

# EFFECTIVE PLANNING AND TECHNIQUES OF SUCCESSFUL NEGOTIATION AND PURCHASING IN AN ORGANISATION

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## ABSTRACT

*This study was carried out to examine negotiation between the purchaser and supplier in an organisation. It discussed the meaning of negotiation, the objectives of negotiation, the topics for negotiation, the points a purchaser needs to consider when planning for negotiation and the important techniques of negotiation. The study concluded that negotiation is a give and take process and it is important that each party should not expect to prevail on all issues; that taking short-cuts when planning for negotiation can have a disastrous effects on the organisation and that the use of appropriate negotiation techniques will assist a professional buyer to achieve success in negotiation.*

**Keywords:** *Planning and techniques, negotiation, purchasing, organisation*

## INTRODUCTION

The real world is a giant negotiation table and everybody is a participant. Everyday, we enter into some sort of negotiation with a person or group of persons. Sometimes the exercise give the feeling of having received a new day perhaps because we negotiated very well or because we did not negotiate well. Negotiation occurs where there is a business to transact. Transaction is a business activity that involves the exchange of goods and services at a price. Therefore to have a balanced transaction, the concept of negotiation becomes essential. Negotiation in purchasing pictures the commercial process that occurs in everyday transaction. It is one of the most important tasks of purchasing professionals; the most delicate and difficult process of purchasing because it involves dealing with suppliers or vendors whose primary aim is to maximize profits. The buyer, on the other hand, has the opposite objective to hold supplier's profits and prices to acceptable levels, so as to achieve value for every one Naira spent. Therefore preparations for the actual negotiation with suppliers requires sound knowledge of the negotiation process and skills which are the necessary ingredient for the buyer to be able to offer resistance to the frequently well-trained salesman.

## ESSENTIALS OF NEGOTIATION

According to Compton (2005) negotiation can be defined as bargaining or conferring with others for the purpose of coming to an agreement or making an arrangement which is freely acceptable by all the parties concerned. Zenz (1994) defines negotiation as trading or deliberations leading to an agreement. Negotiations refer to more than just discussion. Although it is true that price looms large in any procurement negotiation, it is but one of many elements subject to discussion between the parties. Legally, any contract must involve agreement by the parties on all aspects of the contract. Thus, negotiations should include discussion of the quality and service elements of the transaction as well as price.

Whatever definition one accepts for negotiation, one element must be included-the process of getting our opponent to move from his position towards ours. Negotiation differs from a ball game or a war. In those

activities, only one side can win, the other side must lose. In successful negotiations both sides win something. Although both sides win, the winnings are not always equally divided between the parties. Invariably, one side wins more than the other. This is as it should be in business-superior business skills merit superior rewards. Any element of a transaction according to Zenz (1994) that needs to be discussed and for which there are choices is an appropriate issue for negotiation. An aspect of cost particularly overhead and to a lesser extent profit is negotiable. The required quality of product can be met by using different materials. A change in a raw material in the composition of a chemical or in methods of packaging is all potential negotiation topics.

Similarly, the quantities to change hands in the transaction are negotiated. Quantity discounts, commitment to supply quantities over an extended period of time, blanket contracts and the possibility of future orders may be discussed and negotiated. Finally, the service aspects of a transaction are negotiable. Obtaining a fair price is the most common objective of negotiation in purchasing. Several objectives according to Burt, Dobler and Sterling (2003) are common to all procurement or sales negotiation. They include:

- a. To obtain the quality specified (the right quality)
- b. To obtain a fair and reasonable price (the right price)
- c. To get the supplier to perform the contract on time
- d. To persuade the supplier to give maximum cooperation to the purchasing company.
- e. To exert some control over the manner in which the contract is performed.
- f. To develop a sound and continuing relationship with competent suppliers and
- g. To create a long term relationship with a qualified supplier.

Cases won in chambers according to Lyson (2001) are the guiding principle in pre-negotiation, that is legal victories are often the outcome of the proceeding research and planning of strategy on the part of counsel. Buyer can learn much by studying the strategies and tactics of legal, diplomatic and industrial relations and applying them to the purchasing

field. Experts on negotiation argue that planning is perhaps the most important part of negotiation process. Unfortunately many purchasing negotiators fail to properly prepare before entering into formal negotiation. Planning therefore is the process of devising methods to achieve a desired end. Once purchasers/buyers develop a plan, they can begin to develop the tactics to carry out that plan. Without effective planning, a negotiator cannot possibly have the information required to support complex negotiation or argue position persuasively.

The preparation stage of a negotiation is critical. If carried out properly it will help to achieve the desired result. Knowledge is power and to be forewarned is to be forearmed. In planning for negotiations, buyers should be prepared to spend a large part of their time. Therefore success in negotiating is largely a function of the quality and amount of planning that has been done. According to Monezka, Irent and Handfield (2002), the following should be considered by a buyer when planning for negotiation.

1. Develop specific objectives
2. Develop agenda
3. Analyze each party strengths and weakness
4. Gather relevant information
5. The Team and the leader
6. Determine points of common interest
7. Recognize your suppliers needs
8. Develop a negotiating strategy and tactics
9. Brief other personnel
10. Opening posture and concessions

***Develop Specific Objectives:*** The first step of the planning process in negotiation involves developing specific objectives sought from the negotiation. What exactly do you want to achieve by means of the negotiation with the suppliers? What is it that you want the supplier to do? What are you willing to do in return? An objective is an aspiration or vision to work toward in the future. The primary objective in purchasing negotiation is to reach an agreement covering the purchase of a good or service. A buyer or supplier would not commit his scarce resources if the goals of the negotiation will not be successful. This does not mean that all

negotiations will be successful. Many negotiations end in deadlock when there is no overlap in positions on key issues. Before actual negotiations begin, however, the parties usually believe they can reach an agreement. If the parties believe otherwise, they would not put forth the time and effort to prepare for a negotiation.

In Negotiation, objectives must be specific. That is objectives must be quantified whenever possible. If the objectives are not quantified then it will not be easy to measure performance effectively. It is better to set objectives in consultation with those who are to negotiate. When objectives are set on behalf of someone who is to conduct the negotiation, objectives can be de-motivating. Unattainable objectives can also be a serious de-motivator. Objectives should therefore be quantified, attainable, agreed by all concerned, split into three levels (ideal, realistic and fallback), supported by cost and price analysis and set high.

***Develop agenda:*** Buyers should always prepare list of points to be covered during negotiation, preferably in logical sequences. Successful negotiators spend considerable time and effort developing their agenda prior to face discussion. They place major emphasis on the sequence in which they plan to address issues during all phases of the face to face discussion. Experience indicates that issues which are easier to agree on should be addressed early. All negotiations centre on specific issues. One of the difficult tasks of negotiation is to define fully the important issues which are to be included on the agenda and then to be sure that the discussion is confined to these issues. Most authorities believe that the issues should be discussed in the order or their probable ease of solution. With this priority system, an atmosphere of cooperation and momentum can develop that many facilitate solving the more difficult issues. The buyers ensure that all points are covered and that the supplier has a copy of the agenda even if it is an edited version so that he comes properly prepared.

***Analyze each part's strengths and weakness:*** Experience has shown that negotiators understand their counterparts through research and experience. This means understanding what is important to them. It also means coming to the negotiating table with an understanding of personalities and histories.

When a purchaser negotiates with a supplier for the first time, a buyer must put forth additional research before fully understanding that supplier. The buyer should assess the supplier's team to know the make-up. He should also know what areas or activities that various members of the suppliers' team are representing at the negotiating table. Before the meeting, the supplier should be contacted and asked to ensure that he has the necessary people to cover the points to be discussed. Obviously the buyer and other members of the buyer's team should be fully briefed about the supplier's company and if it is an overseas organisation, its country. The buyer should make sure that he knows the supplier's leader and accord him the deserved respect.

***Gather relevant information:*** The ability to analyze yourself and your counterpart requires the gathering of information. This process is not complex if the buyer and supplier have previously negotiated a purchase agreement. When this is the case, the buyer may already have the answer to a number of important questions. What happened between the parties? Are we negotiating with the same or different people? What are the areas of disagreement? Is there anything about the rule of the negotiation we would like to change?

***The team and the leader:*** The composition of the buyer's negotiating team will depend on the subject of the negotiation. Who are the best people to use? Will purchasing department need help from outside their department, (this will often be the case in major negotiations involving technical material), who will take notes? Who watches the other party's reaction? When selecting the negotiating team, the buyer should ensure that there are representatives to cover all the aspects to be discussed and that the skills represented in the supplier team are adequately covered in the buying team. This does not mean having a separate person for each major point because some members of the team should be able to cover several points. Unstable character should not be included in the team, which ideally would be small and if possible with only one commercial and one technical person. In some cases, the members will be more than two and this depends on the type of contracts involved. It is not necessary to match the suppliers' team members.

It is also important to agree who the leader is; the leader tends to be either the purchasing manager or the engineer responsible for the project under negotiation. A purchaser who has no experience with a supplier can get the required information from so many sources. One possible source is others within the organisation who are experienced with the supplier. These sources may help identify what is important to that supplier, provide background information, or even address the personalities of engineers, sales, purchasing or manufacturing personnel. Published sources of information such as trade journals, other business publications, annual report, financial evaluation, enquiries directly to personnel at the suppliers, and internet are valuable sources of information from quotations provided by the supplier before the negotiation.

***Determine Points of Common Interest:*** In many negotiations most of the time is spent on issues one cannot agree on. If these are the issues that receive attention it will be very difficult to reach agreement. It is, therefore, more important to establish (in advance) the points of agreement. Focusing attention here leads to a more positive atmosphere or the question of how do we solve our conflicts? Then, becomes how can we turn the points of common interests into the largest possible mutual advantage? Keep the negotiating atmosphere as positive and open as possible.

***Recognize the supplier's needs:*** The buyer and the supplier in a negotiation are, in many ways, mirror images of each other. Each side wants to reach an agreement that is favourable to longer-term success. As a buyer gathers information about a supplier, it is important to identify those issues that are particularly critical to the supplier. For example, a supplier may want to maintain market share and volume in its industry. Therefore, receiving an entire purchase contract rather than a portion of a contract may be an important objective to that supplier. The issues that are most critical to a supplier may not be the most critical to a buyer.

***Develop a negotiating strategy and tactics:*** Negotiating strategy refers to the overall approach used to reach a mutually beneficial agreement with a supplier who holds different points of view from the buyer. In other words, strategy is the overall plan that has been set. Tactics are the means to be used to ensure that the negotiator is able to accomplish an end, objectives

or strategy. For example, when dealing with a particular supplier, your objective may be to reduce his price by 10%. Your strategy could be to persuade him of the benefits of marginal costing and your tactics could include measures such as presenting the supplier with costing and to demonstrate what contribution to profit would result. Without an overall plan it is easy for a negotiator to be pulled off. The ideal situation is to have a well developed negotiating strategy with the tactics to support that strategy.

***Brief other personnel:*** Purchase negotiation usually affects other parties within a company. The individual or team conducting the negotiation should brief these parties to make sure they are aware of and in agreement with the objectives of the negotiation. This briefing can also address the major issues of the negotiation and positions on the issues. Briefing personnel prior to a negotiation helps eliminate unwanted surprises during face-to-face negotiation.

***Plan opening posture and concession:*** One of the most difficult tasks facing any buyer in negotiation is that of making his opening posture. If his demand is too high he will lose credibility and de-motivate the supplier. If it is too low then the buyer himself has already limited the possible outcome of the negotiation. What will be your opening bid? When will you make it? Never make a concession without asking for something in return but also never ask for a concession without offering something in return. Discuss with your team members which concessions you are willing to make and which concessions you absolutely will not make under any circumstances. You can do the same for the opposition: what concessions do you think they are willing to make and what is absolutely unrealistic to expect?

## NEGOTIATIONS' TECHNIQUES

Some people believe that there is no technique or technical skill unique to negotiation in purchasing. This is an erroneous belief. No buyer who lacks the ability and skill to negotiate that can expect to achieve success in negotiation or reach the top of the suppliers' ladder or stay there. This ability and skill is chiefly, but not exclusively confined to the commercial



and economic areas of suppliers activities, but extends into the technical field also. Negotiation techniques, according to Burt et al (2003) are the negotiator's working tools. The negotiator uses them to achieve his or her goals. In the hands of a skillful negotiator, these tools are powerful weapons. Competent negotiators therefore, spend a great deal of time studying and perfecting the use of these techniques. Those selected for discussion represent some of the techniques that have proved to be most important and most effective for purchasing negotiators. The techniques which are applicable to all negotiations, according to Burt et al (2003) are:

***Getting to know you:*** It is a powerful and effective technique in negotiation.

The negotiator is not dealing with abstract representatives, but with human beings. If possible, he or she should get to know the individuals representing the seller before the face to face phase of the negotiation begins. Some organisations tend to rush into negotiation without getting, to know and understand the other side of the representative. Members of most other cultures spend a good amount of time becoming acquainted with those with whom they are to negotiate before entering into the formal face to face phase of negotiations. These negotiators find ways to meet the seller's representatives informally. If possible, they arrive early before the face to face negotiation is scheduled to begin and stay later after it ends.

***Be sure of opponent's authority:*** Before starting negotiations buyers should be absolutely certain that the seller's representative have full legal power to conclude the contract and sign for the sellers firm. If doubts exist verification of authority should be made from the appropriate official in the seller's firm. Many buyers have revealed their negotiating plan only to discover that the supplier representative had no power to bind his company, but rather was required to send the proposed contract to the home official for approval.

***Use questions effectively:*** The wise use of questions is one of the most important techniques available in negotiation. By properly timing and phrasing questions, the negotiator can control the progress and

direction of the negotiation. A perspective question can forcefully, yet tactfully, attack the supplier's position. Similarly, the negotiator can effectively defend his or her position by asking the seller to evaluate certain carefully chosen data the negotiator had developed. Basically there are two types of questions that can be used by the buyer during negotiation, open ended and closed. The latter requires "Yes or No" answer while the former requires comment, description or some kind of discussion response. Open-ended questions are used to get the other party talking. Closed questions are used when the buyer believes that the subject areas relates to a weakness in the opponents position or when a buyer requires confirmation of an understanding of a given situation, fact or statement. The technique of answering questions properly sometimes is as important as the techniques of asking them properly.

***Be a good listener:*** Listening is one of the most under rated skills in negotiation, yet effective listening coupled with keen observation can tip the balance in favour of the listener. Having asked the right questions do listen to the answer. Don't interrupt unnecessarily. A common fault among negotiators is that they do not listen to the answer to their first question before asking another. Generally speaking, sales people enjoy talking. Consequently, negotiations should let them talk. While talking, they very often talk themselves into concessions that a negotiator could never gain through negotiation. Listening per se recognizes a basic need of a seller. In addition, listening carefully to a seller's choice of words, phrases and tone of voice, while at the same time observing his or her gestures and other uses of body language can be rewarding. By observing such actions, a negotiator can gain many things regarding seller's negotiating position.

***Communicate effectively:*** Without communication, there is no negotiation on a joint decision. Communication is never an easy thing, even between people who have an enormous background of shared values and experience. Whatever you say, you should expect that the other

side will almost hear something different or not hear at all. It is important to listen attentively and acknowledge what is being said. Use such statements as "Did I understand correctly that you are saying...? You have a strong case. Let me see if I can explain it. Here is the way it strikes me or let me see whether I follow your line of discussion. From your point of view, the situation looks like this. The party speaking will feel satisfied of being heard and understood as they see themselves and not as a phrased response. To understand is however not to agree. Listening enables you to understand the perceptions.

***Use of diversions:*** On the human side of negotiations, the negotiator who knows the seller personally or has carefully studied his or her personal behavioural patterns (as should be the case) have an advantage. When tempers start to flare, as they occasionally do, the experienced negotiator quickly diverts attention away from the issue at hand. At such time a joke, a coffee or tea break can be an effective means of easing tensions. This type of diversion is usually more easily accomplished when the participants know which situations are not irritating to their negotiation colleague.

***Use positive statements:*** As with sophisticated questions, perceptively used positive statement can favourably influence the course of negotiations. For example, assume a negotiator knows that certain questions will evoke an emotional reaction from the seller. The questions are asked, and an opportunity is created for something like this "I see your point, and I understand how you feel about this matter. Your point is well noted" contrast the effect of this type of positive response with that of an emotional, negative response in which the negotiator tells the seller that he or she is "dead wrong". When a negotiator tells a seller that the seller's viewpoint is understood and considered reasonable, even though the negotiator does not agree with it, the seller is more likely to consider the negotiator's viewpoint objectively.

Many negotiators suffer from what salesman's call "Buyer

Arrogance". They believe that all they have to do to get their own way during negotiation is to thump the table or tell the seller that they are seeking other suppliers. In the short term, particularly in a buyer's market, this may be effective but most buyers/sellers relationships are long term and when threats and ultimatum are used continually the effect is often detrimental.

***Be Considerate of Sellers:*** A small number of negotiation experts contend that negotiations are best won by negotiators who are as brutal, and as arbitrary as possible. This is definitely a minority opinion. There are some purchasing situations in which a mercy, proper and successful negotiation techniques is necessary. However, for the vast majority of firms those that seek profitable continuing relationships with the seller - a more considerate and reasoned technique is recommended. Professionals lose no negotiating advantage whatsoever by being fully considerate of sellers personally, relating among themselves face to face thereby reasonably satisfying their emotional needs.

***Never give anything away:*** As a matter of strategy, a successful negotiator periodically lets the seller maneuver him or her into accepting one of the seller's proposals. This does not mean that the negotiator gives something away. He or she never gives anything away". A professional negotiator always expects to get a concession in exchange. On the other hand, the negotiator does not feel obligated to match every concession made by the seller. Consequently, in the exchange process, the successful negotiator makes fewer concessions than his or her less successful adversary. Through a continuation of this exchange process, a position close to the objectives of both parties is usually reached and contract so negotiated is mutually advantageous.

## CONCLUSION AND RECOMMENDATIONS

Negotiation is free enterprise at its best. Negotiation between the buyer and the seller is a win-win negotiation, also called integrative bargaining

which seeks to expand the value or resources available to participants through cooperative negotiation. Give and take is essential in negotiation and each party should not expect to prevail in all issues. The buyer and seller negotiate to determine how to divide a bigger and expended value. Increased value to the buyer may mean receiving a better purchase price than a competitor. On the supplier's side increasing value may mean additional volume from the purchaser. On the other hand, preferential treatment in the award of future business, technical assistance and prompt payment means a big deal to the supplier.

Negotiation seeks as its objectives an agreement regarding fair and reasonable dealing from both the buyer and supplier point of view. Successful negotiation requires proper preparation, including knowledge of cost price analysis, the capabilities and needs of the supplier and the purchaser. Parties can negotiate any item for which alternative exists, including payment terms as well as delivery and production schedules and the service needed. A knowledge of the learning curve concept will help determine the price's proper value. In addition, it can form the basis for successful negotiations with suppliers. Certain conditions are necessary for negotiation between the buyer and a supplier to be successful. They include:

- i. Common shared or joint goals and objectives
- ii. A faith in one's own problem solving ability
- iii. Motivating and commitment to work together
- iv. Mutual trust
- v. Open and accurate communication
- vi. A Belief in the validity of the other's position and
- vii. Accommodate difference in personality and culture.

Taking shortcuts when planning for a negotiation can have disastrous effects that a firm may have to live with for years. Effective planning means that a purchaser addresses critical issues and needs and works to reach an agreement that is more creative than one available to competitors. Some negotiation techniques are available to a buyer. Using these techniques will help a competent professional buyer to achieve success in negotiation.

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