Business Excellence and Management
Volume 4 Issue 1 / March 2014

THE IMPORTANCE OF NEGOTIATION IN BUSINESS MANAGEMENT

Vasile DEAC
The Bucharest University of Economic Studies, Bucharest, Romania
deac_vasile@yahoo.com

Mihai VRÎNCUŢ
The Bucharest University of Economic Studies, Bucharest, Romania
mihai.vrincut@gmail.com

Oana PĂUN
The Bucharest University of Economic Studies, Bucharest, Romania
oana_paun_constanta@yahoo.com

Abstract
The current crisis has revealed that in the “war” between suppliers and customers the power balance has finally swung towards the latter, and since companies act as both suppliers and customers to other entities apparently complicates their situation. A high performance implies minimizing the cost of “inputs” and maximizing revenues from “outputs”, which in turn requires an effective negotiation from the company both as client and supplier. While negotiation skills can give them a strategic advantage, those skills alone are not enough, proper preparation of the negotiation having greater importance in achieving strategic advantage in negotiation. This aspect will be highlighted as a priority in this article.
Keywords: negotiation, self-assessment and analysis of the other side, evaluation of context, Best Alternative to a Negotiated Agreement, zone of possible agreement.

1. INTRODUCTION

The current economic circumstances determined by the new economic and financial context, the crisis we are facing, the acceleration of globalization, internationalization of companies, increased interdependence of economic markets place most companies in a context of “economic war”. Only companies whose management will find solutions to increase competitiveness will emerge from this stimulating predicament. Lately there has been talk, especially in our country, that the lack of economic performance of companies has its justification in the absence of good management, able to scientifically make decisions, those relating to assurance of material resources and sales being a priority.

Conducting a success full company activity and completing its strategic objectives is conditioned by both the insurance of material resources and the commercialization of products resulting from productive activities.

A company cannot function without customers or suppliers, since it finds itself in both customer and supplier posture. The current crisis marked even more the fact that **we are witnessing a transition from the "supplier's market" to the "customer's market" and in the "war" between supplier and customer the power balance has finally swung towards the latter** (Păun, 2013). Due to its dual role, in order to obtain a high performance, a company requires the minimization of "inputs" cost and a maximization of revenues resulted from "outputs", which in turn requires effective negotiation with both suppliers and customers.

Negotiation can be a spontaneous act (for example, while on a delegation I'm thinking to surprise my wife buying hera jewel and I negotiate its price)or may be a very complicated formal process, difficult and long-term (i.e., negotiations regarding the purchase of a company).If negotiation skills may confer the negotiator a strategic advantage in the first case, in the second case, these skills are not enough, proper preparation of negotiation having greater importance in gaining the strategic advantage.

Unfortunately most negotiators rely mainly on their negotiation skills (innate or acquired) and do not realize how important it is to devote most of their effort and time in the negotiation's preliminary steps. Statistics show that a negotiation means: 70% preparation; 10% "staging"; 20% performance (Popescu, 2003).

In this article, while addressing issues related to negotiation, we will focus on some practical aspects of negotiating, very important for business management.

2. NEGOTIATION PREPARATION

What is, concretely, a negotiation? It can be an easy question, if we assume that it is not more than the "good old bargaining", which still stands in the present, or it can be a complicated one if we take into consideration the many theories that show us *"what and how to do"* in order to "fool" our suppliers or customers.

Any negotiation involves a starting point and an ending. If the time of negotiation ending is easily fixed (for example, signing the contract or a handshake and the promise that "the next time we'll come to an agreement and sign the contract"), it's not the same when it comes to the starting point of the negotiation. Most theorists and businessmen associate it with the moment of buying intention being

Business Excellence and Management
Volume 4 Issue 1 / March 2014

expressed, but there are opinions that "negotiation begins when the client is perfectly willing to buy the proposed product or service, but not at the price and terms it bears" (Pascal, 2008).

Why is price usually one of the most important aspects of the negotiation? Whatever strategic objective targeted by a company (profit, market share, other), price has a decisive role in achieving it, and in many cases a wrong price strategy compromised the company's overall strategy (Simon, Jacquet, and Brault, 2006). Moreover, in the competitive environment, the price is always perceived as a source of problems: customers complain that it is too high, competitors use it as a weapon of attack to gain market share, and distributors exert high pressure upon it. These are all inevitable realities of modern competition.

But whatever the perspective from which we look at negotiation, its success depends mainly on the manner in which it has been prepared in advance. This preparation includes unilateral documentation actions ending in a set of actions or documents that are designed not only to support the negotiation, but also to impress the opposing side. A large international company's manager for Romania told us (we don't have her consent to name her), about the strong impression that one of the sales managers of the parent company made when at one last request from the Romanian partner to lower an important transaction's price asked to be allowed to make some calculations. He opened his laptop, made the said calculations, while everyone was waiting silent, and then said briefly: "it is acceptable, I reduced my margin to the minimum possible, because we want to continue business"; he then shook his negotiation partner's hand. This set of actions or documents should be part of the arsenal of any serious negotiator, regardless of the transaction's size (Deac, 2009).

In the preparation phase, two aspects are essential: **self-assessment and analysis of the other side** and **evaluation of context** (Leigh, 2004).

a. Self-assessment and analysis of the other side

If negotiation the main questions that the seller must ask himself are: **"what do I want?"** and **"what are my options?"** Although the answer to the first question seems simple enough, in reality, it raises several issues.

First, there may be cases in which some companies are setting very modest objectives (not necessarily profit objectives) and therefore begin price negotiations by proposing a price level that is immediately accepted. Their limited perspective prevents them achieve more.

Second, other companies set such rigid and ambitious goals, that they risk losing business or having to accept the last offer so that they don't lose everything. Therefore, the first thing a good negotiator must do in the preparation stage is setting clear and realistic objectives. **Price assessment is the first step in preparing effective negotiation.**

Regarding the second question, if the negotiation does not have the desired result, it is essential to know the existing options (backup alternatives that the company already has available); this lucidity shows the talent of a negotiator and influences the final outcome of negotiation. This step is so important that an acronym was created for it: BATNA (Best Alternative to a Negotiated Agreement). It marks the point where you realize that your claims will not be accepted and any proposal made isn't better than what you were offered before. It is the moment in which you get up and leave the negotiation table.

When negotiating a transaction the most important information one side can hold is the opposing side's BATNA. Although it is unlikely that one side to reveal its alternative (this only happens when the negotiator is in experienced or mediocre), either side must learn all it can about the other side in order to minimize the risk of possible earnings reduction.

A common limit in negotiation is exclusive focus on price, omitting many other aspects (additional costs of customer, payment terms, after-sales warranties and so on), which combined with the price would bring the same value for the company (Kennedy, 1998); for instance, if at the time of delivery the buyer does not have the cash required to pay the value of purchases, a higher price becomes justified if the seller is to accept payment in rates or deferred payment term; on the other hand, the seller may accept a lower price provided that the buyer will pay in advance. Consequently, at this stage it is necessary to identify all negotiable issues, alternatives and to determine the various combinations of the same value to the company, taking into account all aspects. We will have to consider indirect aspects as well, which are not subject to negotiation, but make a difference on the effectiveness of the deal in the end. We consider including aspects of "transfer costs" (Porter, 1982), in many cases companies going for inputs from a particular supplier may reduce their costs on the long term, that cost reduction compensating input's initial price (for example in the steel industry changing raw material suppliers may entail an increase in energy costs for technological consumption) (Deac, coord., 2012).

Another relevant aspect that has to be taken into consideration at this stage is that any price negotiation assumes a risk. There are three possible sources of risk (Leigh, 2004):

- First of all, a **strategic risk**, relating to the effects of tactics used.

It is the case of companies that during negotiation threat they will negotiate with our competitors instead (an obvious strategic risk);

Business Excellence and Management
Volume 4 Issue 1 / March 2014

Business Excellence and Management
Volume 4 Issue 1 / March 2014

- Second, there is the **uncertainty risk** derived from the fact that most times, BATNA cannot be sure.

Even if you have a backup alternative that is not certain could be a problem. The safety of the alternative is reflected in the higher or lower risk aversion and will allow you to do fewer or compel you to do more concessions. In uncertainty situations when the company does not know whether or not it will be able to get the best price offer, we face either retention to make a decision, or some concessions until the offer takes shape;

- Third, there is the **risk of the other side not keeping its promise**.

There are few situations in which the transaction is not completed, either as a result of a personal decision, or for reasons beyond the control of those who negotiated. The question is to what extent the negotiator's behavior is affected by this risk? If he is in a position of inferiority, he will try, despite this risk, to reach an agreement.

The subjective factors that can affect each of the two sideshould also be studied in this analysis. **There is a general rule that says a good's value should be the same from both the seller and buyer's perspective** (Deac, 2009). However in many cases the seller tends to perceive the transaction as a loss, so it seems natural that he'll ask for more than the buyer is willing to offer. **This perceived value difference is even greater as the object in question has a strong subjective component**. For instance, for a car dealer selling his own car, also his first car ever, it's not the same as the other transactions that he performs as a dealer. In general there is an emotional load when you feel emotionally attached to the subject of a transaction, be it a simple product (hard for you to "part" with the first car you acquired), or your business. **An exhaustive analysis of all subjective factors that may influence the objectives of each of the sides involved increases the chances of a successful negotiation.**

b. Evaluation of context

The second activity of the preliminary phase of a negotiation is to analyze the context in which it is conducted. Usually negotiations in the case of economic transactions require written communication that alternates with several meetings face to face. There are cases in which the persons that will make the final decision are not present at the negotiation. Also, in the case of complex transactions (e.g. the purchase of another company), negotiations are extensive, lengthy, are worn by negotiating teams, each focusing on certain aspects, and price is an essential element, but not the only one underlying the final decision. In all these cases, it is important that the sides involved consider the way in which relationships evolve between them, the confidence is preserved and the extent to which previous agreements (not necessarily "sealed") can influence the ongoing negotiation. In business practice, often we find that although we reached some sort of agreement in the previous negotiation session, we have to start all over again in the next.

We also have to consider the role of privacy in negotiation. The economic transactions are confidential and external factors have less importance, except when the negotiation is public, and third parties are aware of the subject of negotiation, whether they are interested or not. There are situations in which one side is trying to put pressure on the other by "introducing" external factors through its tactics to get suppliers or customers "face to face".

Also, setting deadlines for negotiation can influence the chances of success of the two sides, since usually as deadline approaches concessions multiply (i.e. the last price offer, sent a few minutes before the deadline expires will always be lower than the previous one), therefore, many negotiators consider the establishment of time limits as a strategic error, something that is not always true. There are many situations in which imposing a time limit is absolutely necessary (for example, you cannot negotiate for a few months material orders to be included in the production for the next month), or when this deadline can be exploited to your advantage. Time pressure is uneven for the negotiating sides and usually can neither favor nor disadvantage both at once. Always the affected by the time crisis makes greater concessions.

Negotiation rules differ from one sector to another. These rules cover not only the form in which the agreement will be made (if we mean business-to-business transactions, a contract will be required, even if final negotiation ended with a handshake), but the actual negotiation techniques. For example, in the real estate market, negotiators on both sides engage in an endless game, something that turns the offer and counteroffer into very long processes. In this area it is inconceivable for a negotiator to claim that his first offer to be accepted. Obviously, such an ultimatum will not be accepted and both sides will turn to their BATNAs. This is the form in which the negotiating sides communicate with each other. In some cases, communication is explicit, and in other negotiation involves a tacit report, as sides communicate through facts.

3. GAIN MAXIMIZATION

The objective of any negotiation is to reach a favorable agreement without giving up anything, or since this is not possible, the zone of possible agreement (we will refer to this as ZOPA), the meeting point of the available reserve alternatives of the two sides (the best solution to a bargaining agreement). In fact

Business Excellence and Management
Volume 4 Issue 1 / March 2014

the entire negotiation process means a chain of concessions and compromises that the sides accept or offer in their try to defend their position while not launching too many or unnecessary attacks on the other side's position (Pruntianu, 2000). Final agreement will be somewhere above seller BATNA and below buyer BATNA. As shown in Figures 1 and 2 it can be positive or negative.

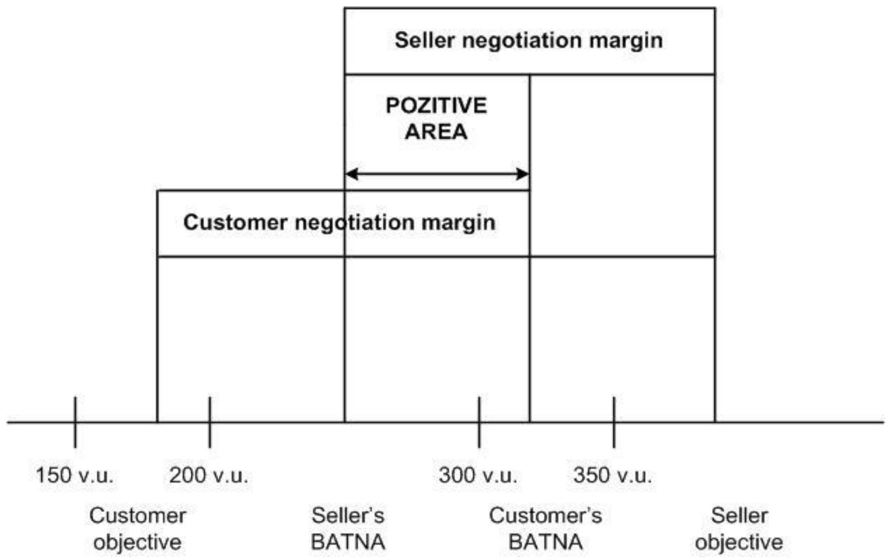

FIGURE 1 – POSITIVE ZONE OF POSSIBLE AGREEMENT

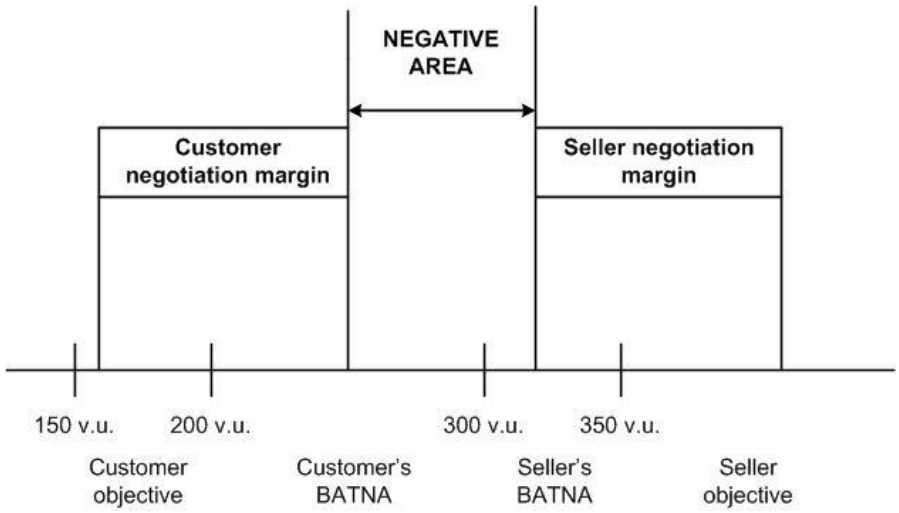

FIGURE 2 – NEGATIVE ZONE OF POSSIBLE AGREEMENT

If the zone of possible agreement is positive, that agreement is possible and even better than the alternatives both sides are counting on. When it is negative, and neither side is aware of this fact, they can lose hours trying to reach an agreement, when the best for everyone would be to turn to their backup alternatives.

We believe that the form in which an offer is presented within negotiation affects negotiation progress. If the proposals are presented as “fair” and “equitable”, they will have a greater impact than if presented without any objective explanation.

The essential question among negotiators regards the ability to get most of the “zone of possible agreement” when it is positive (thus, agreement can be reached through bargaining) each side seeking to obtain the “lion’s cut”.

The specialty literature presents different approaches that may increase the likelihood of getting the “lion’s cut”; Leigh, L.T. proposes ten strategies focusing on aspects such as (Leigh, 2004):

- Determining own BATNA and trying to improve it;
- Never talk about BATNA;
- Don’t lie regarding your own BATNA;
- Try to find the other side’s BATNA;
- Aim high;
- Plan carefully the firs offer;
- Launch a counter-offer, if the other side makes the first offer;
- Plan concessions and compromises;
- Demonstrate the rational character of your offers;
- Don’t fall into the “split the difference” trap.

In the opinion of other specialists, before any action, a good negotiator should be aware of the limits of the acceptable and the unacceptable in the negotiation. Regardless of which side of the fence we are on the specific negotiating objectives must be “ARMA” handled (Pascal, 2008):

- A from „Ambitious”;
- R from „ Reasonable”;
- M from „ Measurable”;

Business Excellence and Management
Volume 4 Issue 1 / March 2014

- A from „acceptable".

According to other specialists, negotiation is a *science of influencing others*. And, if you also happen to know a number of principles and rules, you will be able to give it the character of *art of manipulation*. Two of these rules are worth highlighting, respectively: *"Always start by negotiating the minor points! The major points are only to be discussed towards the end of the meeting"*and*" in any negotiation and generally in life, do not forget that money is the rarest commodity in the world!"* (Popescu and State, 2014).

In our opinion, beyond theoretical lessons and tips on *"how to negotiate and what techniques and strategies to follow"* negotiators should consider an important and very common in economic reality aspect: **the correct evaluation of the power ratio between the negotiating partners** that ultimately will have an impact on negotiation outcome. In the "business jungle" a company has no way to adopt the position of a "lion" when it's nothing more than a "puppy". The stronger one side is (we're not referring here only to the actual situations when objectively the bargaining power belongs to suppliers or customers, highlighted in the specialty literature (Porter, 1982)), the higher will be its chances of getting better terms.

We also believe that **we shouldn't overlook the aspect of pressure that can be exerted on one party** as a result of another party's awareness that the power balance inclines towards it, with direct effects on negotiation. Ways in which both suppliers and customers exert pressure range from the innocent "give us some time to think", a delay of delivery/purchase dates, citing various "objective" reasons to "threats of retaliation if ..." Attempts to minimize the opponent's force, to highlight its "weaknesses" may be, in our opinion, part of tactics to minimize this pressure and obtain a competitive advantage in negotiation, but cannot represent guarantees of success in negotiation.

4. CONCLUSIONS

Both in theory and business practice a transaction is considered completed only if both sides win, although there are opinions that consider negotiation as a "sports competition, winning or losing a negotiation depending on her preparation" (Pascal, 2008). But we believe that even win-win negotiations are misunderstood. It is believed that they are the same as sharing the zone of possible agreement between the two sides.

In our view, the real meaning of the "win-win" phrase should be to create new business opportunities (to ***"leave an open door"***, citing the manager of an international company in Romania), exploiting the maximum future possibilities offered by the current negotiations. Ultimately, it is about increasing the gain in the future, not only dividing it within the current negotiation.

Also, as pointed out above, there are many situations in which one of the reasons why negotiation fails is that it focuses only on a single subject - in general, the price. If negotiation is focused only on one aspect, the process becomes simply distributive, but if all aspects of negotiation are analyzed and current or future issues are added or even new subjects, a merely distributive negotiation can be transformed into a negotiation with a high potential for creating value, present or future, for all sides.

REFERENCES

Deac, V. (2009). *Provocarea prețurilor*, Bucharest: Editura EfiCon Press.

Deac, V. (coord.) (2012). *Management*, Bucharest: Editura A.S.E.

Kennedy, G. (1998). *Negocierea perfectă*, Bucharest: Editura Naţional.

Leigh, L.T. (2004). *The Mind and Heart of the Negotiator*, Prentice Hall.

Pascal, P. (2008). *Acord în negociere*, Bucharest: Rentrop & Straton.

Păun, O. (2013). *Creşterea rolului strategic al managementului asigurării cu resurse materiale în condiţii de criză*, Simpozion International ˝Dezvoltare durabilă în condiţii de instabilitate economică˝, 22 – 23 iunie 2013, Academia Comercială, SatuMare.

Popescu, D. (2003). *Eficienţa comunicării în afaceri*, Editura Luceafărul.

Popescu, D. and State C. (2014). *De la ştiinţa influenţării la arta manipulării*, Bucharest: Editura A.S.E.

Porter, M. E. (1982). *Choix strategique et concurrence*, Paris: Economica.

Pruntianu, S. (2000). *Manual de comunicare şi negociere în afaceri*, Iaşi: Polirom.

Simon, H., Jacquet, F. and Brault, F. (2006). *La strategie prix,* Paris: Dunod.