Effective Negotiation

Preparation: Section 1
Negotiating in Different Settings
Understanding the Supplier Organisation
Learning Outcomes

At the end of this session candidates will be able to:

- Define the term ‘negotiation’
- Describe the different phases of negotiation in order to the identify the range of preparatory activities
- Identify and describe the collaborative and distributive approaches to negotiating in business in order to understand different negotiation settings
- Compare and contrast the collaborative and distributive approaches to negotiation so as to assess the types of variables to be used in a negotiation
- Identify the factors that influence the approach taken in negotiations in order to understand the supply context
- Review the purchasing context for negotiations in order to understand the supplier organisation
- Identify the range of supplier information required to underpin a negotiation
- Apply a Porter’s 5 Forces framework to a market to enable evaluation of the competitive environment
Negotiation Definitions

**NEGOTIATION IS:**

**The process** whereby two or more parties decide what each will give and take in an exchange between them

Rubin and Brown (1975)

**An occasion** where one or more representatives of two or more parties interact in an explicit attempt to reach a jointly acceptable position on one or more divisive issues about which they would like to agree

Gottschal (1973)
Negotiation Definitions

NEGOTIATION IS:

Any form of verbal communication in which the participants seek to exploit their relative competitive advantages and needs to achieve explicit or implicit objectives within the overall purpose of seeking to resolve problems which are barriers to agreement

Lysons (1993)
Negotiation Situations

To discuss with a view to mutual settlement (Collins English Dictionary)

- Two or more parties
- Conflict of interest
- Willingness to negotiate
- Need to seek agreement
- Better outcome through influence and persuasion
- Parties seeking to satisfy tangible and intangible outcomes
Phases of Negotiation

Phase 1
Preparation

Phase 2
Relationship Building

Phase 3
Information Gathering

Phase 5
Bidding

Phase 6
Closing the Deal

Phase 7
Implementing the Deal

Phase 4
Information Using

Phases of Negotiation

KENNEDY'S FOUR PHASES

PLAN/PREPARE
DEBATE
BARGAIN
PROPOSE

Source: derived from Kennedy (1989), ‘Everything is Negotiable’
Phases of Negotiation

A NEGOTIATION PROCESS falls into THREE DISTINCT PHASES

PRE-NEGOTIATION

ACTUAL NEGOTIATION and

POST-NEGOTIATION

Phases of Negotiation

A NEGOTIATION PROCESS consists of

THREE IMPORTANT FACTORS

• THE NEGOTIATORS
• A NEGOTIATING SITUATION
• TIME

Effective Negotiation

Three criteria are identified for effective negotiation that it be:

- A *wise agreement*: satisfactory to both sides
- *Efficient*: costs and time appropriate
- *Harmonious*: fosters good relationships

Collaborative Approach

Agreement is reached by:

- Finding common goals
- Transparent agenda and issues
- Acceptable solutions for both parties
- Ethical
- Sharing risk and cost savings
- Impasse escalation process if necessary such as mediation or arbitration
- Friendly, non-aggressive approach
Distributive Approach

Negotiation is played out by:

- Competing goals
- Secrecy and hidden agendas
- Low trust
- One side winning and the other losing
- Head-to-head adversarial approach
- Competitive and inflexible negotiation
- Characterised by conflict, disagreement and miss-information
- Impasse may end in no deal or litigation
## Negotiation Outcomes

### BUYER (OR EMPLOYEE)

<table>
<thead>
<tr>
<th>WIN</th>
<th>LOSE</th>
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<tr>
<td><strong>WIN</strong></td>
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<td>Both are winners</td>
<td>Buyer loses Seller wins</td>
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<tr>
<td>Seller loses Buyer wins</td>
<td>Both parties lose</td>
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**SELLER (OR MANAGER)**
NEGOTIATIONS

*Essential skills and qualities include:*
- Questioning and **active listening**
- Observation
- Assertiveness
- Influencing
- Persuading
- Patience
- Sense of humour!
- Ethics
Drivers for Change in Purchasing

- Technological advances
- Quality and customer focus
- Globalisation
- Insourcing and outsourcing
- Strategic cost management
- Supplier relationship development and network management
- Value chain and added value focus
Impact on Negotiation

- Fluctuating prices
- Time preferences
- Dynamics in exchanges
- Relative interests of each party
- Risk aversion factors
- Bargaining power
- Constraints of macro-environment and organisational policies and procedures
Negotiation

- Pre-contract
- Contract agreement
- Contractual and relationship review
Porter’s 5 Forces
(Michael Porter, 1985)

Rivalry among existing competitors
- number/size of firms, industry size and trends, fixed vs variable cost bases, product/service ranges, differentiation, strategy

Supplier Power, eg:
- brand reputation
- geographical coverage
- product/service level quality
- relationships with customers
- bidding processes/capabilities

Bargaining power of suppliers

New Market Entrants, eg:
- entry ease/barriers
- geographical factors
- incumbents resistance
- new entrant strategy
- routes to market

Bargaining power of buyers

Threat of substitute products or services

Buyer Power, eg:
- buyer choice
- buyers size/number
- change cost/frequency
- product/service importance
- volumes, JIT scheduling

Product and Technology Development, eg:
- alternatives price/quality
- market distribution changes
- fashion and trends
- legislative effects

Effective Negotiation
RISK

• Risk is in the future
• The result of probability of something happening and the impact when it occurs
• Risk is around us all the time
• Some risk is predictable
RISK

There are 4 ways to attack risk

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<tr>
<th>RISK ATAC WHERE RISK SITS BEST</th>
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<tr>
<td>AVOID</td>
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<td>TRANSFER</td>
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<td>ACCEPT</td>
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<td>CONTINGENCY</td>
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RISK
What is the likelihood of risk happening and what are the possible consequences

RISK PROBABILITY AND IMPACT

PROBABILITY

HIGH
MEDIUM
LOW

IMPACT
LOW
MEDIUM
HIGH

KEY PERSONNEL

. IT SYSTEMS.
CRITICAL SUPPLY

. MISSED
OPPORTUNITIES
PESTLE

- Political
- Economic
- Socio-cultural
- Technological
- Legislative and Regulatory
- Environmental and ecological
RISK: from external environment: PEST, PESTLE, DEEPLIST

PEST looks at external information that might affect the organisation from local to global influences.

PEST = POLITICAL, ECONOMIC, SOCIAL & TECHNICAL

PESTLE = + LEGAL AND ENVIRONMENT (LEGAL WOULD SIT UNDER THE POLITICAL AND ENVIRONMENT WOULD SIT UNDER THE SOCIAL ELEMENT OF PEST)

DEEPLIST = + DEMOGRAPHIC AND INFORMATIONAL (DEMOGRAPHIC WOULD SIT UNDER SOCIAL AND INFORMATIONAL WOULD SIT UNDER THE TECHNICAL AS IN COMPUTER SYSTEM TRANSFER/TRANSPARENCY OF DATA - E-BUSINESS)

Other sources to evaluate external influences include OPPORTUNITIES/THREATS (within SWOT) and Porters Five Forces model. More info can be found in Study guide and Lysons

Revision Question:
Describe using practical examples how an organisation scans the environment to obtain useful market intelligence.
## RISK SWOT

### Opportunities

- Acquisitions and Mergers
- Competition reduced or weak
- Corporate Social Responsibilities (CSR)
- Demographic and social change
- Diversification opportunities
- Economic upturn
- Exchange rates
- Green/ethical/trusted/sustainable products
- Innovation and new technology
- International/global growth/reach
- Laws/Regulations
- Market growth
- New Markets & Market Segments
- New Products/recycle old ones
- New Trends / Fashions
- Partnership Development
- Political/economic change
- Product Life Cycle stage profitable
- Research and Development
- Strategic space

### Threats

- Competitors increased/merging or failed
- Competitors partnering
- Copying loss of IPR
- CSR non-existent or poor (competitors better)
- Customer and supplier increased pressure
- Demographic change
- Diversification failure
- Economic cycle downturn/change
- Environmental issues
- EU regulations do not apply to competitors
- Exchange rates unfavourable
- International barriers to trade changes
- Laws / Regulations affecting profit / flexibility
- Market growth low or declining
- Marketing & advertising weak v competition
- New Market Entrants
- Failure to adapt to new markets
- Political environment change
- Product life cycle end
- Research and Development poor
- Substitutes/Copying
- Sustainability issues
- Technological innovations weak v competition
- Trends/Fashions change unexpectedly

### External

### Internal

### Strengths

- Architecture network
- Capital/plant items run efficiently/effectively
- Commercially grounded
- Communication good/excellent
- Core strengths known
- Culture harmony
- Low-cost position
- Diversified/Diversified products/service
- Economies of scale for lower costs
- Ethically and morally sound/trusted
- Expertise/Experience rich/high level
- Goals and missions strong
- Innovative personnel
- Innovative processes/products/results
- Key performance indicators (KPIs) used
- Leadership and management skills
- Manufacturing/production ability
- Market awareness strong/position dominant
- Market share strong/position dominant
- Market share strong (acquisition/merger)
- Organisational flexibility
- Power over suppliers and competitors
- Quality high in resources/products/services
- Reputation good/excellent
- Research and Development strong
- Service Level Agreements (SLA’s) used
- Technology sound/advanced

### Weaknesses

- Capital/plant old/inefficient running costs
- Commercially unaware
- Communication poor/non-existent
- Core strengths few or not known
- Cost position poor
- Culture imbalance
- Differentiation poor/non-existent
- Direction and Goals/Missions lacking
- Employee interview/selection poor
- Ethically unsound and lacking trust
- Expertise/Experience poor or non-existent
- Financially/share weak/cash flow poor
- Complex geographical organisational spread
- Innovation & new ideas poor/non-existent
- Leadership and management skills lacking
- Management poor
- Market knowledge poor or non-existent
- Organisation weak/poor architecture
- Ownership change (acquisition/merger)
- Power lies with customers/suppliers
- Products limited in the market place
- Quality & Reputation poor
- Research & Development poor/lacking
- Key Skills lacking or poor
- Structure bureaucratic/slow/inflexible
- Technology dated and inefficient
**RISK: Probability and impact**

**Purchase Portfolio Analysis**
(taken from CIPS documents and text by Mark Moore (1999), 'Commercial Relationships')

The technique uses a matrix, which analyses the supply base according to supplier risk factors. Risk relates to (i) exposure to supply failure and (ii) supply market complexity. Risk will be low in competitive markets for standardised products and services and high for specialised products/services. Risk will be high for purchases where there is a limited choice of available suppliers and/or commodity is scarce.

Equally the impact on profit or budget on the purchasing organisation can be high or low. The technique was first used advocated by Peter Kraljic in 1983 in 'Purchasing Must Become Supply Management'. There are now a number of derivatives of the portfolio technique, with some authors highlighting expenditure on the x axis.

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