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NEGOTIATING WITH LEVERAGE SUPPLIERS

Maximize Savings Without Overplaying Your Hand

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Executive Summary

Most procurement leaders know they have negotiating power in certain categories, multiple qualified suppliers, reasonable alternatives, no single-source dependency. Yet when those categories are actually negotiated, the realized savings rarely reflect the opportunity that exists.

Leverage items are high value with low supply risk, and they are the most underutilized source of procurement value in most organizations. The competition already exists; what is usually missing is the process discipline to convert it into price.

This whitepaper is the second in a four-part series on negotiating across the Kraljic categories. It combines procurEngine's own field experience with independent research on competitive sourcing, total cost of ownership, and demand aggregation to set out an eight-step strategy for leverage spend. The other guides in the series are:

Strategic Items: Negotiating with Strategic Suppliers: Protect Your Position Without Damaging the Relationship

Bottleneck Items: Negotiating with Bottleneck Suppliers: Secure Supply Without Giving Away Control

Routine Items: Negotiating with Routine Suppliers: Cut Costs and Complexity at the Same Time

What you will take away

- Leverage categories underperform because of process discipline, not market conditions: the competition already exists.
- Consolidating and standardizing demand is what creates volume genuinely worth competing for.
- A strong supplier pool needs active, regularly engaged alternatives, not a longer list of approved names.
- Competitive bidding only produces a real price signal when every supplier is quoting against the same scope and criteria.
- Total cost, not unit price, is the right award basis and it often changes who actually wins.
- Volume commitments are a legitimate lever, but they work best offered deliberately, not given away by default.
- Keeping backup suppliers genuinely active is what keeps a leverage position intact over time.
- Speed to award is itself a lever: a slow, drawn-out close erodes the very price advantage the sourcing event just won.

Who This Guide Is For

This guide is written for the people responsible for turning existing negotiating power into realized savings, and for the stakeholders who expect to see that value show up:

- Category managers and buyers running sourcing events for high-value, competitively supplied categories.
- Procurement leaders who suspect their leverage categories are underperforming relative to the competition that genuinely exists in the market.
- Finance stakeholders who want realized savings, not just negotiated savings, to show up in the numbers.
- Anyone who has run a competitive bid and still felt they left value on the table.

Introduction

Most procurement leaders know they have negotiating power in certain categories. They can feel it: multiple suppliers, reasonable alternatives, no single-source dependency. The conditions are right. Yet when you look at how those same categories are actually being negotiated, the savings rarely reflect the opportunity.

Leverage items are the most underutilized source of procurement value in most mid-sized companies, and the reason is almost never a lack of power. It is a lack of structure.

If categories have not been structured yet, the Kraljic Matrix is a useful starting point for grouping spend by value and supply risk before applying the approach in this guide.

Now let us get into leverage items, where the power and the opportunity already exist. The only question is whether that power is being converted into real savings.

Understanding the Kraljic Matrix

The Kraljic Matrix was introduced by Peter Kraljic, then a director at McKinsey & Company, in a 1983 Harvard Business Review article titled “Purchasing Must Become Supply Management.” It segments purchase categories along two dimensions, profit impact (or value) and supply risk, into four quadrants. Where a category sits determines how much negotiation effort it deserves and what kind of supplier relationship is appropriate.

Leverage items are categories with high business impact but low supply risk, significant spend where multiple qualified suppliers exist and switching from one to another is relatively straightforward. That combination gives a natural, meaningful advantage in negotiation. The only question is whether that advantage is actually being used.

Key Characteristics of Leverage Items

These patterns typically show up in leverage categories:

- Many capable suppliers are available in the market.
- Specifications are fairly standard or comparable across suppliers.
- Switching suppliers is feasible without major operational disruption.
- Spend value is significant enough to attract genuine supplier interest.
- Suppliers are willing to compete actively for the business.

This is the ideal situation for procurement to be in. But many teams do not fully use the advantage it hands them.

Why This Deserves Attention: What the Research Shows

The case for tightening process discipline in leverage categories is not just internal experience. It shows up consistently across independent procurement research.

- Research compiled by the Hackett Group found that eAuctions can deliver 15% to 20% more savings than traditional bidding methods, and that Digital World Class procurement organizations use eAuctions roughly seven times more often than typical organizations.

- The Institute for Supply Management notes that most large firms already evaluate suppliers on cost elements beyond unit price. Yet research finds companies differ widely in exactly which cost components they include, which is often where an inferior bid on price alone slips through.
- Analysis of spend visibility initiatives finds that organizations typically uncover 10% to 15% in immediate savings opportunities simply by consolidating fragmented, previously invisible volumes before any negotiation has even taken place.
- Sourcing cycle time research finds that realized savings often erode not at the negotiation table but in the gap between the sourcing event and contract award, as prices shift, capacities change, and internal approvals stall.

Each of these findings reinforces the same conclusion: in leverage categories, the ceiling on savings is set by the market, but the floor is set by process discipline.

Redefining the Objective

With leverage items, the objective is clear: maximize value using competition that already exists. This is not about pushing prices down blindly. A well-executed strategy for leverage items achieves better pricing, better service, and better terms without damaging supplier interest. Done right, suppliers compete for the business. Done poorly, they walk away or quietly reduce commitment.

Dimension	Strategic categories	Leverage categories
Primary goal	Best possible long-term partnership outcome	Maximize savings from existing competition
Negotiation focus	Joint planning, risk-sharing, relationship depth	Structured, comparable competitive bidding
Supplier pool	Deliberately narrow and deeply managed	Actively competing pool of 3–5 qualified suppliers
Award basis	Value creation over the relationship's life	Total cost of ownership, not unit price alone
Where value comes from	Trust and long-term collaboration	Consolidation, comparability, and speed to close

Here is a simple and practical approach that can be implemented without external consultants that convert existing leverage into realized savings.

Step 1: Consolidate and Standardize Your Demand

Before going to the market, clean up internally.

- Combine fragmented demand across plants or departments
- Standardize specifications as much as possible
- Remove unnecessary variations

This increases your negotiation power immediately. Larger and clearer demand attracts better competition.

Step 2: Create a Strong Supplier Pool

Do not depend on your existing vendors alone.

- Identify multiple qualified suppliers
- Pre qualify them on technical and commercial parameters
- Ensure at least 3 to 5 serious participants

The strength of your negotiation depends on the quality of your supplier pool.

Important Note: Before diving furterh, there is a question worth asking first. **What do your suppliers actually think about your organization**? Are you a buyer they genuinely want to compete for, or simply one they tolerate?

Step 3: Use Competitive Bidding Smartly

Leverage items are ideal for structured competition.

- Run RFQs or eAuctions where appropriate.
- Select right type of eAuction – there are over 200 types of eAuctions for different situations.
- Keep the process transparent and time bound
- Ensure all suppliers are bidding on the same specifications

Competition should be fair and visible. That is what drives real price discovery.

> **Research note:** Research compiled by the Hackett Group found that eAuctions can deliver 15% to 20% more savings than traditional bidding methods, and that Digital World Class procurement organizations use eAuctions roughly seven times more often than their peers, underscoring how much value a well-run competitive format adds on top of a genuinely competitive market.

Step 4: Focus on Total Cost, Not Just Price

Even in leverage categories, price alone is not enough.

- Evaluate logistics cost
- Payment terms
- Service levels
- Lead time commitments

A slightly higher price with better overall value may still be the right decision. Your ideal goal is to minimize Total Cost of Ownership (TCO).

> **Research note:** The Institute for Supply Management notes that most large organizations already evaluate suppliers on cost elements beyond unit price and transportation, yet research indicates companies differ widely in which cost components they actually include, which is often exactly where an inferior bid slips through on price alone.

Step 5: Use Volume as a Negotiation Lever

Suppliers value predictability.

- Offer volume commitments in exchange for better pricing or terms
- Bundle similar categories where possible
- Create long term demand visibility

This creates a win win situation while improving your commercial outcome.

Step 6: Keep Backup Suppliers Active

Even though supply risk is low, do not become complacent.

- Rotate a small share of business to alternate suppliers
- Keep them engaged and qualified
- Avoid over concentration with one supplier

This ensures that your leverage position stays intact over time.

Step 7: Negotiate Commercial Terms Beyond Price

Many teams stop after price negotiation. Check if you further tighten:

- Negotiate payment cycles
- Penalty and incentive clauses
- Delivery flexibility
- Warranty or service support

These elements often create more value than small price reductions.

Step 8: Close with Clarity and Speed

Once you have achieved competitive outcomes, close quickly. Delay creates uncertainty and supplier fatigue. There may be changes in geo-political situations etc.

- Clearly communicate award decisions
- Finalize contracts without unnecessary back and forth
- Maintain professionalism throughout

This builds credibility in the supplier market – and your contract or PO is the final closing not the negotiatoin process.

> **Research note:** Analysis of sourcing cycle time finds that savings rarely disappear at the negotiation table- they disappear in the gap between the sourcing event and contract award, as prices shift, capacity changes, and approvals stall. Shortening that gap, without cutting corners on quality, is itself a savings lever.

Building a Long-Term Leverage Strategy

Leverage items are not just a one-time savings opportunity. Used well, they can become the engine that drives consistent, repeatable procurement value year after year.

Your long term plan for leverage categories should be built around a few disciplined habits. Re-bid these categories periodically so that incumbent suppliers never get too comfortable. Track supplier performance consistently so that your decisions are based on data, not relationships. Consolidate demand wherever possible to increase your attractiveness as a buyer and strengthen your negotiating position. Invest in developing alternate suppliers so that your competitive options remain real and credible over time. And continuously review specifications to ensure you are not paying for more than you actually need.

The idea behind all of this is straightforward. Keep the competition alive, keep it structured, and the savings will follow.

Illustrative Example: Applying the Framework

The scenario below is a composite, illustrative example, not a specific client engagement, included to show how the eight steps fit together in practice.

A manufacturer sources packaging materials independently across four plants, each negotiating its own pricing with a mix of local suppliers. No single site's volume is large enough to command serious supplier attention, and unit prices vary by as much as 18% for functionally identical specifications.

Applying Step 1, procurement consolidates the four plants' demand into a single category view and standardizes the packaging specification across sites, removing minor variations that existed only by local habit. Step 2 identifies five qualified national suppliers, two of which had never previously been invited to bid. Step 3 runs a structured RFQ with identical specifications and a two-week response window across all five.

Step 4 evaluates bids on total cost including freight to each plant and payment terms rather than the lowest quoted unit price alone, which shifts the likely winner. Step 5 offers a volume band tied to a pricing tier rather than a flat commitment, and Step 6 keeps 15% of volume with the second-place supplier to preserve competitive tension. Step 7 secures extended payment terms and a service-level clause beyond the headline price, and Step 8 finalizes the contract within two weeks of the award decision, before market conditions can shift underneath it.

The result is a single, consolidated category with a genuinely competitive supplier pool, a total-cost-based award, and realized savings that reflect the leverage the category always had rather than the fragmented, under-negotiated status quo.

Metrics That Matter

Leverage categories benefit from tracking whether competitive tension and process discipline are actually being sustained, not just whether a single sourcing event went well.

Metric	What it tells you	Review cadence
Realized savings vs. negotiated savings	Whether savings won at the table are actually landing on the P&L.	Quarterly
Active bidders per sourcing event	Whether the supplier pool is genuinely competitive (target: 3–5).	Per event
Share of volume with backup suppliers	Whether Step 6's competitive tension is being maintained.	Quarterly
RFx-to-award cycle time	How much savings-eroding delay exists between bid and signed contract.	Per event
% of awards on total-cost basis	Whether Step 4's discipline is actually being applied, not just discussed.	Quarterly

Metric	What it tells you	Review cadence
Re-bid frequency per category	Whether incumbents are being kept genuinely competitive over time.	Annually

A 90-Day Quick-Start Roadmap

The eight steps do not need to happen in a single sweeping project. The phased approach below sequences them into a roadmap most teams can execute for a priority leverage category within a single quarter.

Days 1-30: Consolidate and qualify

1. Pull fragmented demand for the category across sites and standardize specifications (Step 1).
2. Identify and pre-qualify three to five capable suppliers per category (Step 2).
3. Confirm scope and evaluation criteria are identical across all invited suppliers (Step 3).

Days 31-60: Compete and evaluate

4. Run the competitive event (RFQ or eAuction) on a fixed, transparent timeline (Step 3).
5. Score bids on total cost of ownership, not unit price alone (Step 4).
6. Offer volume commitments only where they buy a genuine pricing or term improvement (Step 5).

Days 61-90: Close and institutionalize

7. Route a minimum share of volume to a qualified backup supplier (Step 6).
8. Negotiate non-price terms: payment cycle, penalties, service levels (Step 7).
9. Finalize the contract on a set deadline and communicate the award promptly (Step 8).

Where Most Teams Struggle

Leverage categories, by definition, already sit in a buyer's favor: multiple capable suppliers, low switching risk. The gap between potential and realized savings almost always comes down to how the sourcing event is run, not whether real competition exists in the market.

This is consistent with the research cited earlier: the ceiling on savings is set by the market, but process discipline (consolidated demand, comparable bids, total-cost evaluation, and fast closure) determines how much of that ceiling is actually reached.

The second common struggle is complacency once a category has been won once. A supplier pool that looked competitive at the last sourcing event can quietly narrow if backup suppliers are not kept genuinely active, which is exactly how leverage erodes without anyone noticing.

How procurEngine Helps Simplify This

If a team is finding it difficult to identify its leverage suppliers or structure a competitive negotiation strategy around them, that is exactly the problem procurEngine focuses on. We work closely with procurement teams to run competitive events, manage supplier pools, and build simple, actionable approaches that maximize savings without overplaying their hand.

The goal is not a heavier sourcing process, it is a more disciplined one, applied consistently to the categories where the market has already done half the work.

Appendix I: Author Details

Anupam Aggrwal is the Chief Executive Officer and Co-Founder of procurEngine, the AI-powered Source-to-Pay platform built by AgileApt Solutions. He has spent more than 25 years handling commercial negotiations and helping organizations improve procurement performance through process transformation, digitalization and strategic sourcing. That work spans manufacturing, EPC, construction and services, where he has helped procurement teams simplify operations, improve spend visibility, strengthen supplier relationships and turn sourcing decisions into measurable business value.

Alongside the executive role, he teaches. He is a guest lecturer to supply chain students at the Mays Business School at Texas A&M University and at the Eli Broad Graduate School of Management at Michigan State University, drawing on live negotiation and category management practice rather than textbook theory. He is based in Austin, Texas.

Appendix II: About procurEngine

procurEngine is an AI-powered Source-to-Pay (S2P) platform that helps enterprise procurement teams streamline procurement operations, improve supplier collaboration, and achieve measurable business outcomes. Developed by AgileApt Solutions, procurEngine brings sourcing, procurement, supplier management, contract management, purchasing, invoicing, and analytics together on a single, connected platform.

Designed for practical enterprise adoption, procurEngine enables organizations to standardize procurement processes, strengthen governance, increase spend visibility, and accelerate decision-making without disrupting existing ERP and business applications. The platform combines intelligent automation with human oversight to improve efficiency, ensure compliance, and deliver audit-ready procurement workflows.

Whether organizations are digitizing procurement for the first time or modernizing legacy processes, procurEngine provides the flexibility, scalability, and integration capabilities required to support global procurement operations.

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