SPECIFIC-CASE

WORKSHEET 8 OF 9

Evaluating a Discount-for-Exclusivity Offer

Scenario: your most important vendor, who supplies approximately 40% of your annual purchase volume in that category, proposes a 5% price reduction in exchange for a 3-year exclusivity commitment — meaning you agree not to purchase the same category from any other vendor during that period. The offer arrives in a formal letter and the vendor wants a response within two weeks.

Complementary worksheet for

Vendor Negotiation Playbook
by Ibrahim Anwar

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SECTION 1

What This Is For

A 5% discount sounds like a win. The exclusivity clause that comes with it is the price — and it is a price most operators do not calculate before saying yes. This worksheet forces that calculation: the true value of the discount over three years, what the discount costs in BATNA leverage, what happens if the vendor's performance declines mid-contract, and what the minimum counter-proposal must contain to make the deal worth accepting on your terms.

The trigger is the moment a vendor offers a price concession with a multi-year exclusivity clause attached. That structure always benefits the vendor more than it benefits the buyer on the terms as written. The worksheet reveals by how much, and what would need to change in the contract language to rebalance it.

SECTION 2

Benefits

What you get when you actually run this worksheet on a real situation:

- Calculates the total three-year dollar value of the discount so the operator knows exactly what they are being offered — and can compare it to what they are being asked to give up.
- Compares the discount to the current BATNA: if the best alternative vendor is already cheaper, the discount is not a concession — it is catching up to the market.
- Forces the performance clause check: a three-year exclusivity without a termination right for underperformance is a one-way trap.
- Calculates the value lost by surrendering BATNA leverage over three years — the discounted negotiating position in every future renegotiation during the exclusivity period.
- Produces the minimum counter-proposal structure that makes the deal commercially rational: IHPB-indexed escalation, performance targets with exit right, and a BATNA-maintenance clause.

SECTION 3

Framework To Use

— Discount vs Commitment Value Map

A side-by-side calculation of what the operator gains (discount value over 3 years) versus what they give up (BATNA leverage, exit right, protection against cost escalation).

Factor	**Vendor gains from exclusivity**	**Buyer gains from discount**
3-year certainty	Volume guaranteed; no BATNA competition	5% price reduction (if IHPB-protected)
Price protection	Can request IHPB increases — buyer cannot counter with BATNA	Only if escalation clause is symmetric and capped
Exit right	Cannot be dropped unless contract allows	None unless performance-based termination clause added
BATNA value	Buyer's BATNA leverage eliminated for 3 years	None — BATNA is surrendered with exclusivity

SECTION 4

How To Use

Follow these steps in order. Each one builds on the previous.

1. Enter the annual purchase value in this category, the current unit price, and the proposed discount percentage. Calculate the annual saving and the three-year total saving.

2. Enter the current BATNA: the best alternative vendor price from the most recent RFQ. Calculate whether the discount closes the gap between the active contract and the BATNA, or whether the discount still leaves the active contract above the best available alternative.

3. Estimate the vendor switching cost: qualification, specification adjustment, and transition productivity loss. If the switching cost is larger than 12 months of the discount saving, the discount does not cover the cost of switching if the vendor underperforms mid-contract.

4. Check whether the proposed contract includes an IHPB-indexed escalation clause. If not, calculate what an unprotected 3-year contract could cost if raw material prices rise at the same rate as the past 3 years.

5. Check whether the proposed contract includes a performance-based termination right. If not, calculate the revenue impact of a sustained 68% on-time delivery rate for 3 years with no exit option.

6. Write the minimum counter-proposal: accept the exclusivity but add IHPB-indexed price escalation with a cap, delivery performance targets with an exit right if not met for 2 consecutive quarters, and a clause allowing BATNA maintenance (periodic RFQs to alternative vendors, but no purchases under exclusivity unless performance targets are missed).

SECTION 5

Example Use

A Bogor food distributor buys corrugated packaging from a vendor at $0.22 per box, spending $210,000 per year. The vendor offers a 5% discount ($0.209/box) in exchange for 3-year exclusivity. The purchasing manager has 12 business days to respond.

Step 1 — Value of the discount. $210,000 × 5% = $10,500/year. Over 3 years at constant volume: $31,500 gross saving. That is the headline number.

Step 2 — BATNA comparison. The purchasing manager checks her BATNA folder: an RFQ to a Bekasi vendor 4 months ago came back at $0.204/box. If she were not locked into exclusivity, she could already negotiate to $0.204 or use that quote to push the current vendor below $0.209. The proposed discount brings the active vendor to $0.209 — still $0.005/box above the best available alternative. On 80,000 boxes/month (at $210,000/year), that remaining gap is $0.005 × 80,000 × 12 = $4,800/year the buyer overpays vs the BATNA even after accepting the discount.

Step 3 — Unprotected escalation risk. The corrugated packaging sub-sector (paper and paper products) in BPS IHPB has risen an average of 7.3% per year over the past 3 years. If the proposed exclusivity contract has no escalation clause, the vendor can request annual increases citing "rising costs" while the buyer has surrendered their primary negotiating lever (the BATNA). A conservative estimate: if the vendor requests 5% increases in Years 2 and 3, the Year 1 discount is fully eroded by Year 2, and the buyer is actually paying more than the current contract price by Year 3. Net 3-year impact: +$4,800 above the current contract, not -$31,500.

Step 4 — Performance protection gap. The vendor's scorecard shows an 88% on-time delivery rate over the past 4 quarters. Acceptable, but not exceptional. Without a performance termination clause, the buyer is locked in even if that 88% drops to 70% in Year 2.

Minimum counter-proposal: "We are willing to accept a 3-year commitment with the 5% discount applied, subject to three conditions: (1) price adjustment mechanism indexed to BPS IHPB for the paper products sub-sector, capped at 4% per year; (2) on-time delivery performance target of 90%, with the buyer's right to terminate with 60 days' notice if below target for 2 consecutive quarters; and (3) the buyer retains the right to request periodic RFQs from alternative vendors for benchmarking purposes, but purchases remain exclusive as long as performance targets are met."

Value of the counter vs the original offer: the IHPB cap alone, at 4% vs an uncapped contract in a 7.3% average inflation environment, saves approximately $210,000 × 3.3% × 3 years / 2 (simplified average) = $10,395 over the contract. Combined with the performance exit right, the counter-proposal transforms the deal from a one-sided vendor win into a commercially rational 3-year partnership.

SECTION 6

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Evaluating a Discount-for-Exclusivity Offer

Scenario: your most important vendor, who supplies approximately 40% of your annual purchase volume in that category, proposes a 5% price reduction in exchange for a 3-year exclusivity commitment — meaning you agree not to purchase the same category from any other vendor during that period. The offer arrives in a formal letter and the vendor wants a response within two weeks.

ITEM	YOUR NUMBERS
Vendor + category	
Current unit price ($)	
Annual purchase volume (units / year)	
Current annual purchase value ($)	
Proposed discount (%)	
Proposed new unit price ($)	
Annual saving from discount ($)	
Total saving over 3 years at current volume ($)	
BATNA: best alternative vendor quote ($ / unit)	
Gap: BATNA vs proposed new price (positive = BATNA cheaper)	
Annual $ you overpay vs BATNA even after discount ($)	
Vendor switching cost estimate ($)	
Escalation clause in proposed contract? (Y / N)	
Estimated 3-yr cost if no escalation clause and 5% annual increases ($)	
Performance termination right in proposed contract? (Y / N)	
Vendor's current on-time delivery rate (%)	
Revenue impact per month if on-time rate drops to 70% ($)	
Your minimum counter-proposal (3 conditions)	

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. A 5% discount locked to a 3-year exclusivity commitment is commercially rational only if: (1) the post-discount price is below or equal to your current BATNA, (2) the contract includes IHPB-indexed price escalation with a cap so the discount is not eroded by Year 2, and (3) a performance-based termination clause exists so you are not locked in if delivery or quality standards decline. If any of the three is absent, the deal needs a counter-proposal, not an acceptance.

2. Write the minimum counter-proposal as three numbered conditions the vendor must add to the contract for the exclusivity commitment to be acceptable. Be specific: name the IHPB sub-sector, state the cap percentage, name the performance target dimension and the threshold that triggers the exit right. Vague counter-proposals produce vague contract language that will not hold in a dispute.

SECTION 7

Tips and Traps

TIPS

- Ask for the contract draft before responding to the offer letter. The offer letter describes commercial terms. The contract is where the performance clause, escalation mechanism, and exit right either exist or do not. Do not respond to the offer without reviewing the draft contract.
- The BATNA-maintenance clause — 'buyer retains the right to run periodic RFQs for benchmarking' — is often accepted by vendors because it costs them nothing while the buyer is actually buying exclusively. But it keeps the market reference alive, which preserves some price discipline during the exclusivity period.
- If the vendor declines all three counter-proposal conditions, that is useful information: they are trying to lock in a one-sided deal and know it. At that point, the BATNA is the right answer.
- A 3-year exclusivity commitment is a significant negotiating leverage surrender. Request a meaningful concession in return beyond the headline discount: dedicated capacity commitment, fixed lead times in writing, or a joint product development provision if the vendor has technical capability.

TRAPS

- Accepting the exclusivity because the headline 3-year saving number looks large without calculating what it costs in BATNA leverage and unprotected escalation risk. The 3-year gross saving often looks very different after those two calculations.
- Assuming that a long vendor relationship means performance will stay stable. The exclusivity removes the primary mechanism that keeps performance up — the vendor's knowledge that you have real alternatives. Without that, performance targets and contractual consequences are the only remaining lever.
- Negotiating the discount percentage without negotiating the contract clauses. The percentage is the easy part. The clauses are where the real long-term value of the deal is determined.
- Responding verbally to the offer. Any acceptance or counter-proposal should be in writing, with the specific conditions stated. A verbal acceptance of a modified deal that then goes into a contract drafted by the vendor will usually reflect the vendor's interpretation, not yours.

SECTION 8

Appendixes

Appendix A — Exclusivity Offer Net Value Calculation

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Gross saving from discount over 3 years:
  Annual purchase value ($)      = P
  Discount (%)                   = D
  Gross 3-year saving            = P × D% × 3

Cost 1: Discount vs BATNA gap (what you overpay vs best alternative)
  BATNA price ($/unit)           = B
  Proposed new price ($/unit)    = N
  Annual units                   = U
  Annual BATNA gap cost          = (N − B) × U   (if N > B, this is a cost)
  3-year BATNA gap cost          = annual gap × 3

Cost 2: Unprotected escalation risk
  Est. annual raw material inflation (IHPB, past 3 yrs) = I%
  If no escalation cap, vendor can request I% annually.
  Year 2 net impact vs discounted price = P × I%
  Year 3 net impact vs discounted price = P × I% × 2 (cumulative)
  (Simplification; actual depends on renegotiation outcome)

Net 3-year deal value = Gross saving − BATNA gap cost − escalation risk

Example (food distributor, $210,000/yr, 5% discount):
  Gross saving         = $210,000 × 5% × 3  = $31,500
  BATNA gap cost       = $0.005 × 960,000 = $4,800/yr × 3 = $14,400
  Escalation risk      = $210,000 × 7.3% × 1.5 = $23,000 (est.)
  Net deal value       = $31,500 − $14,400 − $23,000 = −$5,900
  → Deal is a net cost, not a net saving, as written.
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Appendix B — Minimum Counter-Proposal Clause Language

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Condition 1 — Escalation cap:
  "Price adjustments during the exclusivity period shall be limited
  to changes in BPS IHPB for [sub-sector], applied proportionally
  to the raw material component of total cost (agreed at [X]%).
  Maximum annual adjustment: [4]%, regardless of IHPB movement.
  If IHPB falls by more than [3]%, a proportional downward
  adjustment applies on the same mechanism."

Condition 2 — Performance-based exit right:
  "If the vendor's on-time delivery rate falls below [88]% for
  two consecutive calendar quarters, as measured by the jointly
  agreed scorecard method (Annex A), the buyer has the right to
  terminate this exclusivity commitment with 60 days' written
  notice. The obligation to fulfill orders already placed at
  time of notice remains in force."

Condition 3 — BATNA maintenance clause:
  "The buyer retains the right to request quotations from
  alternative vendors for benchmarking purposes at any time.
  Such quotations do not constitute a breach of the exclusivity
  commitment as long as no purchases are made from those vendors
  while this agreement is in effect and while all performance
  targets are being met."
```

WHERE THIS WORKSHEET COMES FROM

Vendor Negotiation Playbook

The First Price Quoted Is Not the Best Price Available

by Ibrahim Anwar

This worksheet is one of nine in the *Vendor Negotiation Playbook* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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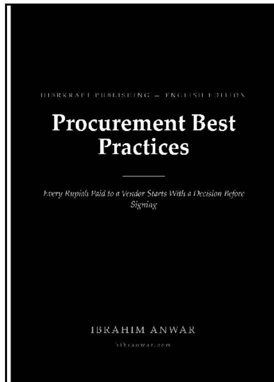

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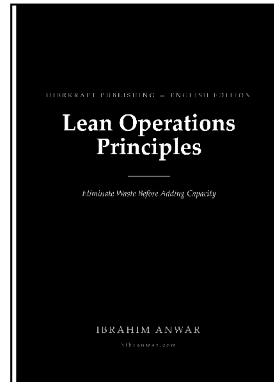

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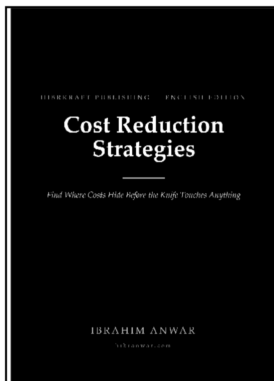

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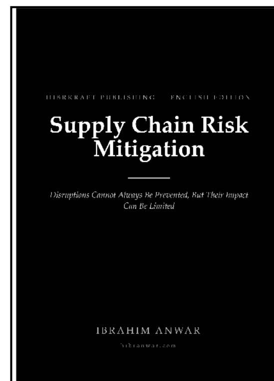

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