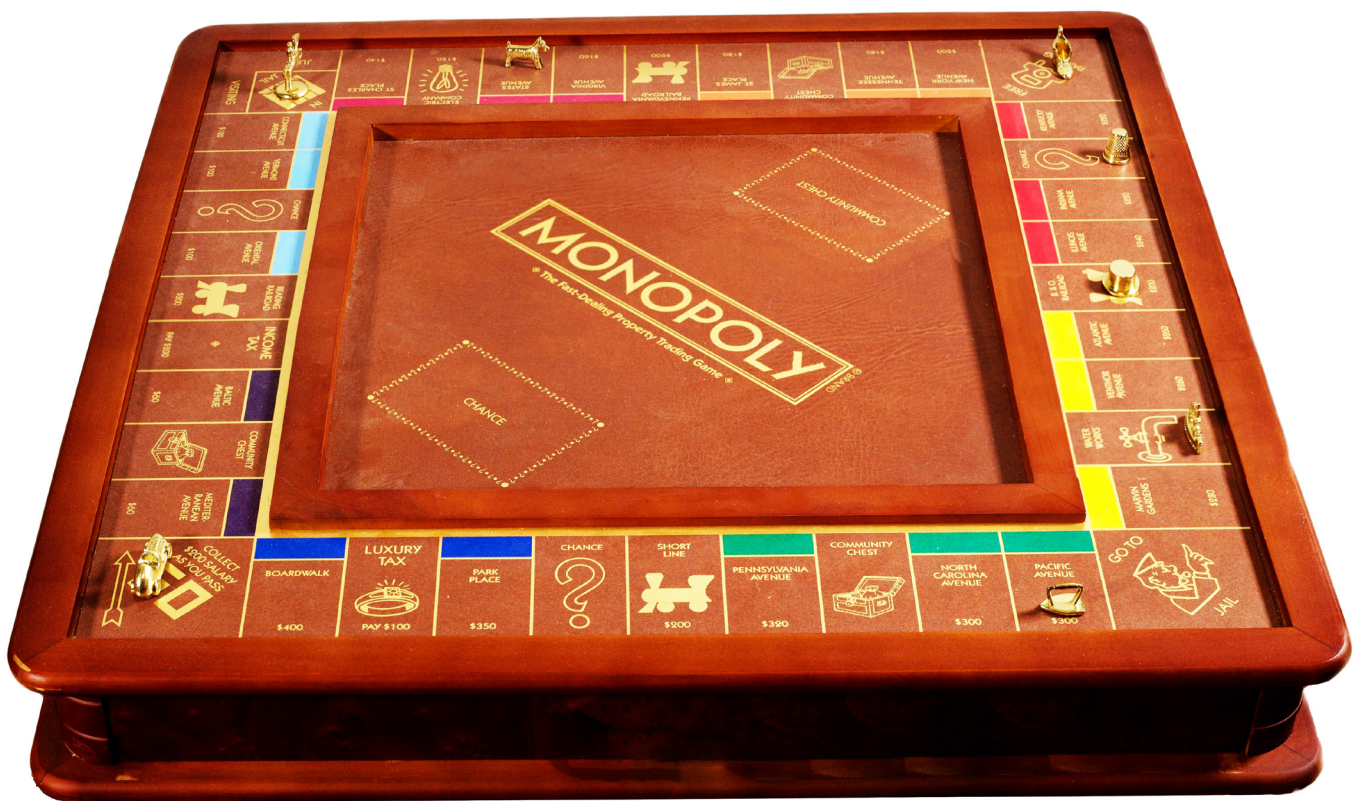


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The situation of the German economy currently appears more serious than ever. In August, the number of unemployed rose by 46,000 to a total of 3.025 million – that is 153,000 more than a year ago. Many German business associations assess the situation in their industries more negatively than last year. More than half of all sectors expect a decline in production and job cuts in 2025 – with the iron and steel industry, mechanical engineering, and the automotive sector being particularly affected.

What Germany needs now are bold reforms. An Agenda 2030 is long overdue.

Former Chancellor Gerhard Schröder made it clear during the 1998 election campaign: “If we don’t succeed in significantly reducing unemployment, then we don’t deserve to be re-elected.” Although the breakthrough did not come in the first legislative period, it was likely this clear commitment that paved the way for the later successful Agenda 2010 reforms.

Such determined statements have become rarer in today’s political culture – yet research shows how crucial commitment is for the success of reforms and change projects. In an article in this

issue, we revisit this topic and demonstrate: Without credible self-commitment, change fails – even if it would be meaningful.

Commitment also plays a central role in negotiations. Talks with monopolists are particularly difficult, as there is no real fallback option. This makes it all the more important to have a reliable negotiation structure to orient oneself by – as presented in the article *Monopoly Negotiations and the Role of Information in Negotiations*.

In the third contribution of this issue, we show how Should Costing and game-theoretic methods together form a powerful negotiation strategy – although for a long time both approaches existed in separate intellectual spheres. In practice, however, they unfold their full potential when combined.

Finally, some good news from our academy: Our ten-day online training course on negotiation, conducted together with Prof. Dr. Christian Rieck, was fully booked just a few days after its announcement. Those who missed out this time can look forward to further training sessions, which are already being planned. If you are interested, feel free to contact us directly.

Monopoly Negotiations and the Role of Information in Negotiations

Competition Is Not Just Competition

“Competition stimulates business” – this principle also applies to procurement: the more competitors a buyer has in a negotiation, the better. Yet in practice, existing competition is often not used consistently.

A central problem lies in the incentive structures of many procurement organizations: policies usually require multiple offers to be obtained in order to create benchmarks. Existing suppliers then automatically become the reference point. However, if the additional offers come with worse conditions, the buyer faces a dilemma – switching would create uncertainty and at the same time be more expensive. Pure “benchmarking for the sake of process compliance” should therefore not be the goal.

Game-theoretic approaches in procurement show that the value of a supplier does not depend solely on price, but crucially on their role in the competitive dynamic. Incumbent suppliers who are “firmly in the saddle” react only to a limited extent to formal comparison offers. An additional competitor can strengthen the buyer’s negotiation position, but what matters most is credibly signaling a willingness to switch.

Mechanism Design and the 3C Logic

Effective mechanism design translates these insights into concrete processes. Central to this are the 3Cs:

- **Competition:** Suppliers are informed in advance about the competitive framework, trained if necessary, and know that at least two serious bidders are in the field.
- **Comparability:** A bonus/malus system ensures that qualitative and quantitative differences are objectively taken into account.
- **Commitment:** Procurement commits in writing to accept any outcome of the procedure.

This makes competition maximally visible to incumbent suppliers – without them being hit by a “surprise scenario” at the end. The real effect lies in activating suppliers in advance and prompting them to engage more intensively with their pricing. (cf. Graphic 1: Information and Competition)

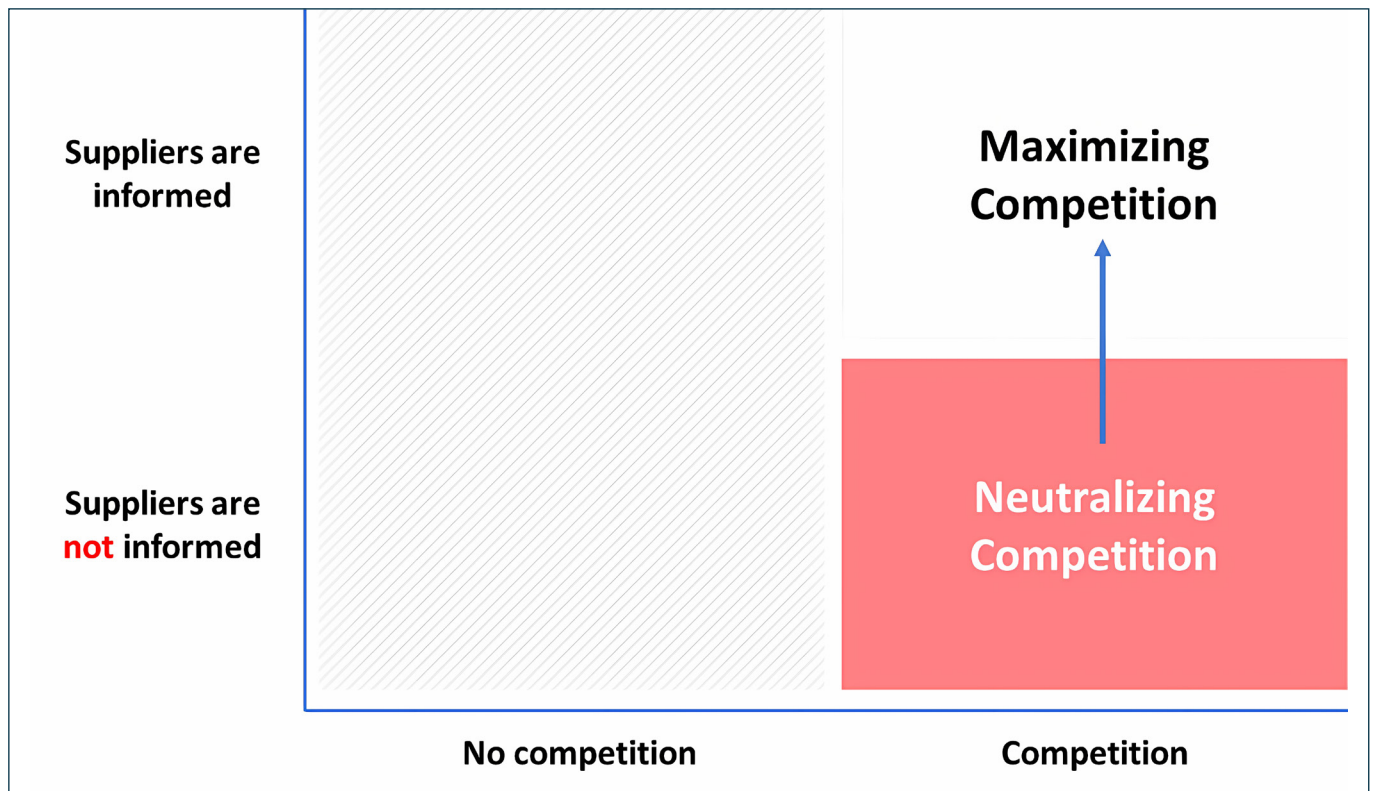


Figure 1: Competition only matters in procurement if suppliers credibly signal its presence.

The graphic illustrates that there are four possible combinations of competition and information about it. If competition exists but is not credibly conveyed through the negotiation process, it is virtually neutralized. This applies especially to strong, established incumbent suppliers. A good process makes competition tangible – symbolized in the graphic by the arrow.

The Role of Information in Monopoly Negotiations

The previous chapter assumed a situation where competition exists in the form of another supplier. This is not always the case. Monopoly situations are more often the rule than most procurement organizations would like. So what role does information play here?

This largely depends on whether one is actually dealing with a monopoly! Such an analysis must be carried out in a differentiated way and is determined by a series of key questions:

- Are there substitutes or potential new suppliers?
- Can specifications be adjusted to allow for alternatives?
- Are there make-or-buy scenarios?
- Does the buyer have relevant demand power?
- What interests does the sales manager pursue compared to the company's overall strategy?
- And above all: Which of this information does the supplier actually have?

A common mistake is to overestimate the knowledge level of the counterpart. Suppliers often know less about the actual dependencies than one might think. Put differently: assuming that suppliers always fully understand the situation does not get you anywhere.

If it is indeed a well-known, genuine monopoly, the supplier's bargaining power dominates – in that case, only a partnership-based negotiation approach remains, along with the attempt to jointly exploit as many potentials as possible. But if there is room for maneuver arising from the analysis of the questions above, the goal is to make alternatives credible.

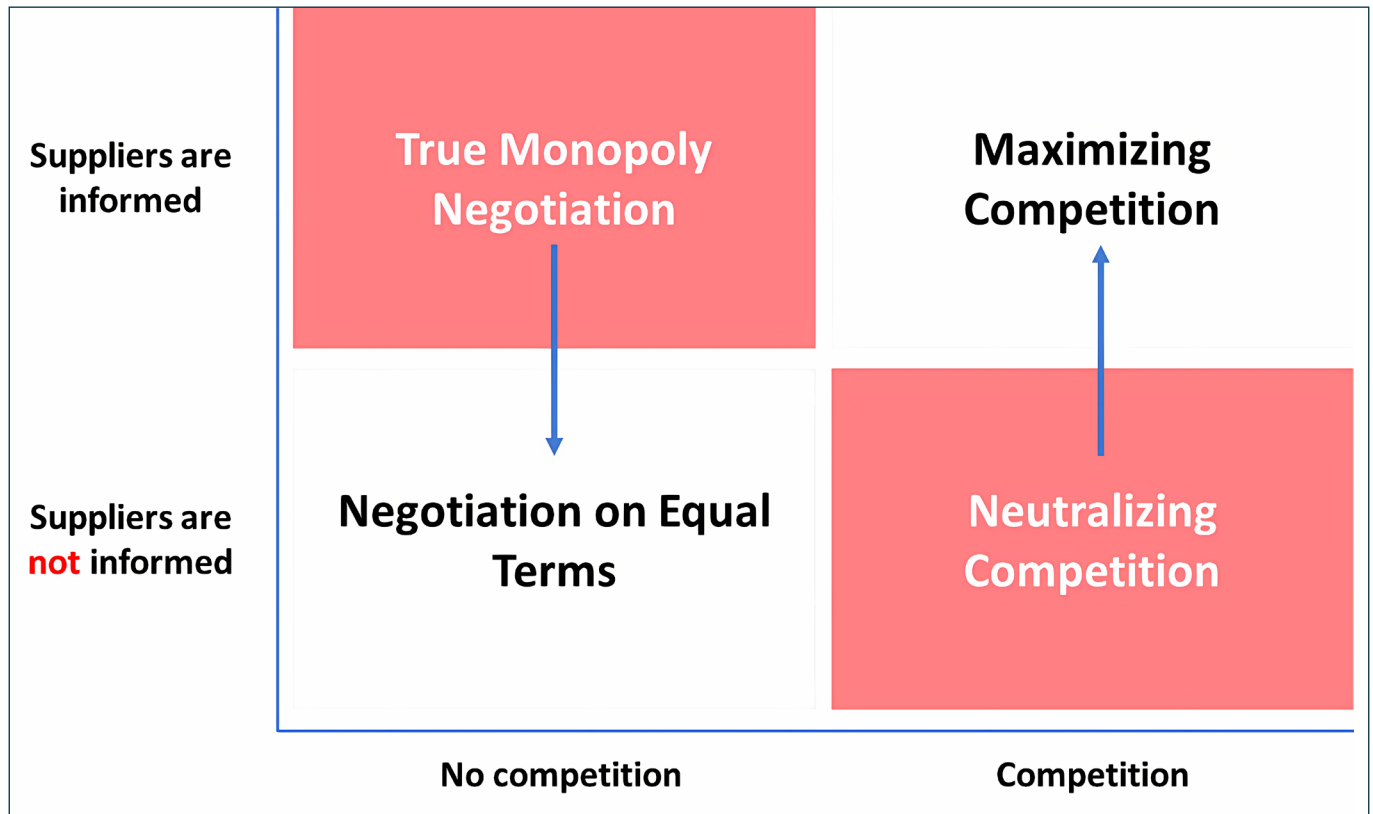


Figure 2: The goal of negotiations without genuine competition must be to credibly create alternatives.

The decisive point is not to mirror the supplier's strength, but to signal the possibility of alternatives. Possible signals include:

- Cross-functional stakeholders emphasize that switching barriers are being actively reduced.
- Informal channels are deliberately used to spread uncertainty.
- Management points to make-or-buy options or links the negotiation to attractive additional business.

This creates a negotiation situation “as if” competition existed – a superior strategy, particularly when dependencies are mutual.

Negotiation Tactics vs. Negotiation Management

Negotiation leadership means optimizing a specific, upcoming negotiation. Negotiation management, on the other hand, refers to the background work on structurally improving the negotiation position. Ideally, the related measures are tracked within a well-structured category management system. Examples include changing specifications or quality standards to enable competition. Graphic 3 also illustrates negotiation management. (see Figure 3: Overview of Negotiation Management)

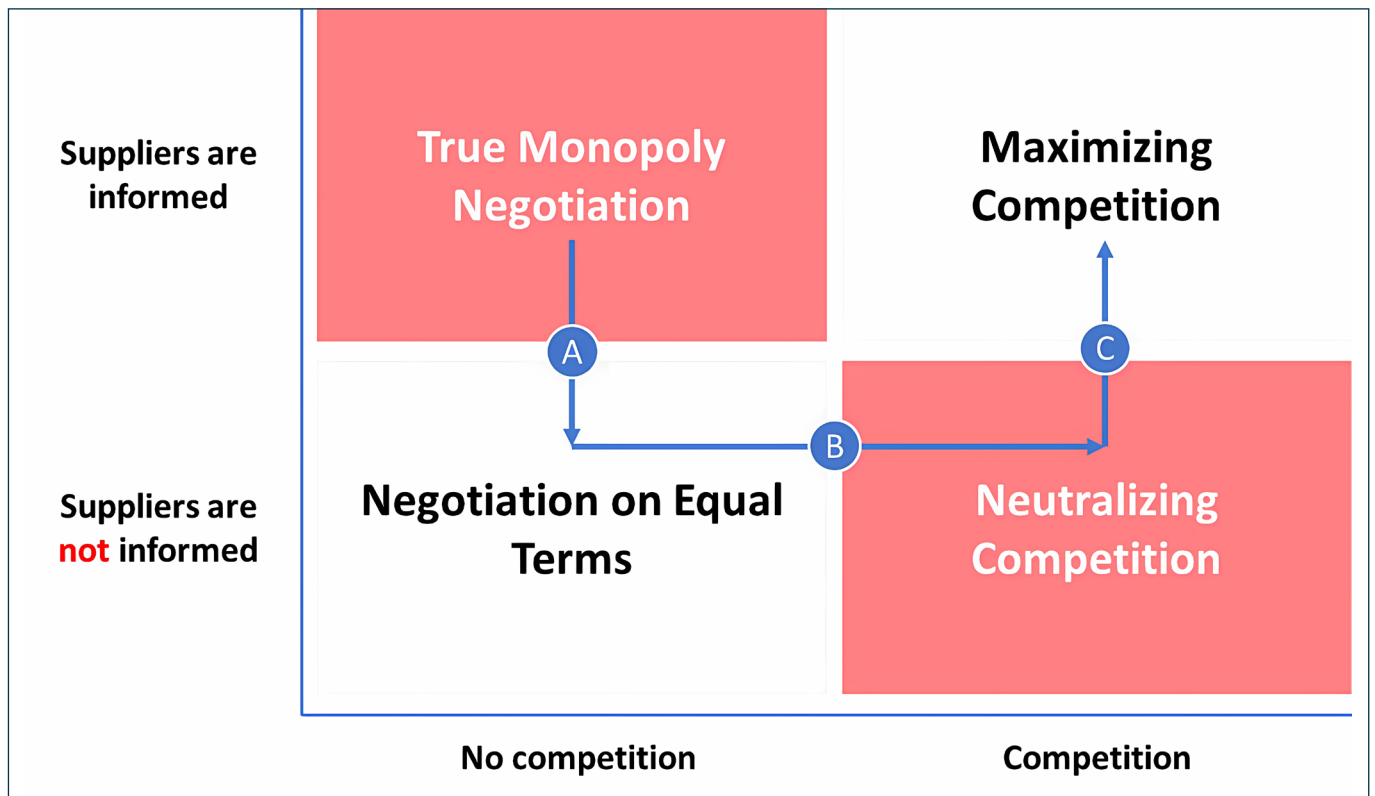


Figure 3: The goal of negotiation management is to position oneself as far up and to the right as possible on the U-curve in as many important negotiations as possible.

As the graphic illustrates, negotiation management typically follows a U-shaped process, though in practice not every negotiation runs through the entire curve.:

- Ⓐ Monopoly situations are deliberately eased through tactical measures.
- Ⓑ Genuine competition is built up in the background and then...
- Ⓒ ... explicitly leveraged.

Summary

Information plays a major role in negotiations – especially the question of how it is distributed. There are two combinations of existing competition and supplier knowledge that are maximally unfavorable for procurement: genuine monopolists who are aware of their position, and actual competitors or incumbent suppliers who nevertheless see themselves as monopolists.

A serious mistake is to assume that the information held by all actors always reflects reality. The task of procurement is therefore to influence this information status – either in specific negotiations or, at the very least, through long-term negotiation management – and ideally to work toward enabling mechanism design.

Should Costing: A Negotiation Edge for Procurement

Price comparisons alone are no longer sufficient. In an economic environment full of uncertainties, global supply bottlenecks, and inflation-driven distortions, procurement needs more than just good instincts. It requires well-founded arguments, reliable facts, and a solid methodological foundation – and this is precisely where Should Costing comes in.

What Is Should Costing – and Why Should You Care?

The concept provides an objective basis for evaluating offers – one that is not oriented toward a supplier’s target price but instead toward the actual, technically and economically justifiable production costs of a product or service. By systematically determining these “should costs,” it becomes clear where excessive margins, inefficiencies, or unjustified markups are hidden. Especially for complex products or custom-made solutions, Should Costing creates urgently needed transparency – and equips buyers with arguments that go beyond gut feeling and experience.

More Than Analysis: A Negotiation Strategy

A major advantage of Should Costing lies not only in the analysis itself, but also in its function as a communication tool. Entering a negotiation with a transparent calculation sends a clear message: “We understand the product, we know the market, and we are prepared.” This changes the atmosphere of the discussion. Instead of taking a confrontational approach – for example, saying “Your offer is 35% above our calculation” – Should Costing enables a factual, step-by-step line of argumentation conducted on equal footing.

Even in the tendering phase, Should Costing can make an important contribution – for instance, by requiring a structured cost breakdown as a prerequisite for submitting an offer. This makes it possible to clarify early on whether an offer is realistic – or whether later renegotiations are inevitable. Especially in project procurement or long-term series production, this clarity pays off multiple times over.

Effective Even Under Monopoly and Oligopoly Conditions

Even in challenging market structures – such as monopolies or tight oligopolies – Should Costing demonstrates its strength. Where genuine comparative offers are lacking, the method provides a solid basis for discussion about what a product should actually cost – grounded in material prices,

manufacturing processes, and common market parameters. Especially when there is only one possible supplier, procurement can use this approach to factually justify why a price is excessive – and to highlight potential savings that could arise technically or organizationally, for example through changes in specifications, alternative materials, or economies of scale.

Even Stronger as a Duo: Game Theory + Should Costing

Should Costing becomes truly powerful when combined with game theory-based sourcing processes. When procurement not only builds strong arguments but also deliberately designs the sourcing architecture – for example through multi-round bidding, bonus-malus systems, or an agreement meeting at the end – a double leverage effect emerges. Game theory brings dynamics into price formation by systematically creating incentives and competitive pressure. At the same time, Should Costing ensures that this competition does not take place blindly, but is grounded in sound assumptions about realistic prices.

The interplay of both methods is not a contradiction but a meaningful complement. Game theory structures the process – Should Costing provides the substantive orientation. Together, they create a strategic negotiation approach that not only achieves better prices but also places supplier collaboration on a more objective and sustainable foundation.

Conclusion: Should Costing is far more than a technical tool for price evaluation. It is a lever for professional, fact-based, and partnership-oriented procurement negotiations. Combined with game-theoretic approaches, it becomes a method that enables fair and economically viable prices even in difficult markets – without pressure, but with maximum clarity.

Why Internal Change Often Requires External Commitment

Why So Many Change Projects Fail

Change projects often trigger internal resistance. Many of them fail. According to a 2020 study, only 30% of all digital transformation projects fully achieve their goals and lead to sustainable change. Another 44% create some value but miss their targets and result only in limited long-term impact, while 26% achieve no lasting success at all and deliver less than 50% of the intended value.

A root-cause analysis points to the individual incentive situation of the employees affected by the change. From their perspective, a change project is often not beneficial. Max Weber sharpened this idea in the context of bureaucracies, stating that civil servants derive their utility from the volume of resources they administer. Thus, efficiency gains – i.e. using fewer resources – are not in their interest.

The Principal-Agent Model as an Explanatory Framework

This structural conflict can be understood through the principal-agent model. The principal-agent model is based on asymmetric information and highlights problems and potential solutions in delegation relationships. In the principal-agent model with unobservable effort, the principal (client) commissions an agent (contractor) to carry out a task. The principal can observe only the outcome, not the agent's effort. The more the outcome depends on chance, the harder it becomes for the principal to determine afterward whether the agent actually made a strong effort – or simply spent the day in a hammock.

In the context of a change project, employees may support the transformation, behave indifferently, or even actively resist it. As a result, many initiatives are never implemented at all.

Why Credibility Determines Success or Failure

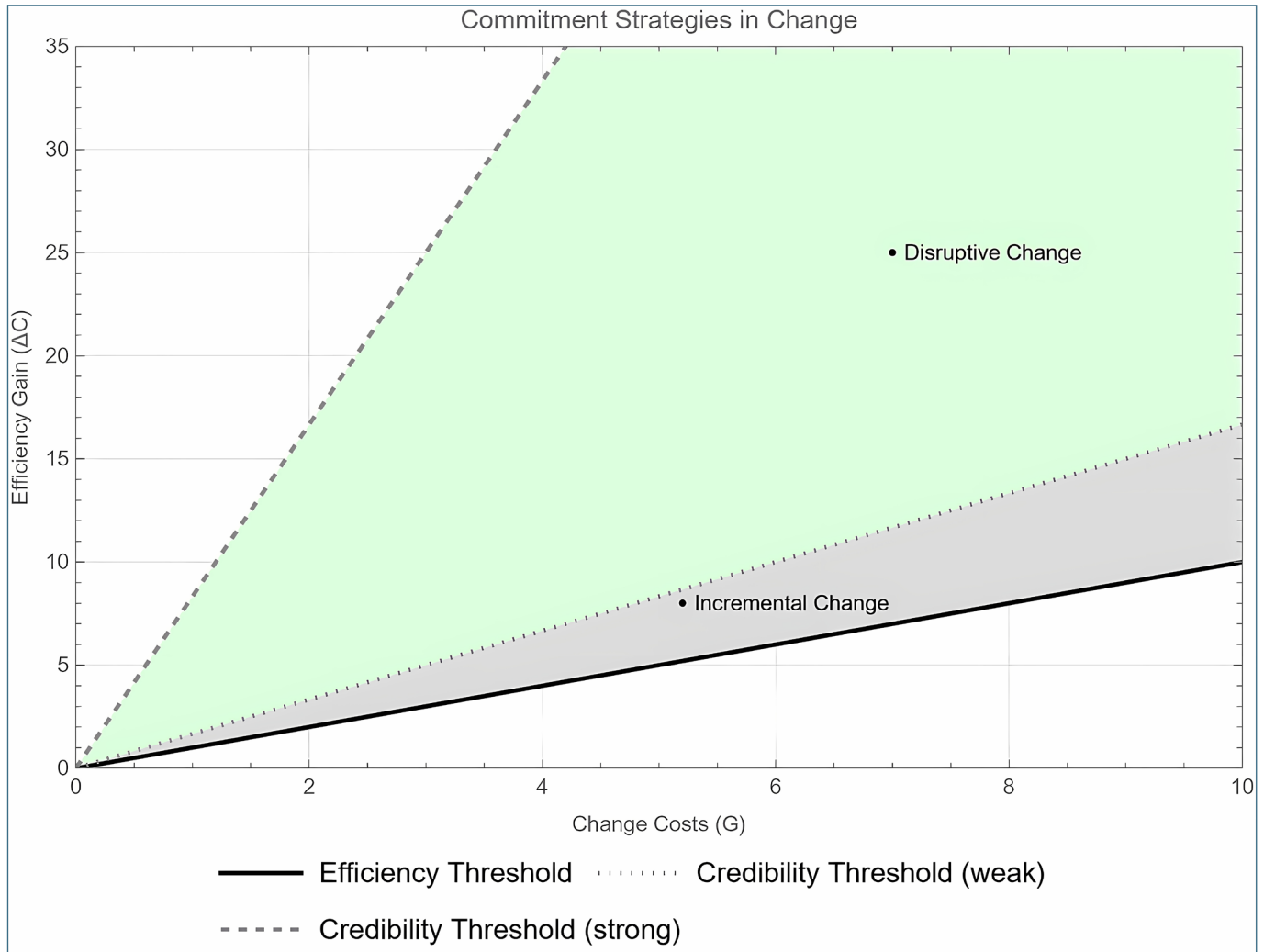
To overcome this resistance, credibility is essential. Only when the agent is convinced of the necessity and inevitability of change will the incentive to oppose it diminish.

In the model logic, a project must meet two conditions:

1. It must be economically viable – i.e., generate greater efficiency gains than it costs.
2. It must be credible – i.e., implemented in such a way that withdrawal is impossible without a loss of face.

Only projects that lie above the efficiency line and at the same time below the credibility line are truly feasible. The slope of the credibility line is determined by the strength of commitment: the higher the reputational and reversal costs, the more credible the project.

The slope of the credibility line thus reflects the strength of commitment. The more reputation is invested in a given project and the harder it is to reverse, the more credible the project becomes relative to its costs.



In principle, disruptive change requires strong commitment. One reason why change projects fail is a lack of commitment.

Externally Awarded Projects Often Have Greater Impact

This is also why the prophet is often without honor in his own country: internal initiatives frequently fail to have the intended impact. External assignments – for example through consultancies, new technical systems, or public announcements – often work better than internal projects because they involve a stronger level of commitment. They cost money, reputation, and decision-making power. And that is precisely what makes them credible. For the agent recognizes: this is a project that cannot simply be withdrawn without losing face.

Disruptive Change Demands Strong Commitment

Ironically, it is often the greatest opportunities – disruptive changes with high productivity gains – that fail due to a lack of credibility. The reason is that they pose the greatest threat to existing structures. This makes it all the more important to build commitment strategically: through high-profile communication, through technical irreversibility, through stakeholder involvement, and through investments that cannot be canceled without consequences.

When Commitment Becomes Visible – Sometimes Literally in Concrete

Anyone who truly wants to bring about change should focus less on convincing internally – and more on creating pressure and direction through commitment. Change only gains momentum once it is clear that there is no way back.

An extreme example of such commitment is the construction of a building that physically anchors new processes. Once infrastructure is created that is designed for new workflows, there is no “return.” Commitment becomes physically visible – cast in concrete.

Conclusion: Change does not work because it sounds good. It works when it is irreversible. Credibility arises from investments, reputational risks, and irreversible decisions. Only when all stakeholders recognize that there is no turning back will even rigid organizations move forward.

If you would like to learn more about this model, I recommend the upcoming book *Theory of the Rational Builder* by Friedrich Prem, Christoph Pfeiffer, and Christian Rieck. The illustration above is taken from this work.

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Questions, feedback, criticism, topic ideas or new signups?

Please send them to
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