

# THE JOURNAL

Issue 02



---

## **PROFESSOR DANIEL T. JONES**

Best-selling author and leading authority on Lean.

### **THE HAPPY MEDIUM**

Sometimes described as the “forgotten” sector, the medium-sized business is as tough to define as it is to target.

## **RECESSION AND REALITY**

By Tony Hughes  
CEO, Huthwaite International

### **THE POWER OF NEGOTIATION**

By Terry Waite, CBE

---

# FOREWORD

By Tony Hughes  
CEO Huthwaite International.



**The buzz words so far for 2008 have been 'credit crunch' and 'recession', a shaky start to the year that has instilled apprehension and caution throughout the business community.**

The continuing global credit squeeze has fuelled the scrutiny of every area of business for potential cost savings – some of which involve stripping out costs and others that focus on investment to realise efficiencies.

At Huthwaite, we believe that sales is a business philosophy, intrinsically linked with all business processes.

This, the second issue of the Huthwaite Journal, explores sales in a variety of different contexts and offers insight into how, in this turbulent business climate, sales performance improvement has the power to drive and sustain business growth.

Feedback from issue one was so positive that we've increased this issue from 12 to 16 pages, and invited even more guest writers to contribute. This edition of The Journal includes an article from the leading authority on Lean selling, Professor Daniel T. Jones, as well as

insight into effective negotiation from the lauded Middle East hostage negotiator, Terry Waite, CBE. We also feature an article on the 'M' element of the SME market from the former editor of Director magazine, Joanna Higgins, and thoughts on effective consultancy from the director of the Management Consultancies Association's Think Tank, Fiona Czerniawska.

**We very much hope that you'll enjoy this edition of the Huthwaite Journal. And if you feel the urge to put pen to paper on an interesting business topic, please do get in touch.**

**Above:**  
Tony Hughes  
CEO Huthwaite  
International

Living Sales®



At the time of going to press, it was announced that Huthwaite International are the proud winners of the prestigious Queen's Award for Enterprise: International Trade 2008. More to follow in the next edition.



# CONTENTS

Issue 02



**04-05**

## **LEAN SELLING**

By Professor Daniel T. Jones, Lean Enterprise Institute

**06-07**

## **THE HAPPY MEDIUM?**

By Joanna Higgins, Writer & Journalist

**12-13**

## **THE POWER OF NEGOTIATION**

By Terry Waite, CBE

**08-09**

## **RECESSION AND REALITY**

By Tony Hughes, CEO, Huthwaite International

**14-15**

## **THE ART OF THE REVERSE AUCTION**

By Andrew Moorhouse, Research Consultant, Huthwaite International

**10-11**

## **BUYING AND SELLING CONSULTING**

By Fiona Czerniawska, Director of Think Tank

**16**

## **NATURAL BORN COACH**

By Barry Hazelwood, Delivery Services Manager, Huthwaite International



# LEAN SELLING

Lean in sales, the wider business context and beyond.  
By best-selling author and leading authority on Lean,  
Professor Daniel T. Jones

Formed on the production lines at Toyota as a means of improving efficiency, Lean has evolved into a set of management principles, if not a philosophy. Lean permeates a broad spectrum of industries from software development to the public sector, and business functions from R&D to procurement. However, until now, Lean has not been applied to the disciplines of sales and business development despite, in the view of Steve Thurlow, Business Director for Manufacturing at Huthwaite International, the intuitive link between these disciplines and the principles of Lean. Namely, how to remove waste, continuously improve and add value.

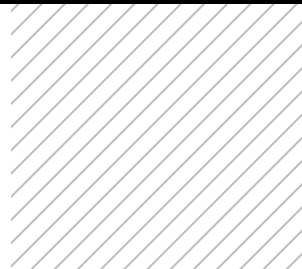
Many organisations are going Lean as well as green. Lean is a very different business system, pioneered by Toyota but now being taken up by leading firms like GE, Tesco and even the NHS.

The core insight of Lean is that while functions, careers and budgets are organised vertically, customer value on which every organisation depends, is created by horizontal processes, for which no one is responsible. Indeed few people in any organisation can see the whole sequence of steps a customer order goes through as it passes upstream to trigger many production and delivery steps. Everyone is focused on managing their bit of the process almost irrespective of the rest of the organisation. Toyota recognised the potential for eliminating all the

unnecessary steps, inventories and time in these hidden processes if they could be managed as an uninterrupted flow. Not only would it strip out lots of unnecessary costs but it would ensure that problems, delays and defects were surfaced and dealt with as they happened. This also makes it possible to trace the root causes to prevent them occurring time and time again.

The net result of streamlining these end-to-end processes is to dramatically cut the time involved and make it possible to respond much more quickly and accurately to customer demand.

Until end-to-end processes, which we call value streams, take maybe a few days rather than many months, and are able to hit every delivery on time and in full, there is little to





## **PROFESSOR DANIEL T. JONES** LEAN ENTERPRISE ACADEMY

Professor Daniel T. Jones, Chairman and founder of the Lean Enterprise Academy, is a management thought leader and adviser on applying Lean process thinking to every type of business across the world.

His influential, best-selling management books have triggered a worldwide movement of Lean practitioners, and the establishment of the Lean Global Network of Lean Institutes.

As a result, they have been the slowest function to wake up to the power of Lean.

Lean does not just relate to production and delivery processes, but equally to all the support activities in the office, from designing new products to hiring

services and knowledge about how to use them to solve their problems. Actually their focus is not on the products themselves but the use they get out of them over time, or their easy replenishment. Anything providers can do to help them assemble these solutions opens up new business opportunities.

## Lean offers the potential of saving customers time and hassle.

new employees or planning a new marketing campaign. So there is great potential for streamlining sales and marketing processes.

But this is just the beginning. Lean also changes the role of sales and marketing from finding customers for products made to forecast months ago, to building a dialogue with key customers to match the right products and services to go with them to customers' actual needs. This change in orientation from seeing customers as strangers doing deals, to partners who might share their plans with you to mutual benefit, is probably the hardest challenge.

We describe what pioneering organisations are already doing to make this change a reality in Lean solutions. For instance, transforming customer support helplines from embarrassing outsourced cost burdens to expert problem solvers, turning customer problems into new business opportunities. Or by simply calling customers ahead of time to diagnose the work to be done to enable them to streamline the car service and repair process into a while-you-wait service.

In a world where consumers have to make more choices and decisions about more things from a global supply base via the Internet, anything that saves them time and hassle becomes more attractive. Seen from the consumers' perspective, they spend a growing amount of their time managing increasingly complicated lives - sourcing and combining the right products,

Lean offers the potential of saving consumers time and hassle, and offering these complete solutions at no extra cost.

Tesco's Lean supply chain can replenish convenience stores at almost the same cost as its big supermarkets. Indeed, Tesco is building a whole new retailing operation in the USA around its Fresh and Easy convenience stores. Competitors like WalMart recognise this as a real threat as Tesco open three new stores a week.

So what begins as a focus on streamlining the processes that create value for customers that flow horizontally across the organisation and indeed across several organisations has far reaching implications. It makes us rethink all the processes in our department. It also makes us think about value from the customers' perspective. This in turn opens up new business models that can transform an industry in a way that competitors will find hard to follow.

The true significance of what Toyota has done is that it is a market disrupter in a mature industry. It has used its superior process capabilities to expand globally and to lead the industry in introducing new green technologies. Lean is not only good for customers, shareholders and employees but it is also good for society at large as well. Which is why Lean is a new business system and not just another management wave that will disappear in a few years time.

# THE HAPPY MEDIUM?

Sometimes described as the “forgotten” sector, the medium-sized business is as tough to define as it is to target.

By Joanna Higgins

**In this article Joanna Higgins explores the ‘M’ element of the SME market and identifies some of the unique growing pains that these companies experience. Joanna draws on insights from a range of opinions from the UK’s foremost business people in the medium-sized sector. It is clear that the shift to more strategic, process-driven sales is not always an easy transition to make. But being willing to review sales techniques and change the behaviour of the sales team provides the best opportunity to drive and sustain business growth.**

For some, the “mid-market” is any employer of 50 to 1,000 people; for investors such as LDC, it might be that group of companies needing between £2m and £100m equity. Officially, the government defines a medium-sized business as one with between 50 and 500 employees or turnover of between £10m and £50m — making them as different from each other as from other sectors.

But one thing everyone appears to agree on is that, in relation to age and stage, medium-sized companies face some of the greatest challenges business can throw out. Not surprisingly, mid-sized companies make up a tiny proportion of all UK employers, according to the BERR - Department for Business, Enterprise and Regulatory Reform, and generate proportionately less

turnover overall than their small or large counterparts.

As a target market, it could be viewed as the least worthwhile. Yet there are organisations that make mid-markets their speciality — investment and software, in particular. Perhaps it’s the Goldilocks story: medium-sized enterprises are “just right” in terms of their business development — they’ve established a management team, but are nimble enough to tweak the business for sale or IPO.

But the mid-sized sector does come with its own distinct set of challenges, many relating to the shift to more strategic sales. Once a company hits 40 or 50 people, it goes from “seat-of-the-pants, everyone selling and living

hand-to-mouth to something more sensible and grown up. It becomes more about process," says Beerat Entrepreneur author and FT columnist, Mike Southon. Mid-sized companies will look to formalise management roles and will start to see technology as an investment, rather than a cost. "Medium-sized organisations are more process-driven and they have to look at their accounts differently than when they were smaller. They will be looking more carefully at return on expenditure," says Karen Ancell, a director at Symantec software.

The change to the company culture can be huge, and diversification of products and markets throws up some skills issues, according to David Ewing, the COO of Scotland-based contact centre business TSC. A medium-sized business on the up, TSC was recently acquired by India's Hero Group, but continues to report separately. "Where we were once seen as a somewhat parochial organisation, we are now a global player," says Ewing. "We have to change our behaviours and review how we market and sell in order to work more globally." That may mean training sales people to "ensure they can talk at the right level and respond appropriately in terms of price and the model we want to present," adds Ewing.

Dr Kevin Wilson of the Isle of Man business school, alumnus of The Sale Research Forum calls this the "transition to professionalisation". As a company shifts to a more structured, process-driven, approach, it may alienate what Mike Southon calls the "star" sales

person—the maverick who may not take to being managed and asked to share knowledge or accounts. Some will enjoy the structured, creative approach to account management; others will struggle. (Southon's advice? "Let them go gracefully or work on changing their style.")

Competition also becomes a bigger issue for mid-sized companies. At this stage, the business may be at its most vulnerable, as larger rivals eye up their customers and capitalize on the fact that service has become less personalised and may be dipping a bit.

Allied to this is the need to identify and add value as a matter of course. The bonus is that, as markets turn volatile in response to the US credit crunch, companies that have a basis in value creation will be better placed to withstand a downturn.

The innovation and value, 'creation approach', again challenges the traditional perception of the sales person.

Says Wilson: "Willie Loman, if he ever existed, was a long time ago.

The sort of approach needed today doesn't necessarily fit with the traditional perception of sales people." In a medium-sized organisation, sales people become more like 'facilitators', adopting a more collaborative and team-based approach to add value.

Dawn Gibbins, the award-winning chairman of mid-sized floor manufacturer Flowcrete, asks all of her employees and partners to see themselves as brand ambassadors. She also recommends mixing up different disciplines so that people can think "all around" a customer's needs. Dr Wilson cites the example of delivery business DHL, which identified a big time-saver for its existing automotive industry customers by offering to assemble components for steering wheels in transit.

Says Wilson: "Organisations that have embedded value creation, that go above and beyond in the customers' minds, are those that move beyond procurement."

In today's economic climate, that's something companies of all sizes would do well to remember.

**Anything providers can do to help them assemble these solutions opens up new business opportunities.**



## **JOANNA HIGGINS** WRITER & JOURNALIST

Joanna Higgins has just become a freelance writer and editor, specialising in business. She was, until January 2008, the group editor of Director Publications, the Institute of Directors' publishing arm, launching its quarterly leisure title, *After Hours* and editing the flagship, *Director*, a monthly magazine for board-level business people that celebrated its 60th birthday last October.



# RECESSION AND REALITY

By Tony Hughes,  
CEO, Huthwaite International

**"We are enjoying sluggish times and not enjoying them very much"!**

**George H.W. Bush's famous quote of 1992, towards the end of his presidency, seems rather apt given today's current climate of financial volatility. There is much debate amongst financial and economic bigwigs as to exactly how tough it is, and whether we are indeed headed for a recession.**

There are a few definitions; the technical one – two consecutive quarters of negative growth. And then the one according to Ronald Reagan, who said, 'recession is when a neighbor loses his job. Depression is when you lose yours'.

Either way, everyone is in agreement that 2008 is going to be a tough and turbulent year, one that is actually softened by an Olympics as well as a presidential race.

Some are saying that 2009 could be even harder.

In conjunction with this economic 'clairvoyancy', and as per the tradition in a downturn, there is much talk of tightening belts, stripping out unnecessary costs and discretionary spending in order to weather the oncoming storm. Costs are cut first in areas of known waste; elaborate perks, lavish office parties and freewheeling budgets. Inventory also gets a review, as vendors are cast aside, then other

issues come into play under the guise of 'let's just not spend any money'. Travel budgets, entertainment costs, corporate hospitality and any outsourced contractors are either cut or eliminated. The last and final straw is to 'don the black cap' and walk into the sales department. Once 'streamlined', sales teams are often presented with a series of options to lift revenues; increase workloads, sell more for less, or 'up' the closing ratios. The first two present either physical exhaustion or abandoning value to embrace commodity, where there are ultimately no winners. And the third is easier said than done.

They say that the real test of a business is when economic times



are bad. In reality, it is perfectly understandable for a company to react in a negative way. It takes a brave one not to subscribe to a heavy dose of cost cutting, despite the logic that when times are bad, it makes sense to back the team in the business that is the revenue generator. Most importantly, it is vital that come a downturn, your sales people are as close to your customers as possible; the more complex the relationship and the more entwined your business is in theirs, the less chance you have of being cut.

In reality, this is just good business practice, whether we are in a recession or not. And here is the key - yes we may be headed for a downturn, but for the majority of businesses, will we really notice a fundamental difference from the highly competitive environment that we already operate in? Over the past few years, as globalisation has opened up new markets, every business has faced increased and more aggressive competition.

In response to this, there has been a shift; competition isn't based on company versus company, but supply chain versus supply chain. And the central player in this battle is the procurement department.

They are now entrenched in the buying process, not just for commodity-based industries, but across all major contracts, ones that would traditionally be

associated with high-value sales. Nothing it seems is escaping the hammer of procurement. This is exemplified by the increasing number of e-procurement and reverse auctions that we are now seeing for multi-million pound contracts of high value supplies. The market is most definitely shifting, and what is most telling is that procurement departments have been given the firm directive and free license to make all suppliers 'feel' like a commodity. In essence, they operate on a constant and permanent basis under the principles of recession.

There is no easy way to deal with this. Obviously if you are embedded into an organisation, you stand a chance of fighting off the commodity label. But it is not just about having a great relationship. As competition increases, recession or no recession, sales teams have to have the skill to build a value proposition that goes beyond what the product or service is. It's about having an in-depth understanding of a client's business and selling on the basis of driving positive change within the organisation that generates tangible results. Price will always be a factor, but this doesn't mean that the cheapest and lowest price will always win through.

Every organisation must be in the right quartile - you cannot price yourself out of the market - but even if you lower your prices, you still have to have the skills

to differentiate yourself, not just through your offering, but the way that you present it.

It is easy to be flippant about the prospects of recession, from the perspectives of both apathy and doom; one can over-react or not at all. There will inevitably be losers - that we can be sure of. But what we must not lose sight of is that those that win will not actually drastically change the way that they operate on a day-to-day basis. They will already have adopted the necessary skills that businesses need to both survive and succeed in an increasingly competitive, global market place.

**As globalisation has opened up new markets, every business has faced increased and more aggressive competition.**

Recession breeds fear, but as Franklin D. Roosevelt said "We must lay hold of the fact that economic laws are not made by nature. They are made by human beings". And he really knew what he was talking about when it comes to depression.



**TONY HUGHES**  
CEO, HUTHWAITE INTERNATIONAL



# BUYING AND SELLING CONSULTING: THE CASE FOR GREATER TRANSPARENCY

By Fiona Czerniawska

**In this article, Fiona Czerniawska argues the case for greater transparency when buying and selling consulting, an issue close to the heart of Huthwaite International, which prides itself on being judged on the results and performance of its consultative approach. Based on thought leadership that informs sustained behavioural change programmes, Huthwaite's approach has been honed over 30 years to ensure the transparent delivery of sales performance improvement for business.**

Richard Owen began his career with the consulting practice of Touche Ross Bailey and Smart in 1964, and went on to become chairman of what was by then Deloitte & Touche, in 1987.

There were none of the glass and steel palaces that consulting firms inhabit today: "My office was a rabbit-warren, shared with umpteen other people – the accounting firm had just doubled in size – I didn't even get my own desk." He was charged out for the princely sum of £200 per week, largely for carrying out work studies aimed at making post-war businesses more efficient.

He was very pleased with himself when he won his first assignment, only a few months after his transfer

to the consulting practice: it was for £1,500 which represented five weeks' work plus supervision. "It was a bit presumptuous of me really," he says. "I'd only been there a couple of months and, when an opportunity came up to do some more work for the client I'd been with, I sorted it out myself rather than bringing a partner in."

Marketing was unheard of: clients saw consultants as experts and it wasn't unheard of for them to ring up in the morning and ask the firm to send a consultant round in the afternoon. Indeed, it was quite common for businesses looking to use consultants to place adverts in newspapers. Invitations to tender were a rarity, especially in the private sector where even very

substantial pieces of work could be won on the nod from the chief executive.

It seems a world away from consulting today; shrinking demand and excess supply in the early years of the millennium shifted the balance of power to clients; many clients today are former consultants; procurement has been professionalised.

Indeed, recent research by the Management Consultancies Association shows that:

- 80% of organizations now monitor their use of consultants centrally
- 65% have a list of preferred suppliers or framework contracts with selected consulting firms
- 30% have a pre-specified budget for consulting, rather than bringing consultants in on an ad-hoc basis

The rise of the procurement function radically changes the relationship a consulting firm has with its clients. Consultants may well still be able to build effective personal relationships with a client once a piece of work has been won, but the process of winning the work is often managed by a specialist procurement team, effectively an intermediary between the client and the consultant. Relationships with procurement professionals are harder to build: the procurement manager's job is to remain impartial.

These changes may have brought greater discipline and lower fee-rates, but they're really only a band-aid over a rather more serious issue. The overriding problem is information – or the lack of it. All the big consulting firms say they can handle everything, but clients are reluctant to believe them.

Niche firms may have the specialist skills but how do you find them? Knowing which firms to short-list and when is a time-consuming and frustrating process. How do you know which firms have a track record in a specific area? How do you separate the marketing spin from the reality?

The consulting industry is a classic case of information asymmetry. Consulting firms know what services they're particularly good at, but clients don't. Clients know what they're looking for but they don't always articulate that clearly to the consultants. And the theory of asymmetric information tells us that, if buyers can't make informed and knowledgeable choices, then they'll be unwilling to pay premium rates. That in turn means that consulting firms have no economic incentive to invest in innovation or any of the other trappings of good service because they won't get paid for it. Ultimately, the bad drives out the good.

The first is a consulting firm's track record. It's better to short-list a firm on the basis of its work than its marketing literature, so case studies are important. Consulting firms have got better at producing them, but clients could help themselves by producing them too. Next is the consulting firm's thinking. Thought leadership often isn't what it claims to be but, at its best, it demonstrates that a firm is prepared to commit resources to developing its opinions about a given subject. However, case studies and thought leadership tend to focus on the technical, rational side of consulting and often the real difference between firms comes down to their culture and values, and the way in which these manifest themselves in terms of the working relationships they have with their clients. Clients could and should focus more on the questions they ask of consulting firms on such issues. They should also – and here's the fourth and final aspect of transparency – bring the consultants

**All the big consulting firms say they can handle everything, but clients are reluctant to believe them.**

So how do we stop this happening? If consultants provide a valuable service to clients (and there's plenty of evidence to suggest they do), can we ensure that the industry doesn't get trapped into a cycle of low prices and investment? It's tempting to say that transparency is the answer, but that isn't specific enough. In fact, transparency comes in four quite distinct forms.

they're thinking about hiring in for a day's workshop, giving them practical problems to solve, sometimes in conjunction with a client's own staff. Actions, after all, speak louder than words.

Such initiatives will never drive out poorer quality consulting immediately, but they will increase substantially the chances of the consulting project being a success.



## **FIONA CZERNIAWSKA** WRITER & JOURNALIST

Fiona Czerniawska is the Director of the Management Consultancies Association's Think Tank. She's also a founder of a new website which aims to increase the transparency of the consulting industry - [www.sourceforconsulting.com](http://www.sourceforconsulting.com)



# EXPLORING THE POWER OF NEGOTIATION

By Terry Waite, CBE

In this article, Terry Waite, CBE, renowned for negotiating the release of hostages in the Middle East, explores the power of negotiation and identifies some core foundations for effective negotiation including credibility, reputation, trust, honesty, patience and risk calculation. Different circumstances require different behaviours, and while a life and death situation could never be compared to a business exchange, there are parallels that can be drawn. One common goal in both of these situations is for both parties to 'save face' – securing an effective resolution that does not leave the other party humiliated. Effective negotiation ensures that both parties walk away with their dignity intact and feel that they have been engaged in a win/win situation.

Situations that require negotiating skills vary considerably; from the exchange that takes place when a particular deal or contract is in the offing, to a situation where passions run high. One of the most difficult situations is the one facing the individual who is engaged in the task of negotiating for the release of hostages. It is this that I shall comment on and all examples used are drawn from personal experiences.

In working, as I have, for the release of hostages in Iran, Libya and Beirut, it was important to have credibility as a negotiator. In all three situations, credibility came from a combination of two factors.

Firstly, that I was acting as a representative of an internationally recognized religious leader, the Archbishop of Canterbury.

Even though I was working in situations that were predominately Islamic, and in some instances, at the extreme edge of Islam, nevertheless there was a respect for this fact. A second factor that increased as time went by was recognition of my reputation for just and fair dealing.

The first obstacle was to determine whom to contact and how. I needed to be able to speak directly with those individuals who had direct influence over the fate of the captives, and more often than not, this meant speaking with those who had actually kidnapped the victims. Immediately one can see that this is a difficult and dangerous strategy, as one would be dealing with people who are highly suspicious, extremely volatile and liable to kidnap or kill the negotiator should their suspicions be aroused unduly.



## **TERRY WAITE, CBE**

As envoy to the Archbishop of Canterbury, Terry Waite successfully negotiated the release of hostages in Iran and Libya during the 1980s. In 1987, while negotiating the release of hostages in Beirut, Waite was himself taken hostage and held in captivity for 1,763 days. Following his release in 1991, Waite decided on a career change and now writes, lectures and devotes more than half his time to humanitarian activities.

In normal negotiating situations, a face-to-face meeting is desirable in order for a trusting relationship to develop. An effective negotiator must have the ability to build trust quickly. In the three situations mentioned, I went to meet kidnappers totally alone without bodyguards, weapons or tracking devices. The fact that I was vulnerable was proof to the kidnappers of my good intent.

Effective negotiators will be aware of non-verbal factors in the communication process. On several occasions, I had to meet and discuss with kidnappers whilst blindfolded and I found this to be a distinct handicap.

Negotiators working in many countries outside the UK will recognise the importance of social interaction before coming to the main reason for the meeting.

The resources available to me did not allow me the luxury of a de-briefing team but looking back on those days, I would regard such a team as being a necessity and not an extravagance. One needed to be able to check ones reactions and insights, as well as constantly reviewing the strategy being deployed.

There is a role for intuition in negotiating, but one would be extremely foolish to rely on intuition alone.

The ability to form a personal and trusting relationship is vital in so many negotiating processes. In Iran, I was able to form a genuine friendship with one of the Revolutionary Guards who eventually enabled me to bring home several British hostages and free some Iranians. I went to his home, listened to the troubles that had afflicted his family across the

**Effective negotiation ensures that both parties walk away with their dignity intact.**

On one alarming occasion in Beirut, I almost ruined the encounter with kidnappers by asking them a question. The Americans had asked me to enquire what their demands were and if money was included, which I asked early during my first meeting with the kidnappers. There was a violent reaction from the abductors: "The Americans know very well it is not money we want" they shouted. It took all the skill I could command to calm them and to get the process back on track.

Patience is vital throughout negotiations. In the three places mentioned, I was required to wait for weeks, sometimes for months, before getting to the next step. Waiting to be contacted by kidnappers in Beirut was difficult. The country was in the midst of civil war and Westerners were disappearing from the streets with alarming regularity. I waited alone in my apartment for contact to be made in some way.

years and showed a genuine interest in his situation.

Although effective negotiators will calculate risk and take risks, one cannot live in a risk-free environment. I was eventually captured in Beirut because I fell victim to political duplicity and lost the trust of the kidnappers. Had I not been able to gradually regain that trust during my five years of incarceration, four of which were in solitary confinement, then I doubt that I would be writing this article today.

Having written the above, I of course recognise that hostage taking has become more ruthless today and the situation is even more extreme than it was when I was active in the field. I would argue that some of the policies followed by the West have encouraged extremism and demonstrate an abject failure of understanding. But that subject is for another article.

# THE ART OF THE REVERSE AUCTION

Andrew Moorhouse  
Research Consultant, Huthwaite International

**The transformation of procurement from a humble back-office function to a front-line strategic weapon has had a dramatic impact on the buyer/seller landscape, changing it irrevocably.**

In the battle to improve bottom-line cost savings, global organisations have made huge investments in equipping their procurement departments with advanced sourcing tools and processes.

Above all technological developments, the introduction of the reverse auction significantly strengthened their power in managing - and controlling - the sales process. Procurement departments have embraced this tool to varying degrees, but with the auction capability in the Fortune 500 approaching 100%<sup>1</sup>, it is clearly a business practice that is here to stay.

However, selling organisations struggle to see the benefits of participation. The common perception is that reverse auctions commoditise their offering, destroy established relationships and focus single-mindedly on price. And who can be surprised with this mindset, when the vice president of supplier management in a Fortune 10 technology firm publicly observed: "There is no reason suppliers should like reverse auctions.

It is a tool that is designed to transfer margins from them to me."

Increasingly, no product or service seems exempt from the reach of the reverse auction. Having exhausted the easy opportunities in sourcing commodities, procurement managers are now reverse auctioning complex services and difficult supply markets. Indeed, after successfully auctioning a £350 million legal services contract, the procurement director of a leading financial firm stated: "If it can be invoiced, it can be reverse auctioned."

In response, in the face of this onslaught, there has been no parallel development of a 'best practice' approach. Unsure how to respond, many selling organisations adopt a simple binary stance: follow the process or walk away. But with the average auction contract valued at \$2.2 million<sup>2</sup>, is bidding blind or refusing to play an effective strategy?

To develop a framework for operating in this new and more sophisticated procurement environment, Huthwaite International conducted a global study that determined the strategies used by leading selling organisations to successfully combat the impact of reverse auctions. It also identified five common traps that inexperienced sellers fall into.

One insight uncovered by the study is that incumbent suppliers greatly enhance their chances of success by not following procurement's rules slavishly. Rather than refusing to play, they simply treat the online event as a vehicle for submitting a 'best and final' offer.

In addition, contrary to common perception, the research showed that the "lowest bidder wins" rule was applied in less than 17% of auction events. Therefore securing the first place position will not guarantee success. But here lies the real issue: to maximise bidding competition, procurement has conditioned suppliers into believing they have to be the cheapest to win. Counter-intuitively, the research also found that there is no significant correlation between time spent preparing for an auction and success rates. Critically however, the average time spent planning a bidding strategy by successful bidders was 9.2 hours - three times that of their unsuccessful counterparts.

Finally, however good the planning, it's important not to get caught up in the frenzy of a bidding war. The bottom line, both literally and metaphorically, is that no deal is better than a bad deal. Thus in reverse auctions, as elsewhere in life, the key to success is in knowing the rules and how to play the game.

**To learn how successful selling organisations are planning for auctions or to organise an in-company presentation of the research, please contact your Huthwaite account manager.**

**You can also contact Huthwaite's consultant, Andrew Moorhouse, who conducted the research on: + 44 (0) 1709 521 213 or amoorhouse@huthwaite.co.uk**

<sup>1</sup> Source: Aberdeen Research (2007).

<sup>2</sup> Source: Center For Advanced Purchasing Studies (2007).



## DIARY DATES

### NATIONAL CUSTOMER SERVICE AWARDS

Entries close 15 May 2008

### SAMA'S 44TH ANNUAL CONFERENCE

Dallas, Texas, May 18-21 2008

### NATIONAL BUSINESS AWARDS

Now open for entries

### CIPD ANNUAL CONFERENCE

16-18 September 2008

## HUTHWAITE OPEN COURSES

### SPIN® MARKETING WORKSHOP

London, 18-19 June 2008

### ACCOUNT STRATEGY FOR MAJOR SALES

London, 8-11 July 2008

### SPIN® SELLING

London, 15-17 July 2008

Chester, 9-11 September 2008

### NEGOTIATION: BEHAVIOURAL MASTERCLASS

London, 9-12 September 2008

## BITE-SIZED

### Sales Secrets

Unfortunately there's no magical formula to sales success - the secret is less 'Indiana Jones' than that. It's simply time. Spending time exploring and developing customer needs is the secret to successful sales.

Research into effective selling shows that thorough exploration of customer needs early in the sales cycle is the greatest guarantee for a successful sale.

No other area of activity produces such a significant increase in results, which is why it's the first area to address when clients ask to help improve salesforce productivity.

Developing needs effectively makes the biggest single contribution to sales success.

### Team Talk

Too often, the sales person is seen as the gregarious maverick that goes out into the business world alone each morning, ensnares every prospect with his or her magnetic personality, and then comes home at the end of the day with a briefcase full of completed deals for the dinner table.

But successful selling is not the job of a lone individual. The salesperson needs to act as a team player, coordinating all the other departments within the organisation to support the sales effort.

Many salespeople reveal that getting internal support can be even harder than negotiating with the customer! Some people experience difficulty in expressing their own views in internal meetings, and have even greater difficulty in getting them accepted. Clearly, excellent selling skills alone aren't enough to guarantee success when others' help is needed to clinch the deal. Honing team working and meeting skills will ensure that sales people are even better equipped to bring home the bacon.

For further information or more dates and locations contact  
+44 (0)1709 521241 / [open@huthwaite.co.uk](mailto:open@huthwaite.co.uk)

**Most sales managers would agree that coaching is an integral element of their job, but many worry that they're not very good at it. However, everyone has natural coaching abilities. Think about what we do when we teach a child to ride a bike. It illustrates every aspect of superb coaching.**

**Motivation in equal measure:**

Before even sitting on the bike, the child is highly motivated to master it – a whole new and exciting world of mobility and fun beckons. And are we equally motivated? Of course we are, who's not keen to see their child learn new life skills? At work though, that shared motivation is not always as clear.

**Being there:** Learners usually have a misplaced perception of the task. Seeing others riding round effortlessly, our child thinks it is going to be easy. That's why this initial phase of the learning process is called 'unconscious incompetence'. But we know the difficulties ahead and we don't leave them to find out on their own. We make sure we're there! We recognise that this is a critical point in the process of growing up that is potentially rewarding, but involves risk. In sales coaching too there is no substitute for managers 'being there' – accompanying their sellers to observe their sales skills. Results by themselves are too crude to inform coaching.

**Tough love:** Of course, the process always starts with a few tumbles and tears, often literally a 'concrete

learning experience'! This immediately moves the child into the next phase, 'conscious incompetence'. Motivation plummets. Despite being loving and caring parents, we dust our children down and put them back on the bike – in line for more of the same. We don't allow them to quit. How often at work do we let our people off the hook at the first failed attempt? A crucial role for the sales manager is 'putting them back on the bike' and not allowing them to give up and go back to old bad habits.

**Parallel running:** It's common to see a parent running, holding the back of the saddle. Intuitively, we recognise that for the learner to progress to 'conscious competence', they need tangible help and support. We also know that confidence is key to success and we are even prepared to be just a little devious (i.e. letting go of the saddle) to get it. At work, there is little evidence of parallel running, yet intervention at this key period can make all the difference. Timing your coaching effort is as important as its content.

**Instant reward:** We do the single most skilful act in coaching instinctively. As soon as the child manages to pedal unaided, we congratulate them; we don't wait for the next 6-month appraisal or send an email. Recognition instantly follows performance.

**Removing obstacles:** Next comes 'conscious competence'. The child can propel the bike, but only with a lot of conscious thought. We recognise that our job is to allow the

child as much room as necessary to develop their skills. By clearing obstacles, we ensure maximum concentration on the sole task of piloting the bike. In work this can be done by managers negotiating with other parts of the organisation to ensure policies, procedures and the efforts of other functions are aligned with the sales operation.

**We've only just started:** Finally, the child reaches 'unconscious competence', able to ride automatically. However, we know that our coach's job is not done. There are the associated tasks of helping the child apply these new skills in more hostile environments, like traffic for instance. For these, we know that we're back in the box marked 'unconscious incompetence'!

We shouldn't abandon our sellers either, just because they are clearly more skilful now – after all, riding a bike like most things, is only easy when you know how!

# NATURAL BORN COACHES

By Barry Hazelwood  
Delivery Services Manager, Huthwaite International

Whatever your thoughts,  
please share them with us:  
[info@huthwaite.co.uk](mailto:info@huthwaite.co.uk) or on  
+44 (0) 1709 710081.