

PREPARING FOR THE PURCHASERS: INTRODUCING MARKETING STUDENTS TO NEGOTIATING PROCESSES

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ABSTRACT

The usefulness to marketing students of experiencing a negotiating process with other students who take a purchasing viewpoint is discussed. A methodology for conducting such an experience is presented.

INTRODUCTION

Approximately ten years ago two marketing writers noted that:

The face-to-face elements in marketing have been largely ignored in the literature, and yet there is interesting evidence that they are key aspects of the marketing task which have not to date received the attention which they merit....[A] marketing strategy is only as good as its implementation, and that implementation depends on the people who span organizational boundaries and whose work is aimed at creating various kinds of agreements. It is punctuated by the negotiations through which such agreements are made and put into operation, revised or terminated (McCall and Warrington, 1984, p. 3).

In 1991 another marketing author wrote that:

Many buyer-supplier relationships which salesmen have traditionally regarded as 'selling' situations have changed considerably over the last [10] to 15 years.... Greater buyer expertise and greater buyer power have led to an increased amount of interdependence between manufacturers or suppliers and distributors or users.... 'Negotiation' is the term generally applied to the more complex situations involving buyers and sellers, in which both make a number of proposals and counterproposals before an agreement is reached.... Selling [,on the other hand,] is being able to persuade the customer to buy from you rather than to say 'no' at the prices and on the terms of business you have quoted... (Lidstone, 1991, pp. 57-58).

Others have noted "[a] recent theme in marketing distinguishes short-term, discrete exchange transactions from exchange involving long-term repetitive interaction with a relational emphasis (i.e., open-ended supplier contracts, franchisor-franchisee arrangements, strategic partnering, and joint ventures) (Gundlach and Murphy, 1993, p. 35).

In one sense what is being described in these quotes is an evolution that has been taking place in the relationship between the marketing and purchasing functions in an interorganizational context. Marketing educators can incorporate certain aspects of this evolution into their classes by constructing situations that require their students to negotiate with purchasers. In explaining the usefulness of such exercises to their students, marketing educators can reference the advice that is given in contemporary marketing and purchasing literature. An example of advice from the marketing literature is that "anticipating the buyer's [negotiating] approach...will enable the salesperson to identify more quickly and accurately the buyer's use of specific tactics as they occur so that those tactics can be addressed for what they are rather than what they might appear to be on the surface" (Perdue and Summers, 1991, p. 187). The following advice from the purchasing literature recommends that nothing in the seller's marketing mix be taken as a given: "The number of specific strategic purchasing opportunities which might be addressed in formulating an overall purchasing strategy is limited only by the imagination of the purchasing manager. Any strategy chosen should include a determination of what quality, how much, who, when, what price, where, how, and why" (Leenders and Fearon, 1993, p. 642).

Marketing students need to be aware that marketing executives face purchasing agents who not only are motivated to negotiate many aspects of a proposed deal but who are also probably well prepared to do so. A recent survey of purchasing executives indicates that all of the following are

taken seriously in preparation for face-to-face negotiations: fact finding, cost or price analysis, supplier's profile check, organization of a negotiating team, developing tactics for handling conflicts, and analysis of supplier's bargaining strength (Min and Galle, 1993, p. 43).

CLASSROOM EXERCISES/EXPERIMENTS

There are many variations of classroom projects that a professor might employ to give students a feel (i.e., experience) for the types of negotiations they might encounter elsewhere. Numerous experiments might also be conducted based on differing kinds of negotiating problems, techniques, etc. The remainder of this paper, which is based on the writer's experience over the course of three semesters, may be of use to others in the design and implementation of classroom negotiating.

1. Negotiating problems can be of many kinds and from many sources. The following problems were designed and used by the writer. The reader is welcome to use them.

Problem 1: Buyer's Data Sheet

Your production department has requested that you order the annual requirement of 150 units of item #334. Our production schedule requires that 15 of these components be used each day in order to make 15 units of finished product per day. Your department and engineering disagree on the tolerances specified for the component. Engineering thinks that the tolerances should be plus or minus one inch but your department thinks that the tolerance can be looser (i.e., up to plus or minus 1 1/2 inches). If the tolerance is too loose the component will not fit into the final product and the production line will be shut down. A member of your committee has the authority to buy components with looser standards. Today's date is day number 1 and full production must start on day number 5 (there are no weekends or holidays in this business).

Top management agrees with engineering that the total cost of the component purchase cannot exceed \$30,000. The storage cost per unit per day at your facility is \$5 and the cost of renting a truck and driver to haul 50 units in one day is \$100. No other

suppliers are available. The purchase must be finalized by the end of the session.

Problem 1: Seller's Data Sheet

Your marketing department has been informed that it is critical that an order for item #334 be received. If the order is not received or if the order is sold at a loss, it is questionable whether the company can remain in business. Your marketing negotiating team has complete authority over the pricing of the item. You have received the following information from your accounting department:

Variable cost per unit (which includes \$10 per unit for delivery to customer and \$10 per unit for storage costs) is as follows: 1-200 units = \$200 per unit; 201-300 units = \$140 per unit. Variable costs can be gradually reduced by \$10/unit when the tolerance of the item is changed from plus or minus 1 inch to plus or minus 2 inches. Variable costs increase by \$10 per unit if daily production is either above or below 20 units per day. Overhead (which includes all other costs) is calculated as being 20% of variable costs. The sale must be completed by the end of the negotiating session.

Problem 2: Buyer's Data Sheet

Your company has been growing rapidly and with this growth has come an increase in the complexity of transportation decisions that must be made for incoming freight. Your department is trying to decide whether it would be best to hire additional personnel to aid in the making of transportation decisions, buy software, or opt for some combination of additional personnel and new software. The data that you have collected indicate that each additional person hired will have a total personnel cost of \$50,000 and that each such person will be able to reduce transportation costs by \$100,000 each year. A consultant has estimated that there is currently approximately \$500,000 of such potential savings (the same will be true each year). The work that the new people would do includes negotiating rates and scheduling shipments. Approximately 60% of the potential savings will probably come from negotiating with carriers. Your assumption is that software could be useful in both negotiating and scheduling but that it would be most useful in scheduling. Be-

cause of the complex nature of the operations that will be addressed by the software, your firm will need ongoing access to the software designer. It is anticipated that inappropriate responses from the designer could be costly (e.g., a wrongly modified line of the software's program could result in a \$50,000 transportation loss). You anticipate that your firm will require approximately 100 hours of such access per year. Because of this dependence on the software designer, anything that your firm does to irritate the software company during the negotiations might come back to haunt you. Your data indicate that it is possible to hire independent contractors to design the software for you but that your firm would have to get somewhat involved in the management of the project and you are concerned that your firm does not have enough expertise to do so. Your firm understands that such independent contractors are available for about \$250 per hour but you have no idea about how many hours of time would be needed for the design work. Your boss wants you to conclude a transaction by the end of the negotiating session.

Problem 2: Seller's Data Sheet

Your company designs customized software for business applications. Demand is increasing for such services but so is competition from sources around the world. This means that if your firm irritates the potential buyer for any reason there is a good chance that you will not get the job. Your overhead is relatively low in relation to your variable costs. As a matter of fact, your company has just covered its overhead for the year but is very concerned that it will not make much profit this year (we are half way through the year) because there do not seem to be many customers on the horizon. Your variable costs are significant because the actual design work is done by independent contractors who charge \$250 per hour for rush jobs and \$200 per hour for jobs that can be delayed for 2 weeks. Your company has discovered through experience that approximately five hours of independent contractor's time is needed for each \$10,000 that the software saves the customer. These same independent contractors also answer, at the same hourly rate, ongoing questions from your customers. Your boss says that you must conclude a transaction by the end of the negotiation session.

2. Regardless of the students' previous coursework, it is probably useful to review certain concepts that might arise in the course of the actual negotiations. These can include fixed and variable costs, economies of scale in production and transportation, inventory procedures (e.g., just-in-time inventory) and inventory costs, the elements of the marketing mix, and relevant legal concepts such as warranties and licenses. The main purposes for discussing these concepts are simply to remind the students what some of the variables in a negotiating process might be and to discuss how negotiating ranges might be established for the concepts (e.g., an acceptable range for cycle time).

3. Some discussion of negotiating techniques and responses to them is in order. Such a discussion can proceed on macro and/or micro levels. Macro level discussion might address a cooperative approach vs. an aggressive approach to negotiations. The literature on channel management deals with similar concepts and speculates on the types of channel conditions that would seem to indicate the use of a particular approach. See, for example, Buchanan (1992).

On a micro level, the class can discuss much more specific techniques such as good guy/bad guy, take it or leave it, no authority, nibble, playing dumb, put yourself in my shoes, y'all come, diversion, etc. (Harding, 1990, p. 85+). These techniques can be discussed from several viewpoints: 1) how might a technique be used in relation to specific factor being negotiated (e.g., price), 2) how the other side might best react to use a specific technique (texts on negotiating [Harding, 1990, p. 90-91] and the journal Purchasing discuss such reactions), and 3) the ethical ramifications of using the techniques. It is arguable that even techniques that some might find unethical should be discussed because students might encounter them in the "real world."

4. Dividing the class into marketing and purchasing teams presents the professor with several decisions. First, is there enough time to allow each student to have one turn on a marketing team and one turn on a purchasing team? Second, how large should each team be? Third, the issue of

how to assign students to teams presents the professor with choices among options including: a) allowing student self selection, b) seeking demographic diversity within each group, or c) randomly allocating students to teams. For an insightful discussion of the use of group projects in the classroom setting see Strong and Anderson (1990).

5. The time has now arrived for giving each team their version of the negotiating problem and for the teams to develop strategies. The professor must make several decisions at this point. First, should the teams be allowed to assign tasks within the group or should the professor make the assignments? Assignments can include being the expert on pricing, or inventory, or on spotting the other side's negotiation strategies. Second, how much time should the groups be given to prepare for negotiations? One variable affecting this decision is whether any research will need to be done.

6. The actual negotiating session can be a positive experience for all involved. There will hopefully be a series of proposals and counterproposals. The teams should be given the opportunity to retire to private areas to consider their next moves. During the actual team-to-team negotiating, the professor must decide whether to get involved or simply be an observer. If the negotiating problem is properly structured, it should be possible to decree that final decisions must be made by the end of the negotiating class period.

7. Debriefing is very important. Each side can indicate what their strategies and decisions were so that the other side can evaluate their own suspicions. Discussion can also center on what alternate strategies might have been employed. Most importantly the students should be congratulated for their efforts and reminded that the development of negotiating expertise is a life-long endeavor.

CONCLUSION

Although negotiating experience would probably be useful to all business students since negotiations are encountered in many types of careers, the experience would seem to be especially useful for marketing and purchasing students. This is because

improperly conducted negotiations between marketing and purchasing representatives can lead to ongoing operational problems and litigation between organizations (Aranda, 1994, pp. 99-100).

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