

bdp Mechanical Components Deutschland GmbH

German quality standard and global sourcing



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5 tips for successfully communicating and negotiating with Chinese suppliers



We are ISO 9001:2015 certified, many of our producers are also IATF 16949 certified.

If you are a buyer negotiating with suppliers, you should not only listen carefully and ask smart questions but also make sure that you do not talk too much. Remember that the primary goal of all negotiations is to get more.

Local German SMEs, for example, prefer to take the form of a multinational by buying directly from Chinese suppliers and integrating Chinese suppliers into their own business. International buyers generally consider "cultural differences" and "cross-cultural communication" as one of the main barriers to international sourcing. In the following article, we share five tips from our negotiation experience with you.

1. Do not negotiate mutual positions, but mutual interests

When negotiating with suppliers, you should first distinguish between the positions and interests of both parties. For good buyers, it is more about the interests below the surface.

Example: After successfully delivering a sample, the supplier suddenly requests a price increase before mass production.

The position of the supplier: price increase

The customer's position: no price increase, purchase at the original price according to the offer

Regarding the question of "price increase or no price increase", both sides are at an impasse, and the most common sentence you can hear is: "Sorry, that's our position! We cannot compromise!" The negotiations have reached an impasse. How should the buyer skilfully negotiate at this point to protect the interests of both sides?

First of all, we should clarify what exactly "topic", "positions" and "interest" are.

The "topic" is the matter to be discussed directly by both parties during the negotiation;

The "positions" are the respective ideas and views of the parties on the "issue";

The "interest" is what is most important to each party in the negotiation.

In the case of this example, which is about how components can be produced smoothly in series production, the supplier's position is to raise the price, but what is his interest? "Overinvestment in R&D hurts profits". The reason for this statement from the supplier is that "the scrap rate in the R&D phase was too high, the product is difficult, the process is unstable, there is no confidence in serial production, and he fears that more money will be lost in serial production". "To balance the material and labor costs invested in R&D and to compensate for the manufacturing costs in series production" is in the interest of the supplier. Apart from the "price increase" position, what other ideas can we discuss together to achieve this benefit?

For example, if he is a supplier who is performing particularly well and if he is difficult to replace, consider the following:

- 1) Short-term win-win situation: help the supplier solve the immediate problem so that the customer's supply requirements are met;
- 2) After mass production has stabilized, you can compensate the supplier for the initial losses by an

- "annual increase" (provided, of course, that the supplier can provide relevant documentation and data);
- 3) Cancellation of the x% annual price reduction for the next two years; or
 - 4) If the supplier ensures quality, quantity, and timely delivery, you can also return x% to the supplier monthly or quarterly as a reward.
 - 5) Long-term win-win situation: Continuous improvement of the supplier's learning, R&D, technical, production, and service ability to achieve the goal of lean production and continuous cost reduction.

Indeed, there are many aspects ("positions") that both sides can discuss, so there is no need to settle on a single "price increase vs. no price increase" aspect and let the negotiation deadlock.

In summary, first of all, listen to the "position" of the other party, do not be hasty in arguing, but try to understand the "position" of the other party, what "interests" are most important to them, and what "interests" can you achieve together? Find them!

2. The Gathering Hook Method

Assuming there are 1, 2, 3, 4, and 5 points in the negotiation, try combining multiple points together rather than negotiating them individually. For example, when negotiating a contract, you can negotiate 1st price, 3rd payment, and 5th delivery together, increasing your bargaining power. Suppose you want the payment term after 30 or 50 days after delivery, then we can negotiate with the supplier as follows: If the supplier can deliver on time next year and the quality, quantity, and customer complaints are within a reasonable range, we can pay after 30 days of delivery; if not, the payment period for the following year shall be changed to 50 days after delivery; or if you pay on time each month and the payment is not delayed by more than a week, the supplier shall accept an annual price reduction of x%. The "gathering hook method" increases the scope for both parties to exchange benefits and thus reach a consensus, and the probability that an agreement will be negotiated is high.

3. Negotiation

Before you negotiate, you need to know and understand the product, e.g., the price of raw and auxiliary materials, the proportion of materials in the unit price of the product, the production process of workers, machines, and equipment, test and measurement equipment, fixtures, the material and the performance characteristics of the product, the day-to-day productivity, the scrap rate, what problems would arise if the supplier did not pay attention to every process and check, and the cost of every manufacturing chain. If you are familiar with all these points, you can make a reasonable counteroffer.

4. Discuss annual price reductions with suppliers

When talking to suppliers about annual price reductions, you don't have to open up directly. Still, you could go like this: Our customer recently got in touch and said that other suppliers reduced their prices, which are much lower than last year. The client is, thus, asking us for the latest prices for next year. I've been looking at the current price trends for raw materials and supplies, and they've indeed come down a bit over the last three months. Do you want to double-check the prices, and I will quote them to the

customer? Then, if the customer happens to place an order for the next year, we will try to take the order for the whole year. If you put it that way, the supplier may agree to lower the price.

It's important to remember that even the most seasoned of buyers can feel uncomfortable talking about annual price reductions. The only difference is that an experienced buyer knows how to control those feelings and doesn't let them shine through.

5. The impact of cultural differences on negotiation

Culture not only has a major impact on how we think, communicate, speak and act but also on how we negotiate. When dealing directly with a Chinese supplier from, e.g., Germany, you need to be prepared for the challenges of cultural differences and language misunderstandings to avoid unexpected costs due to misunderstandings. Because regardless of how skillful and experienced you are in negotiating in your home country, misunderstandings can arise and even have a direct impact on the outcome of the negotiation if you talk to your counterpart (in China) in the same way and with the same logic as if introducing a domestic counterpart to your negotiation and try to find out what the other side is saying.

Chinese people often say business is like a battlefield and apply the tactics of Sun Tzu's "The Art of War" tactics to negotiations. Shaped by Confucianism, the people in China like to save face and, in general, do not like a particularly aggressive, direct, and harsh negotiation style. People in China are influenced by "high-context culture". When expressing an opinion that differs from that of the other party, they rarely openly disagree with the other party but rather express themselves indirectly and euphemistically, remain silent, or otherwise reject the other party's opinion. They are not usually domineering when negotiating, but they often won't budge on issues of principle and prefer a flexible approach to certain topics.

In contrast to the people in China, people in Germany are often characterized by a "low-context culture". People prefer to avoid beating around the bush to express their views. Instead, people like to be straight to the point and flatly reject the Chinese counterpart's point of view, which can make the Chinese side feel like they have lost face.

Many Chinese people are humble, subtle, and patient in this regard. When you fly to China to negotiate, don't be keen on getting straight to the point, but be patient to get to know and understand the other party – "make friends before doing business". First, try to build a reliable relationship.

In summary, you must prepare well before a negotiation to achieve a desired goal. One should understand the opponent's background, personality, and negotiating style before deciding how to communicate and deal with them. In cross-cultural negotiations, you not only need to prepare the content of the negotiation carefully but also understand the cultural customs, work habits, and business practices of the other party. This way, you can develop a negotiation strategy and avoid breaking taboos.

If you have any further questions on the subject of intercultural negotiation and procurement, please contact sales@bdp-mc.com. Our bdp Mechanical Components team will be happy to advise and support you.



Fang Fang
COO of bdp Mechanical Components/Partner at bdp China

Fang Fang has more than 13 years of experience in German manufacturing companies and management consultancies and has been involved in the operation and management of dozens of Chinese-German projects. In 2013 she became part of the bdp group, responsible for sales and business development at the consulting company. 2018 she became a partner at bdp China. Since 2019, Fang Fang has also acted as COO of bdp MC and is responsible for purchasing, sales, and project management. Her technical expertise includes corporate strategy and implementation, organizational design and process optimization, procurement and supplier management, sales and service, employee development, and building corporate culture.

About bdp Mechanical Components

Founded in 1982, today's bdp Mechanical Components is headquartered in Berlin and has 14 other offices in Germany, China, Poland, Spain, Bulgaria, and Switzerland. bdp Mechanical Components is a specialized provider in the field of international sourcing of castings and forgings for customers who do not have a detailed overview of the most suitable suppliers for their products, especially in Asia (China), Turkey and Eastern Europe. And of course, also for customers who cannot accompany corresponding project start-ups closely on site with the suppliers and monitor the ongoing production.

For more professional advice, please follow us on WeChat: public number bdp-Group-1992, or scan the QR code below to follow us.



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