

Principles of Purchasing

Lecture 6

Negotiation In Purchasing

Lecturer: Samson Ndonye

Lecture Learning outcomes

At the end of the lecture, you will be able to:

1. Understand the Key concepts and objectives of Negotiation
2. Explain the negotiation styles and approaches
3. Apply effective negotiation strategies and ploys

Introduction

Negotiation is a process whereby two or more parties decide what each will give and take in an exchange between them. Negotiation can also be defined as any form of verbal communication in which the participants seek to exploit their relative competitive advantages and needs to achieve explicit objectives within the overall purpose of seeking to resolve problems which are barriers to agreement.

Objectives of negotiation:

Certainty

The aim of contract negotiation is firstly to achieve certainty, to record what is being supplied, when, in what quantities and to what standard, and what are the consequences of delay or failure to meet the agreed requirements.

The best deal

Seeking clarity does not conflict with the view that negotiations should achieve the best deal, it merely points out that both parties to a negotiation have to understand what it is that they have agreed to.

Achievement of an Organization's objectives

The goal of every negotiation must be to achieve a result which, even if it falls short of the original objective can be considered a satisfactory advancement towards it.

Creation of a long-term relationship between the parties

Whilst this is not always possible, and some cultures, such as the Japanese, place more emphasis on this aspect of negotiation this is increasingly important as companies build networks of alliance partners.

A Negotiator is also paid to walk away from a bad deal

A good negotiator must be prepared to walk from a bad deal, not to get the sale at any price. Your company will not normally thank you for an unprofitable contract, or one with a poor partner, or where it is unclear what the other side will do. If your company is prepared to make a deal at any price, unless this is the launch sale, then it has problems.

Other objectives of negotiation:

- To obtain the quality specified
- To obtain a fair and reasonable price. Price should not exceed the budgetary allocation of buyer and save on cost of production
- Get supply on time. Buyers and sellers negotiate for delivery schedules that suppliers can meet, without endangering the other requirements of the purchase
- The firm's negotiation must agree contractually or legally for controls which will assure compliance with the quality, quantity, delivery and service terms of the contract
- The negotiator must persuade the suppliers to give his firm maximum co-operation and in return to rewarding the supplier should ensure future orders and timely payments
- A procurement office must investigate and find a suppliers with concrete, continuing experienced and quality performance of operations

Negotiation can be done when-

- The purchase involves a significant amount of money or requires an ongoing effort. In these situations, negotiation may be used in conjunction with a bid.
- The number of suppliers available is too limited to create competition via a bid.
- New technologies or processes are required for which a selling price has yet to be determined.
- The supplier is required to make a substantial financial investment or other resources.
- There is not enough time available to seek competitive bids.

Strategies for Negotiations

- **Adversarial Negotiations**

Also referred to as **distributive or win-lose negotiation**, is an approach in which the focus is on 'positions' staked out by the participants in which the assumption is that every time one party wins the other loses. As a result the other party is regarded as an adversary.

The characteristics of adversarial negotiation entail:

- a) Parties have competing goals
- b) Involves use of threats
- c) In case of deadlock, negotiation is terminated
- d) The approach is rigid
- e) The attitude is that of we must win, they must lose.

- **Partnership Negotiations**

- This is referred to as *collaboration or win-win negotiations* in which the focus is on the merits of the issues identified by the participants on which the assumptions that through creative problem-solving, one or both parties can gain without the other having to lose.
- Since the other party is regarded as a partner rather than an adversary, participants are more willing to share concerns, ideas and expectations.
- Partnership is also referred to as integrative or win-win negotiation, is an approach in which the focus is on the merits of the issues identified by the participants in which the assumption is that through creative problem solving one or both parties can gain without the other having to lose.
- Since the other party is regarded as a partner rather than an adversary the participants may be more willing to share concerns, ideas and expectations.

The characteristics of partnership negotiation entail:

- a) Common goals emphasized upon.
- b) Negotiation is friendly and based on openness
- c) In case of a deadlock, negotiation results to further problem solving
- d) The approach is flexible
- e) The attitude is we both must win.

Characteristics for this approach's

Win-win	Win-Lose
• Collaboration	Distribution
• Mutual interest and common goal	Opposition and confrontation
• Flexibility	Inflexibility
• Joint problem-solving	Conflicts and disagreement
• Long term contract and repeat supplies	One-off and adversarial supplies

- **Know yourself**

- Take a personal inventory. How do you feel about the negotiations, do you want to get it over fast? If so, you may give in quickly or give away too much. Or do you want to win no matter what the costs? If so, you may become adversaries and damage the relationship
 - **Know the suppliers well/do your homework**
- Know who you are negotiating with, what is his/her reputation as a negotiator. Does the person want to negotiate with you? When tempers erupt during negotiations, divert attention away from the issue e.g. use of a joke or coffee
 - **Use Questions effectively**
- By proper timing and phrasing questions, negotiators can control the progress and trend of the negotiations. Answer questions properly. Know when to answer, what to answer, when not to answer, when to answer clearly, when to answer vaguely.
 - **Develop external listening.**
- When listening to someone, don't carry on an inner dialogue with yourself. Listen so you don't miss out on important non-verbal messages, facial expressions, listen to opponents choice of words, phrases, tone of voice etc
 - **Use positive statement**
- Be positive always
 - **Know your *BATNA* (Best Alternative to Negotiation Agreement)**
- Before you begin negotiation, know what your options are. Can you walk away from the deal? What other choices do you have? What are the pros and cons of each choice? Don't stop there, also consider the BATNA of the other party
 - **Know what a win is**
- What is your best scenario/ what is your worst scenario? The area in between is called the settlement range. If you can reach an agreement within the settlement range, that is a win. Don't drop below your bottom lines

Styles and Ploys of Negotiation:

A ploy is defined in the Oxford English Dictionary as 'a cunning act performed to gain an advantage'. A ploy can also be defined a tactic in a negotiation aimed at achieving a particular result.

Several standard ploys are often used in commercial negotiations. They are worth knowing about – you may not wish to use such tactics yourself, but you will certainly wish to know you’re your opponent is using a ploy against you.

Here are some of the more common ploys:

- ***The bogey:***

This is a buyer’s ploy. The buyer assures the seller that he or she loves the product but has a very limited budget, so that in order for a sale to occur the seller must reduce the price.

The idea is to test the credibility of the seller’s price. The seller might react positively by revealing information about costing, so that you can force the price downwards. It may also provoke the seller to look at your real needs.

- ***Minimum order ploy:***

This is a ploy used by the seller whereby the seller maximises the value of the order by placing restrictions or conditions on the order the buyer has placed.

- ***Over and under ploy:***

This ploy is a handy response to a demand made by your opponent. For example, your opponent might demand that you reduce your price by 5% if they pay your invoice within seven days. You could respond with an ‘over and under’: ‘if you agree to a 5% premium for late payment’.

- ***Quivering quill:***

This is a ploy used by buyers in which the buyer demands concessions at the very point of closing the deal. At this point, the buyer is about to sign the contract and suddenly demands, for example, 3% off the purchase price. When the seller expresses unwillingness to agree, the buyer threatens not to sign the contract. A typical result is that the seller is pressured into giving a 1.5% reduction on the purchase price.

- ***Shock opening:***

This is a negotiation ploy designed to pressure the opponent. The other negotiator starts with a price that is much higher than you expected. You are shocked into silence. If – but only if – they back up their opening price with a credible reason for it, you must review your expectations.

Other ploys are.

- The ‘yes, but...’ ploy-acceptance of one part of the opponent’s proposal but in terms that may be unacceptable
- The ‘trust me’ ploy-accept my proposals now and I will try to get better deal later
- The ‘beyond my remit ploy-suggesting that a settlement cannot be reached until you have had advice from others not represented at the negotiation
- The ‘divide and rule’ ploy-endeavouring to get agreement on issues one by one rather than deferring final agreement on one of the issues at the stake until all others have been settled

- The ‘or else’ ploy-a straight threat (I will take the business elsewhere’). Never to be used unless meant.
- The ‘hand on the door’ ploy-another straight threat (That is my final offer, if not accepted immediately, I shall leave. Again, never to be used unless meant.
- The ‘believe it or not ploy-straight bluff (I have already had three lower prices) should be called.

How To Prepare for Negotiation in The Procurement Process

Negotiating in the procurement process requires thorough preparation to ensure successful outcomes.

Procurement offices should follow the guide to effectively prepare for their negotiation.

a. Understand Your Needs and Objectives

- The procurement officers need clearly outline the specific products or services needed, including quality, quantity, and delivery timelines.
- Identify your primary goals, acceptable alternatives, and the minimum terms you’re willing to accept.

b. Research the Supplier

- The procurement officers need to investigate the supplier's history, reputation, and market position. Understanding their strengths and weaknesses will help tailor your approach.
- Assess their financial stability to gauge their negotiation power and reliability.

c. Know the Market Landscape

- As a procurement officer, you need to stay informed about current industry trends, pricing, and standards in your industry to strengthen your position.
- Understand what other suppliers offer, including pricing and terms, to better position your negotiation strategy.

d. Develop Your Strategy

- As a procurement officer, you need to decide whether to adopt an adversarial (win-lose) or partnership (win-win) approach based on the relationship and context.
- Know your Best Alternative to a Negotiated Agreement. This provides leverage and clarity on what you can accept if negotiations stall.

e. Prepare Your Proposal

- As a procurement officer, you need to create a proposal that outlines your expectations, potential concessions, and what you hope to achieve.
- Clearly communicate the benefits your organization offers to the supplier, emphasizing why a partnership is advantageous.

f. Anticipate Objections and Ploys

- As a procurement officer, you need to anticipate potential objections from the supplier and develop responses to address these effectively.

- Familiarize yourself with common negotiation tactics, allowing you to counter them calmly and strategically.
- g. Gather Supporting Data**
- Compile data to justify your pricing and terms, including competitive comparisons and industry benchmarks.
 - Be prepared to discuss necessary specifications and standards to ensure compliance with your organization's requirements.
- h. Engage Stakeholders**
- Collaborate with relevant team members to gather input and align on strategy.
 - Assign specific roles for each team member during the negotiation, ensuring everyone knows their responsibilities.
- i. Rehearse the Negotiation**
- As a procurement unit, you need to practice mock negotiations to refine your approach and responses, enhancing confidence and effectiveness.
 - Seek input from team members to improve your strategies and communication style.
- j. Logistical Preparation**
- The procurement officers need to choose a conducive meeting environment, ensuring it is quiet and comfortable for discussions.
 - The procurement officers need to test any necessary equipment (e.g., presentation tools, video conferencing) to avoid disruptions.

Effective preparation for a procurement negotiation is crucial for achieving favorable results. By following these steps, you can enhance your confidence, clarify your goals, and strengthen your position, ultimately leading to a successful negotiation outcome.

What is needed to be a Successful Negotiator?

- **Knowledge of the subject matter.** The person(s) sent to represent the firm must have thorough knowledge of the subject matter
- **Experience.** Negotiation is a place for surprise and the person(s) to represent firm must have some prior experience to be able to contain some of the surprises especially for the highly complex contracts of high dollar value
- **Personality.** Ability of an individual to be able to pull negotiations in his/her favour e.g. good listener, controlled temper/anger, high self-esteem, authoritative attitude, ethical, persistent, strong etc

Conclusion

Negotiation in the procurement process is a critical skill that encompasses both art and strategy, aiming to achieve mutually beneficial agreements between parties. Central to this process are clear objectives: establishing certainty in contractual terms, striving for the best deal, and fostering long-term relationships. A successful negotiator must be willing to walk away from unfavourable deals, ensuring that the agreements reached align with organizational goals.

Effective negotiation requires thorough preparation, including understanding one's needs, researching suppliers, and being aware of market conditions. This preparation forms the foundation for a strategic approach, whether adopting adversarial or partnership negotiation styles. By anticipating objections and employing thoughtful tactics, negotiators can navigate complex discussions while maintaining a focus on collaborative problem-solving.

Ultimately, the skills and strategies outlined in this chapter empower procurement professionals to secure favourable agreements that contribute to the organization's success. With the right knowledge, experience, and interpersonal skills, negotiators can enhance their effectiveness, ensuring not only immediate gains but also the potential for future partnerships. As organizations increasingly rely on strategic alliances, mastering the tones of negotiation becomes essential for achieving sustained competitive advantage.

Revision Questions

1. What are the central objectives of negotiation in the procurement process, and why is establishing certainty in contractual terms important?
2. How can a negotiator determine when to walk away from a deal, and what factors should influence this decision?
3. What are the key components of effective preparation for a negotiation, and how do they contribute to a successful outcome?
4. What are the differences between adversarial and partnership negotiation styles, and when might each be most appropriate?
5. How do the skills and strategies outlined for negotiation impact the long-term success of procurement professionals and their organizations?