

Strategies for Negotiation --- A Different Approach

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Introduction / Abstract

The term “Negotiation” is not new to us. All of us have been engaging in some sort of negotiation whenever we go out to shops for buying our household requirements. Such negotiations mostly hinge on obtaining price reduction. Sometimes we may even visit a few shops, browse the internet, in our attempt to obtain the best buy. However, the scope for such negotiations is limited, since in most cases, the prices are determined by the market forces of demand supply equations.

However, when we talk about “Negotiations” in a Business setting, it is an entirely different cup of tea. It needs a lot of professional training, skill and experience to successfully “conclude” a business deal. You need to master a complex process of identifying strategies, planning the process to engage in skillful negotiations, to finally conclude the deal. Since each deal is different, the strategies may need to be revised for each, but the essential processes and steps to be followed are practically the same in most cases. In this article, we look at some of the checklists and steps which would be useful for conducting the negotiation process.

Key Words

- Meaning of Negotiation
- Normal Phases of Negotiation
- Checklist for evaluating Suppliers’ Proposals
- Understanding Suppliers’ Strategies
- Negotiation Checklist to improve your results
- A Different Approach to Negotiation
- Some more thoughts on Negotiation
- Resources and Relationships

What is “Negotiation”?

A successful negotiation simply means that the benefit obtained is more than the cost incurred in obtaining that benefit by giving up something.

You must be careful to ensure that that you never try to make all the gains in a deal but let the other party also make some gains too. If you have a reputation for always making all the gains, the chances are you won’t have many deals.

- In short, a successful negotiation should always result in a win-win situation for both parties.
- Winning does not always mean coming first, but that you are doing better than what you have done earlier.

Normal Phases of Negotiation

- Plan
- Debate
- Propose
- Contract

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Checklist for Evaluating the Suppliers' Proposals

- Is the proposal submitted on time?
- Does it conform to the specification or provide an acceptable specification?
- Does it answer all your queries?
- Does it provide pricing in proper currency and unit of measure?
- Are there any hidden charges?
- Does the supplier have the ability to provide the required quantity?
- Has the supplier confirmed ability to deliver to, or perform at the desired locations?
- Does it conform to specified payment terms or propose acceptable payment terms?
- Does it comply with the specified warranty or propose acceptable warranty?
- Has the supplier specified any exceptions to your contract terms?
- Has the supplier provided financial statements and cost breakdown?
- Does the proposal offer ideas for cost saving or value creation?
- Does the proposal provide information necessary to be set up in the purchasing system?
- Does it provide evidence of required certifications?
- Has the supplier demonstrated capacity to handle additional work if awarded your business?

Having evaluated the suppliers' proposals, the next step would be to prepare for negotiations. The shortcomings in the proposals would provide leveraging points during negotiation.

Understanding Supplier's Strategies

Have your suppliers figured out how to neutralize your negotiation strategies? Most professional sellers regularly go through negotiation training. If you do not hone your negotiation skills, your chances of getting the best deals from your suppliers are very slim. Unfortunately, many procurement professionals feel that their past negotiation experience will serve them well today. But things have changed much today. Supplier-friendly win-win negotiation is the new standard. Today you have less preparation time than before.

The key to success is defeating the supplier's strategy. You need to know your supplier's negotiating strategy; otherwise, you cannot defeat it. Let us discuss it with an example; an IT supplier may engage with an IT professional who has little or no negotiating experience instead of engaging a procurement professional. This strategy will make the IT professional feel as if he got a good deal, so that he may resist any procurement involvement that would diminish his "negotiating glory". It would also give the supplier a defense against procurement negotiation. Defeating such strategy would involve collaborating with the IT department to reach a common understanding of supplier's strategies and to defeat them by establishing clear roles, in advance, for who conducts technical evaluations and who negotiates.

Win-win negotiation is the norm today. However, if a supplier comes to the negotiating table with a strategy to "win" more than you, deciphering and defeating that strategy (not that supplier) is a key to favorable results.

Negotiation Checklist to Improve Your Results

- Identify the primary supplier to negotiate with

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- Identify the second best option in case you cannot reach agreement with your primary supplier
- Decide on the format and location of your negotiation sessions
- Invite the primary supplier to negotiate and understand who the supplier's principal negotiator is.
- Ensure that the supplier assigns a negotiator with decision making authority
- Assess your leverage over the supplier
- Determine the overall negotiation strategy
- Identify all the terms that you will negotiate
- Set targets and least acceptable alternatives for each of them
- Determine your tactics (such as threatening to use another supplier, emphasizing benefits to the supplier of doing business with you etc.)
- Decide on what to concede, if necessary, to reach agreement.
- Develop timeline for the negotiation process
- Identify the risks to achieving your terms and plan to mitigate those risks
- Develop and share internally a communications plan stating who must be updated on the progress and what information they must keep confidential
- Anticipate your supplier's reaction to each tactic
- Create an agenda for the negotiation
- Start the negotiation
- Document the agreements reached

A Different Approach to Negotiation

The approaches normally followed are

- Negotiate, ask rebates
- Bulk buying to get volume discounts
- Develop alternate vendors
- Substitution of materials
- Formulation of efficiency projects
- Reverse Auctions, Value Engineering, Learning Curve etc

But it is common knowledge that most big suppliers have higher prices and higher share of business. Also, they have lower total cost in the system

The strategy so far, has been to negotiate when you want to buy.

But an alternative strategy could be to negotiate when you don't want to buy immediately!

The advantages of this strategy are:

- Time is in your favor

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- You are not short for next supplies
- You may already have an alternate
- You have no commitments to honor
- You can build your own case

Some more thoughts on Negotiation

- It is not always the price that needs to be negotiated
- Can you buy a product which has low cost to the supplier but high value to your organization and product?
- Always remember that it is your organization that is negotiating and not you.
- Be hard on the deal but soft on people
- Look at the deal from their side also
- Be innovative in your approach each time

Resources and Relationships

- Resources are constant, expensive and finite
- Relationship has no cost attached to it
- While you do a cost review, do you review your relationship with your supplier?
- Do you review your relationships with your other users, other functional departments, with Distributors, Stockiest, and Transporters etc?
- While you monitor your vendor's performance in respect of quality, service etc, but do you ever monitor what is important to the vendor – your payment performance?
- Do you monitor and publish your payment performance and communicate to your vendor?

If you do the above, the trust, respect, mileage you get is immense.

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