

INTRODUCING NEGOTIATION INTO THE BASIC MARKETING COURSE

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In order to successfully introduce negotiation and bargaining into a marketing course, it is necessary to expose students to both the importance of the topic and the potential bias against the topic. It is also necessary to have a simple model of the transaction that will provide an integrating framework between marketing management, negotiation and bargaining.

There is a growing recognition of the need to have marketing students exposed to the roles of negotiation in the market place. It plays a major role in industrial marketing and international trade. Negotiation has been recognized as an important element in channel management and its importance in the firm's planning process is starting to be recognized. As the emphasis in marketing swings from the problems of gaining competitive advantage over other sellers by serving customers better to the problems of helping buyers find more effective purchasing strategies the role of bargaining receives new emphasises. Sellers broaden their focus from a discussion of what they can do for target markets to a general appreciation of what individual customers are doing for them.

There are methodological, conceptual, operational and ethical bias which account for the lack of interest and research on negotiated exchanges. The statistical research methodologies which have proven so effective in advancing the theory of consumer behavior are not as effective when applied to the negotiation process, because outcomes are very contingent on the specifics of the process and situation. Marketers, who seek to study negotiation in the buyer-seller relationship, must train themselves in the use of deductive models and experimentation. Marketers, however, have a bias towards inductive research and methodologies.

The process of negotiation assumes that the buyer is a proactive agent in the creation the seller's offering. The marketing concept, however, reinforces a conceptual bias towards perceiving buyers as reactive elements who respond to offerings created by the seller.

There is an operational desire to find buying and selling strategies that minimize the opportunity for the other side to engage in bargaining. The operational bias is to find more powerful marketing strategies to avoid bargaining than to find powerful bargaining strategies.

Negotiated transactions often smack of collusion, reciprocity, payoffs and bribery compared to the arms length transaction of vending machine. Marketers have a natural propensity to focus on those phenomena that are legal and ethical rather than phenomena that may be less than pure.

Modeling the exchange situation as a Prisoner's Dilemma game is a very convenient device for illustrating the relationship between the marketing process, the negotiation process, and the bargaining process for creating transactions. The transaction problem is constructed as a game by assuming each party has the choice between making a transfer of some good or money to the other party or not. The cooperative outcome is the transaction. The non-cooperative outcome (or conflict point) is the status quo (i.e. neither chooses to transfer). The dilemma is that both sides most prefer the other side to make a unilateral transfer and least prefer to make a unilateral transfer. As a single shot game with independent choices there is no reason to expect a transaction. The status quo is the non-cooperative Nash equilibrium, although both prefer the transaction to the status quo.

The marketing process allows a transaction to occur if one side (e.g. the seller) is allowed to transform the game into a policy game and commit himself to a vending machine policy. The seller chooses his strategy of transfer or not after the buyer and in knowledge of the buyer's choice (i.e. a first level metagame). The seller, however, commits himself to a policy of reaction and announces this policy of a vending machine induces the transaction.

The negotiation also leads to a transaction. Negotiation, as an exercise in joint problem solving, allows both sides to communicate with each other and through mutual persuasion to modify their preferences in the original game and, thus transform it into a game of coordination. A modification of their utilities makes the transaction the most preferred outcome and a Nash equilibrium.

The bargaining process leads to a transaction without the preference modification. The four outcomes in the game are recast as contracts and each side proposes contracts he prefers in a process of offers and counter offers. The first mutually preferred contract that will be reached in a process of tit-for-tat concession making is the transaction agreement.

The simple game of Prisoner's Dilemma can be expanded to a game with several potential transactions and students can have a lively discussion regarding the optimal vending machine policy, negotiation strategy or bargaining strategy.