suppliers who had never done business before with GM. When Jose Ignacio Lopez de Arriertua took over GM's purchasing business in May 1992, he rebid every parts contract in an effort to get cheaper components.

Last weekend, for example, one supplier of aluminum casters used in windshield wipers literally bailed out saying it couldn't meet the production schedule.

2) Too many late changes to the car's interior even though GM has repeatedly said it wants to break itself of this bad habit.

Cavalier and Sunfire planners initially wanted **Prince Corp**., the Holland, Mich.-based supplier, to coordinate interior development. When a similar approach on the 1992 Pontiac Grand Am, Oldsmobile Achieva and Buick Skylark proved more expensive than expected, **Prince was told GM would deal with each interior supplier separately.**

The Cavalier and Sunfire are GM's first cars to incorporate what the company calls a "design for manufacturing." They have 30 percent fewer parts than their '94 models they replace.

Figure 2 -- The Real Cost of Synchronicity and Integration

Dealer showrooms were filled with brochures, and customers began ordering the cars. However, GM was not able to fulfill the orders, buyers became disillusioned, and bought Hondas, Toyotas, and Fords instead. In the process of trying save $2 billion, GM lost $8 billion in future revenue streams and about 2 percentage points in market share.

* *

Cost or Value?

The GM Lordstown debacle is all too common among buyer-supplier relationships in every industry. The buyers are measured on “cost reduction” and therefore that’s where they focus their energy. But they miss the difference between cost and value. The following chart (Figure 2) helps illustrate the difference between Vendor Relationships, Preferred Suppliers, and Alliance Relationships that will go beyond component cost and beyond TCO.

	Vendor	Perferred Supplier	Innovation Alliance
Viewed As	Replaceable Commodity	Unique Specialty	Integrated, Customized Specialty
Level of Integration	Low/Not Integrated	Loosely Integrated	Highly Integrated or Inseparable
Number of Suppliers	Many Suppliers	Several Suppliers	Very Few Suppliers
Distinguishing Features	Mainly Price Driven within min. Quality Standards.	Price plus unique offering (i.e. technology, service, etc)	Synergistic Value Proposition (i.e. mutual growth, etc)
Style of Interaction	Tactical Transaction	Preferred and/or Tactical Relationship	Strategic Synergy
Duration of Term	Short Term	Medium Term	Long Term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, Cost, Quality, Reliability, Speed, Innovation, and more
Framework for Winning	Winning is essential for me, What happens to you is your business	A Win is essential for me, and I know I should let you win too if the relationship is to survive	A Win/Win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low Competitive Advantage	Moderate Competitive Advantage	High Competitive Advantage
Make, Buy, or Ally Decision	Seldom produced internally (not a core competency)	Often Produced Internally (debatable core competency)	Frequently has been an integral part of the internal value chain
Trust Level	Distrust Prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low Impact, Excellent Ability to Switch Vendors quickly	Moderate Impact	High Impact, Switching may have detrimental impact due to disintegration of systems
Strategic Environment	Cost Driven Low Product Differentiation TCO is non-critical Relationships not important	R&D is a Distinguish Value Applications Focus Provider of Performance	Discontinuous Change in Buyer's Industry Fast Time To Market is Essential Innovation & Integration Essential

Figure 3 -- Spectrum of Supplier Relationships

Strategic Alignments, Alliances and Beyond TCO

TCO is just the beginning of the revolution in supplier relationships that enables us to shift from win-lose to win-win to co-creation of value. When one shifts the paradigm further to a strategic alliance between the two companies, both parties are enabled to enter a strategic world where Total Value Analysis is considered. In a Total Value Analysis, TCO is just a part of the perspective.

Honda USA uses a Total Value Analysis approach with its suppliers. It chooses its suppliers because they are willing to take costs out of the entire system, not just by lowering component costs. Honda and their suppliers, together in an alliance, look to improve quality, accelerate design and delivery cycle times, make continuous improvements, improve quality, and make servicing more convenient. All these factors have a number of powerful impacts on the entire value chain, from supplier to manufacturer to dealer to customer. This approach lowers warranty costs, improves customer satisfaction and customer retention, which lowers sales costs, all of which improve profits.

According to Dave Nelson, former Senior Vice President of Procurement of Honda, who established the system:

> *"When we receive a suggestion from our suppliers, we split the savings 50/50. However, if a supplier is not making their profit numbers, we give them a larger percentage of the savings, sometimes up to 100%. It helps them out. We want strong partners, not weak ones. And when things are tough, we are like a family, we all tighten our belts, but we all stay profitable."*

Nelson states that TCO is "absolutely essential" as a measurement system in supplier alliances.

While such an approach may seem overly altruistic compared to the traditional approach to beating up supplier, Honda views their relationship with suppliers quite differently. Honda wants strong suppliers that are willing to make long-term commitments and investments to make Honda the best in terms of innovation, reliability, profitability, and long-term sustainability in the marketplace.

In Total Value Analysis a number of factors are considered in addition to TCO, each of which has an impact on competitive advantage, such as:

- Systems Integration
- Innovation
- Recruitment of Best People
- Flexibility/Adaptability
- Cross Functionality
- Elimination of Non-Value Added Work
- Continuous Improvements
- Continuous Cost Reductions
- Reduction of Labor Costs
- Improvement of Competitive Advantage
- Depth & Breadth of Experience
- Commitment to Best Practices
- Quality Upgrading
- Customer Service
- Teamwork
- Training
- Investment in R&D
- Reliability
- Integrity & Trust
- User Friendliness
- Information Sharing
- Speed Increases
- Customer Satisfaction

Seven Solution Sets

Making the shift from a component-based, transactional relationship to a systems-based strategic relationship takes more than words to accomplish. There are seven key processes – or "solution sets" designed to accomplish a Total Value Analysis:

1) Continuous Innovation
- Focus on Ultimate Customer's & Consumer's Strategic Needs
- Continuous Innovation and Co-Creation

2) Cycle Time Acceleration
- Integration & Co-Location
- Real Time Information
- Cycle Time Analysis

3) Value Chain Reengineering
- Value Mapping & Networking
- Interface Improvement

4) Systems Costing
- Total Cost of Ownership
- Target Costing
- Continuous Cost Improvement

5) Build Strategic Relationships
- Strategic Alignment
- Utilizing Best Practices & Processes in Alliance Architecture
- Shared Risks & Rewards
- Flexible Agreements
- Strategic Supplier Portfolio Management

6) Eliminate Non-Value Added Work

- Duplication & Needless Transaction Elimination
- Frictional Cost Analysis

7) Performance Measuring

- Hi Performance Standards
- Best Practice Benchmarking
- Realignment of Rewards

The new world is yours to create, and your collective futures all depend upon it.

Appendix 4

The Dirty Dozen Typical Tricks, Traps & Counter-Measures of Win-Lose Negotiations

Note: FLEXTRONICS Neither Endorses Nor Recommends these Tricks & Traps

The Dirty Dozen Typical Tricks, Traps & Counter-Measures of Win-Lose Negotiations

Note: FLEXTRONICS Neither Endorses Nor Recommends these Tricks & Traps

1. **Touch People**: Use your hands to touch their hands or some other part of their body. This makes people more attentive and draws them closer to you.
   Countermeasure: Keep your distance. Show displeasure if you are touched.

2. **Always tell them a Secret**, something they believe is special. People love to think they know something that no one else knows.
   Countermeasure: Tell them the secret has little strategic value, but you appreciate it; see if you can get them to tell you something of real importance.

3. **If you are negotiating against a team, it's you against them**. Focus on winning over one of the team; it creates internal dissention and a pressure for the others to join in.
   Countermeasure: Establish clear roles of skeptics and devils advocates to make the team division tactic useless and seem impotent.

4. **Use the weapon of intimidation; maneuver yourself into a psychologically advantageous physical position** when talking. The main factor is for your eyes to be higher than theirs, making them look up at you, subconsciously making them feel less defensive, more believing, and more attentive to your words.
   Countermeasure: Set the positions of the negotiations table first, hold the negotiations on your territory.

5. **Ask a series of trap questions** that the opponent will have to agree with (say 'yes' to), it puts them into a logical progression pattern that forces them to trap themselves every time. Build a "trap box" to surround the opponent with invincible and invisible walls, and when the time is right, close the final door to the "trap." At this point, they are sealed in, locked in, boxed in, and sold.
   Countermeasure: Don't say yes easily; throw them off-balance by answering a question with a question, or asking for further clarification.

6. **Good Cop/Bad Cop:** Have an unreasonable contract clause or lawyer who takes a tough stand to make the "good guy's" position seem quite reasonable.
   Countermeasure: Tell the other side you just witnessed an excellent (or awful) good cop/bad cop routine. It will put them off balance. Then counter with a small concession in return for a larger concession from them.

7. **Limited Authority** prevents someone present from making final decisions, thereby requiring higher authority from another entity, such as a lawyer, board of directors, or technical review.
   Countermeasure: Determine if this is true or a ploy. If true, ask that the right person be present at the table.

8. **Last and Final Offer** sets a standard for the other side to reach, or the deal will be killed.
   Countermeasure: Don't overreact; consider the walking out ploy, perhaps by feigning a need to caucus. Introduce new alternatives and other possible solutions.

9. **Nibbling** is typically used when the deal is close to being agreed, and one side asks for a few minor points just to gain a little more advantage before the end is in sight.
   Countermeasure: These are just concessions; follow the rules of concessions (above)

10. **Crunching** is an intimidation tactic that says, "You'll simply have to do better than that if you are serious in doing this deal," counting on pushing you to change your position.
    Countermeasure: Defend you position as firmly as possible; hold on to any concession you might make as long as possible.

11. **Humble & Helpless** indicates that you really don't know the industry nor the technology and are too new at the game to be knowledgeable, thereby getting the other side to be more giving.
    Countermeasure: Realize they may be dumb as a fox, play dumb like a fox asking for vital information in return; give out information in small increments, looking for signs of insincerity.

12. **Cherry Picking** puts one party in the position of buyer, treating the other side as a vendor. The buyer gets bids from several vendors, picking the lowest prices per item from bidders on a line-item basis.
    Countermeasure: Consider tying all items together and making the offer contingent on an all-or-nothing basis.

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[1] In executive seminars over the last four years we asked over 2000 senior managers all over the U.S. Canada, and Europe to graphically express what the impact was of the rate of change/speed/complexity was since 1970. The only difference among these 90% was the point of inflection where the curve changes direction radically. For those in very rapid change industries, such as high tech, the point was generally between 1986 and 1990. For those in slower changing businesses, such as petro-chemicals the point tended toward 1995-7.

[2] This rate of change was met with a concurrence rate of over 90% of those surveyed.

[3] In the slower moving world, the principal sources of competitive advantage were size, financial strength, ability to be a low cost producer, or marketing muscle.

[4] The primary reasons for the shift cited by executives were: computers, faxes, globalization, cell phones, then the internet, each compounding upon the other.

[5] Burt, Dobler, and Starling, World Class Supply Management, 7th & 8th Editions, McGraw, Hill, Irwin, 2003, 2008

[6] Ibid