

# SamAqua and KMD: A SMARTnership Contract *IACCM Awards 2020*

Improved Contracting and Tendering Results Using  
SMARTnership and NegoEconomics



How to create

# \$1.5 million

in extra profit through NegoEconomics  
and SMARTnership

# Contents

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<b>Introduction</b>	<b>02</b>
<b>Summary</b>	<b>03</b>
<b>Company Presentations</b>	<b>05</b>
<b>Business Challenge</b>	<b>06</b>
<b>The Overview</b>	<b>07</b>
<b>The Results</b>	<b>07</b>
<b>Lessons Learned</b>	<b>08</b>
<b>People Intro</b>	<b>09</b>
<b>NegoEconomics Explained</b>	<b>12</b>
<b>Conclusion</b>	<b>14</b>

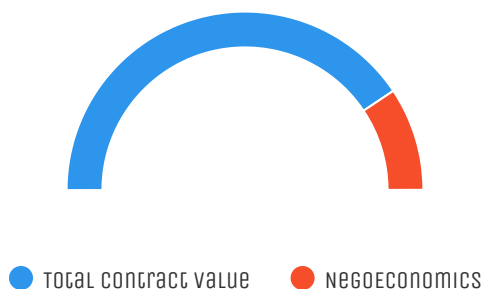
# Introduction

Tenders and contract negotiations can be improved dramatically.





SamAqua and KMD did so in a recent negotiation, resulting in a 1.5 million USD find—a 23% improvement of total contract value. Values they would not have realized, had they followed traditional tender or negotiation processes.

Their agreement's concerned software development for a new admin system in the participating companies.

Both parties enjoyed greater financial success, *and* learned invaluable lessons along the way. All as result of embracing the philosophy and techniques of SMARTnership and NegoEconomics.



Both SamAqua and KMD focused on:

-  Working actively to identify the NegoEconomic potentials in the transaction
-  Creating an atmosphere of mutual trust
-  Following a SMARTnership strategy
-  Forging an early agreement on the "rules of the game" for their negotiation

I am proud of how effectively both organizations applied the principles, strategies and behaviors in which they'd been trained.



Keld Jensen, founder of SMARTnership and NegoEconomics

A stylized, handwritten signature in black ink, likely belonging to Keld Jensen.

# Executive Summary



Modern contracting and tendering processes typically take a zero-sum approach: the buying side seeks changes to variables that will improve their own bottom line only—without considering the *supplier's* costs or benefits. In fact, most tendering processes today are 100 percent zero-sum oriented. One party wins at the expense of the other.

Negotiators typically operate on the zero-sum view: "Your loss is my gain." Such an approach damages trust and leads to less-than-optimal outcomes.

**SamAqua** is a shared-service organization representing 14 municipality-owned water, waste and heating supply companies in the nation of Denmark. Eight of these companies were involved in this particular contract. **KMD** is a NEC subsidiary, and a market-leading supplier of advanced IT solutions.

KMD and SamAqua confronted three major challenges, which led to the improvements and developments they ultimately achieved:

- 1) For centuries, the world of negotiation has struggled with inadequacies of information, transparency, and trust between negotiating parties. This has hindered and in some cases denied opportunities for realizing the full potential of commercial negotiations.
- 2) Major procurement projects have typically failed to give attention to NegoEconomics: the potential to improve financial outcomes between parties by taking advantage of asymmetric costs and values.
- 3) Today, many still negotiate as they did in the 1850s—with a tendency toward a zero-sum approach in their dealings.

KMD and SamAqua recognized the need for an improved collaborative process. They made a major leap forward in this regard by using new tools to aid in spotting asymmetric values—points where one side might value a given factor more than their counterpart. Both learned of these tools through intensive training in SMARTnership and the principles of NegoEconomics.

Their negotiating approach and mindset, combined with Keld Jensen's award-winning SMARTnership negotiation philosophy, revolutionized their contracting and negotiation process—building trust, streamlining information exchange, identifying negotiable variables, and spotting potential NegoEconomic advantages.

In this way, KMD and SamAqua realized 1.5 million USD of additional value, out of a total contract value of 6.5 million.

The supplier enjoyed a significantly increased profit margin, but not at the expense of the buyer. At the same time, the buyer optimized the entire process to achieving far bigger bang for their buck. All in all, it was a classic SMARTnership negotiation.



# Executive Summary

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KMD and SamAqua fulfilled a number of basic requirements to achieve a better contract:



Worked for increased transparency between parties, without risk



Established a higher level of mutual trust



Utilized NegoEconomics, thereby improving their negotiation outcome by 23%



Prepared for more effective negotiation through training in the principles of SMARTnership and NegoEconomics



Supported each other in exploring variables to be negotiated



Negotiated openly and efficiently



Saved time by focusing on a structured agenda and process



Supported free, open exchange of information



Avoided any zero-sum attitude or orientation



Reduced time from beginning to completion



Established a long-term agreement of six years

# Company Presentations



**KMD** is one of Denmark's largest IT and software companies, with headquarters in Copenhagen and several locations throughout the country. The KMD Group also encompasses subsidiaries in Norway, Sweden, Finland, Australia and Poland.

The KMD Group employs more than 3,200 people and has annual revenues approaching 5.3 billion DKK.

KMD primarily develops administrative and enterprise management systems, but also develops solutions in citizen services, IT outsourcing, application management and a number of other areas such as banking, finance, energy and utilities.

In February 2019, NEC Corporation acquired the KMD Group from the global private equity firm Advent International, along with the Danish pension fund Sampension.

Acquiring the KMD Group was part of NEC's growth strategy, and expansion of its global competencies in the software development sphere. The KMD transaction was NEC's largest corporate acquisition to date, and among the largest Japanese foreign software acquisitions of the past decade.

For more information, please visit [www.kmd.dk](http://www.kmd.dk).



**SamAqua** is a shared services company, owned by 14 Danish municipalities. Its HQ is located in Hans Christian Andersen's city of Odense, Denmark.

SamAqua supports its member municipalities with maintenance, execution and implementation services. The manage such tasks as tenders, negotiations and invoicing.

The organization's departments include business support, legal, projects and contracts, and digitalization and IT.

SamAqua's mission is to strengthen its owners' core businesses by clearly identifying their needs and requirements, and delivering clear, measurable results.

For more information please visit [www.samaqua.dk](http://www.samaqua.dk).

**What were the business challenges that necessitated an innovative negotiating approach? The nature of these challenges, how they were identified, and how they lead to improvements are relevant.**

Three challenges are often met in tenders and negotiations:

1. For centuries, the world of negotiation has struggled with inadequacies of information, transparency, and trust between negotiating parties—hindering and even denying opportunities to realize the full potential of commercial negotiations.
2. Major procurement projects have often failed to focus on NegoEconomics: the potential to improve financial outcomes between parties by taking advantage of asymmetric costs and values.
3. Today, many still negotiate as was done in the 1850s, with a tendency toward a zero-sum approach to business dealings.

KMD and SamAqua initiated their collaboration with the shared goal of improving the collaborative process in contract management and negotiation, with the help of Mr. Jensen's thought-leader expertise.

According to IACCM's "Trending Commercial Conversations," which spans all industries, effective negotiation has been identified as a core necessity throughout the commercial world.

**What approach was taken to initiate the project, and what barriers and pre-requisites were encountered? For example, lack of data; need for executive sponsorship; internal resistance.\***



Video explaining NegoEconomics

Surveying the history of contract management, tenders and negotiation, one finds few recorded instances NegoEconomic principles in action. To the contrary, one finds that most tendering processes take a zero-sum approach.

By implementing a new approach to negotiation—SMARTnership—the two parties were able to more clearly envision of the potential “size of the pie” in play, and foster greater mutual trust.

The challenge, therefore, was to go where no one had gone before, in the field of tendering: to create a negotiating process which embraced openness, trust, and the advanced negotiating strategy of SMARTnership.



23%

NegoEconomics  
discovered

**A short project overview: the parties involved, how long it ran, and key discoveries along the way.**

**The results achieved. These should cover areas such as financial contribution, efficiency indicators, effectiveness indicators.**



Video with KMD VP Carl-Erik Vesterager



KMD (supplier) and SamAqua (buyer) had separately gone through SMARTnership Negotiation training in 2018 and 2019. SamAqua began their tender process in 2019. They reached a conclusion late that same year, awarding the contract to KMD.

At the outset, the parties quickly agreed on taking a SMARTnership approach, including open sharing of variables that could reveal asymmetric values and value-creation potential.

The contract was negotiated over a four-month period, and resulted in a six-year contract with a total value of approximately 6.5 million USD.

"When given the opportunity to interact and communicate freely, it is possible for people to build trust and form positive social bonds—which can lead, in turn, to more productive and mutually beneficial negotiations. Both parties realized early on that openness and transparency would lead to a mutually beneficial outcome, where variables generating asymmetric values were discussed."

The video above is a talk with KMD's VP Carl-Erik Vesterager, on KMD's views on contract negotiations.

KMD and SamAqua negotiated around 13 commercial variables, ultimately generating 1.5 million USD of NegoEconomic value; values unlikely to have been discovered in a traditional, zero-sum-based tender.

By focusing on the parties' asymmetric values and costs, they managed to create value to the benefit of both buyer and supplier.

The realized NegoEconomics values came from these variables:

- Service levels
- Order of implementation
- Allocation of resources
- Time of delivery
- Development available to other clients
- Education
- Tests
- Technical requirements
- Delivery to eight locations



**What were the lessons learned, and what are the next steps? In what ways has this project paved the way for future improvements and ongoing development of contract and commercial capability?**



Taking a retrospective view of the process, we see the parties learned the following in the course of their negotiations:

- Collaboration based on face-to-face communication dramatically improves the outcome of a tender.
- It's not the wording in the contract that should drive negotiation, but the atmosphere in the negotiating room.
- Do not underestimate trust!
- Honesty pays off. Tru\$tCurrency is created.
- Focusing on NegoEconomics increases the room for negotiations.
- Replace emails with meetings or phone conversations.
- Transparency is a must regarding the cost and value of each variable discussed.
- Save the discussion of price until the very end.
- SamAqua and KMD shared their negotiation experience post-contract, to learn from each other.



SamAqua (the buyer) was extremely attentive to the suppliers' responses on every variable discussed.

Early buyer demands that would raise supplier costs beyond the benefits to the buyer were scratched.



Example: SamAqua originally requested 50 reports per location. It would take a full day for KMD to prepare each report, at an estimated total cost of 200,000 USD. The supplier's cost was higher than the resulting benefit would have been to the buyer. In the end, the process and request were amended.

SamAqua's requirement in their tender, and the basis for awarding the contract, was based 50% on price, 20% on collaboration and 30% on user-friendliness.

**Jesper D. Ruus-Pedersen**  
**Business Line Director**  
**KMD**

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Master in Economics from the University of Southern Denmark, with subsequent certificates from Stanford University in Innovation Management and Decision and Risk Management.

Holds P/L and product responsibility for KMD Easy Energy—the IT solution the negotiation concerned. Has been with KMD for 11 years, working in the energy and utility division with focus on product design and strategy, product management, P/L, and strategic bids.

Lead the bid phase and negotiation phase from KMD, and will be part of the steering committee to ensure strategic focus in the implementation phase.

**Theis Fjord**  
**Head of Department**  
**KMD**

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MSc in strategy and organization. Twelve years with KMD in the energy and supply area. First four years as a market analyst, followed by four years in various product management functions, finally assuming responsibility for the entirety of product management.

Head of Department for the past four years, responsible for the support functions, consulting and partnerships. This includes profit and loss, delivery, and personnel responsibility, and ranges from long-range strategic work down to tactical operations.

In this project, he has been responsible for negotiation, in collaboration with Jesper Ruus Pedersen. Will be responsible for the team who will deliver a significant share of the implementation actions in the project phase.

**Anne Godske Pedersen**  
**Project Manager, IT and Digitization**  
**SamAqua A/S**

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MSc in IT, Communication and Organization from the University of Southern Denmark. Anne has more than 12 years experience in IT development and operations, including six years as a project manager.

She initiated the Consumer Settlement Project and is in charge of contract implementation for SamAqua's companies.

She is passionate about process, execution and implementation, focusing on positive communication in relationship formation, and improving collaboration between buyers and suppliers.

**Nicolaj Rosander**  
**Project Manager, Procurement**  
**SamAqua A/S**

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For the past seven years, Nicolaj has been involved with contract negotiation as a professional procurement purchaser.

He has been closely involved in securing deals in a wide range of areas, including food supply, IT systems, highly specialized water purification plants, and others. Nicolaj focuses primarily on a contract's commercial aspects, and on ensuring maximum potential realization for both sides in any negotiation. He notes that handling the legal aspects of any contract, and of representing a public organization, are also of extreme importance.

**Keld Jensen**  
**Author, Professor, and Founder of**  
**SMARTnership Negotiation**



Keld Jensen is an internationally recognized expert and advisor on negotiation, trust, and behavioral economics.

He works with governments and major corporations in applying the techniques of SMARTnership negotiation—value-based collaborations—while maintaining a busy teaching schedule at top-ranked universities around the world.

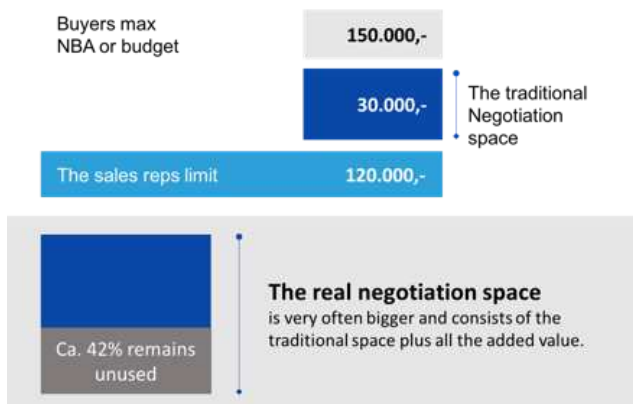
Mr. Jensen has made more than 200 international TV appearances, and contributes regularly to *Forbes* magazine, reaching more than 2.8 million readers.

His corporate clients include Vestas, Novo Nordisk, LEGO, Johnson & Johnson, Carlsberg Group, Siemens, Rolls-Royce, DHL and Bang & Olufsen.

A prolific author, Keld has written 24 books to date, with his works available in more than 38 countries. In 2016, he was named as one of the world's Top 100 Thought Leaders in Trust. In 2017, his concept of SMARTnership won the Best Negotiation/Tender Award from Denmark's Organization of Public Procurement Officers. In that same year, he received the prestigious Innovation Award from IACCM (the International Association of Contract and Commercial Management).

## A Brief Introduction to NegoEconomics (Negotiation Economics)

### Identify the real negotiation space



### Expanding the Negotiating Space

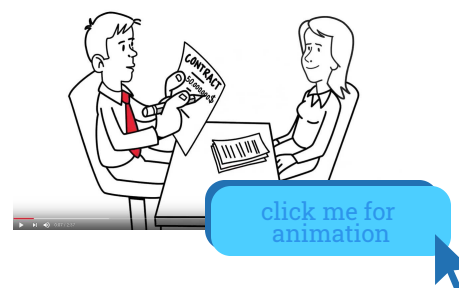
“Negotiating space” could be defined as the difference between the highest price a buyer is willing to pay, and the lowest price a seller is willing to accept. For a deal to be struck, there must be positive negotiating space. The buyer must be willing to pay a price that is higher than the seller’s threshold of pain.

If the maximum price a buyer can pay is \$150,000, and the lowest price the supplier can accept is \$120,000, the difference of \$30,000 constitutes the negotiating space, within which a deal can be struck. However, the *actual* negotiating space is typically larger. It consists of the sum of the negotiating space plus the NegoEconomic value that could be created. This additional value can enable the parties to reach an agreement, even when the highest dollar price the buyer is willing to pay is less than the seller’s lowest acceptable price.

### Avenues for Discovering Potential Value

Virtually every commercial transaction offers a wealth of untapped resources with NegoEconomic potential. To fully realize the opportunities buried within the deal before him, the SMARTnership negotiator should ask:

- Why is the project's design requirement as stated?
- Why are we doing things the way we are?
- What could be managed differently?
- Who is better suited to handle specific tasks in the long term?
- Where are the opportunities and risks?
- Can responsibilities, costs, and rewards be shared differently?
- What are the alternative solutions?
- Will the alternative solutions make things better or worse?
- Can we discover something new or innovative?



## A brief introduction to NegoEconomics (Negotiation economics) CONTINUED

### Identifying Variables That Reveal Invisible Asymmetric Value

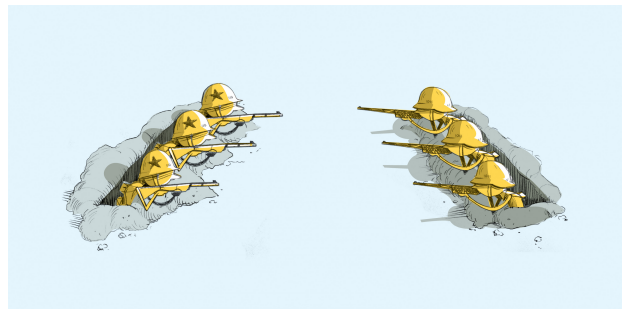
SMARTnership negotiators work to identify as many variables as possible that offer potential for NegoEconomic leveraging.

Virtually every negotiator is aware of the basic set of variables that come into play in the course of commercial bargaining: price, quantity, delivery time, guarantees, storage, and financing terms.

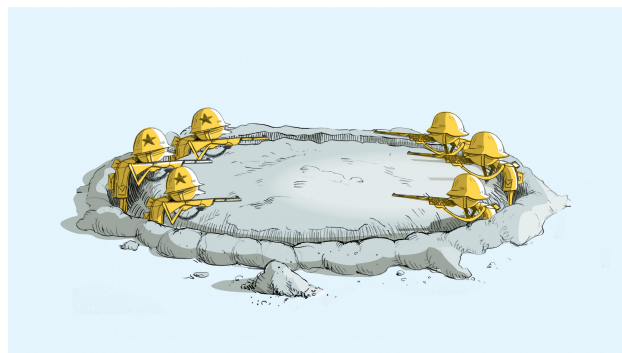
The delegate using the SMARTnership strategy will look beyond these basics in an effort to creatively bargain on a much larger playing field.

In a negotiation, there is the traditional negotiation space, which represents the value of the deal in terms of just the basic variables. This approach leaves completely untapped the **potential for asymmetric values** that comes into play when the range of variables is expanded. Only by leveraging the traditional negotiation space and the asymmetric values can a negotiation's NegoEconomic values be discovered. By finding these NegoEconomic values, two things take place:

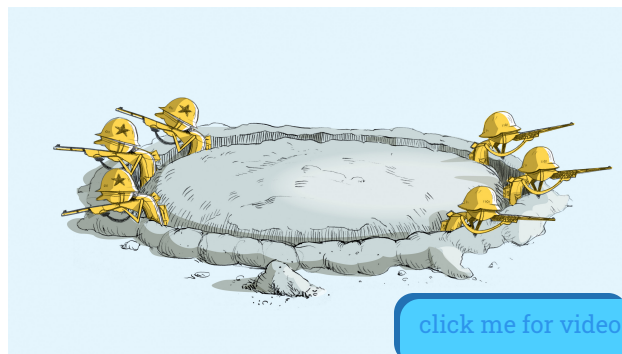
1. Negotiation becomes easier, as there is more opportunity to identify common ground.
2. Because additional space is utilized, negotiations give rise to improved results.



A zero-sum negotiation



A partnership negotiation



A SMARTnership negotiation



## Conclusion

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Tenders around the world are typically conducted as zero-sum games: One party wins at the expense of the counterpart. SMARTnership changes that approach by focusing on trust, transparency, openness and the utilization of NegoEconomics.

SamAqua and KMD managed to perfect their negotiations and transform the "old school" view of the tendering process into a modern application of SMARTnership—with a clear win for both parties.



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