

P&SM: Negotiation



The ability to reach a desired outcome through discussion and compromise



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Introduction

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This document is about negotiation as it relates to the P&SM areas of business.

Definition

Negotiation can be defined as: "The ability to reach a desired outcome through discussion and compromise"

Background

Negotiation has always been a key part of buyer/seller agreements. This document considers negotiation from a commercial standpoint as most P&SM agreements are contractual in nature and therefore legally binding on the parties.

Explanation

The ability to negotiate effectively is so fundamental that, without it, an effective purchasing and supply management service cannot be provided. While certain people do have natural talent for negotiation, it is a skill which must be honed with training and refreshed on at least a five -yearly basis.

Effective preparation is a key aspect of negotiation; this preparation should include research about the company you are negotiating with and will include factors such as their market share and penetration, financial health and stability, corporate structure and goals, stock pricing etc. Cultural norms and personal preferences are also important as our trading world becomes more global and complex. The Hudson Institute blog¹ produced an article on negotiating in the Middle East that gives a succinct view of some of the differences between Middle Eastern and western cultures.

Effective preparation also means testing assumptions. Each party will come to the table with a number of assumptions and it is important to identify and test these so that both parties can re-adjust their negotiating position, if necessary.

There are many styles and approaches to negotiation and some of the most popular styles are:

- **Acceptance:** This is an approach where the negotiator does not engage in constructive discussion but just accepts the status quo. This style is generally regarded as "weak" but it can be a useful tactic when a compromise can be used as a bargaining tool.

¹ <http://www.stonegateinstitute.org/1563/negotiating-middle-east>

Negotiating in the Middle East: How The Other Side Sees It by Mark Silverberg (2010)

- **Bargaining:** This approach requires that both negotiating parties have something on offer worth the exchange. It extracts value through the exchange of variables.
- **Compromise:** This is where the middle ground is sought between the stance you take and the stance of the other party. Prior to negotiations it is always advisable to identify the areas where you will and will not consider compromise within the deal, so that you are clear where you can consider compromise. This necessitates being aware of the areas where compromise is likely.
- **Logic:** This is a common approach when trying to persuade the other party to compromise. Logical reasoning is utilised frequently within business negotiations to persuade the other party of the logic of their position. Each party will prepare evidence in support of their argument in the hope that the other party will be persuaded to move their position.
- **Emotion:** This is the ability to identify the emotions of the main participants. This will be influenced by the relationship (especially if there is an existing one) and/or the experience of the people involved. Emotions may be hidden or openly shared depending on the personalities involved and the nature of the relationship. Emotions can have both positive and negative effects and it is important to be able to separate the substantive and relational issues as these will produce different emotions.

Undertaking negotiation

CIPS believes that the preparation of questions is a key point of negotiation and is vital to the realisation of good outcomes. Some of the questions that should be considered prior to any negotiation are:

- **Relationships:** What is the history of the relationship? Could or should this history impact the negotiation? Will there be any hidden issues that may influence the negotiation? How will you handle these
- **Power:** Who has what power in the relationship? Who controls resources? Who stands to lose the most if agreement isn't reached? What power does the other person have to deliver what you hope for?
- **Goals:** What do you want to get out of the negotiation? What do you think the other person wants?
- **Trades:** What do you and the other person have that you can trade? What do you each have that the other wants? What are you each comfortable giving away?
- **Alternatives:** If you don't reach agreement with the other person, what alternatives do you have? Are these good or bad? How much does it matter if you do not reach agreement? Does failure to reach an agreement cut you out of future opportunities? And what alternatives might the other person have?
- **Expected outcomes:** What outcome will people be expecting from this negotiation? What has the outcome been in the past, and what precedents have been set?
- **The consequences:** What are the consequences for you of winning or losing this negotiation? What are the consequences for the other person?
- **Possible solutions:** Based on all of the considerations, what possible compromises might there be?

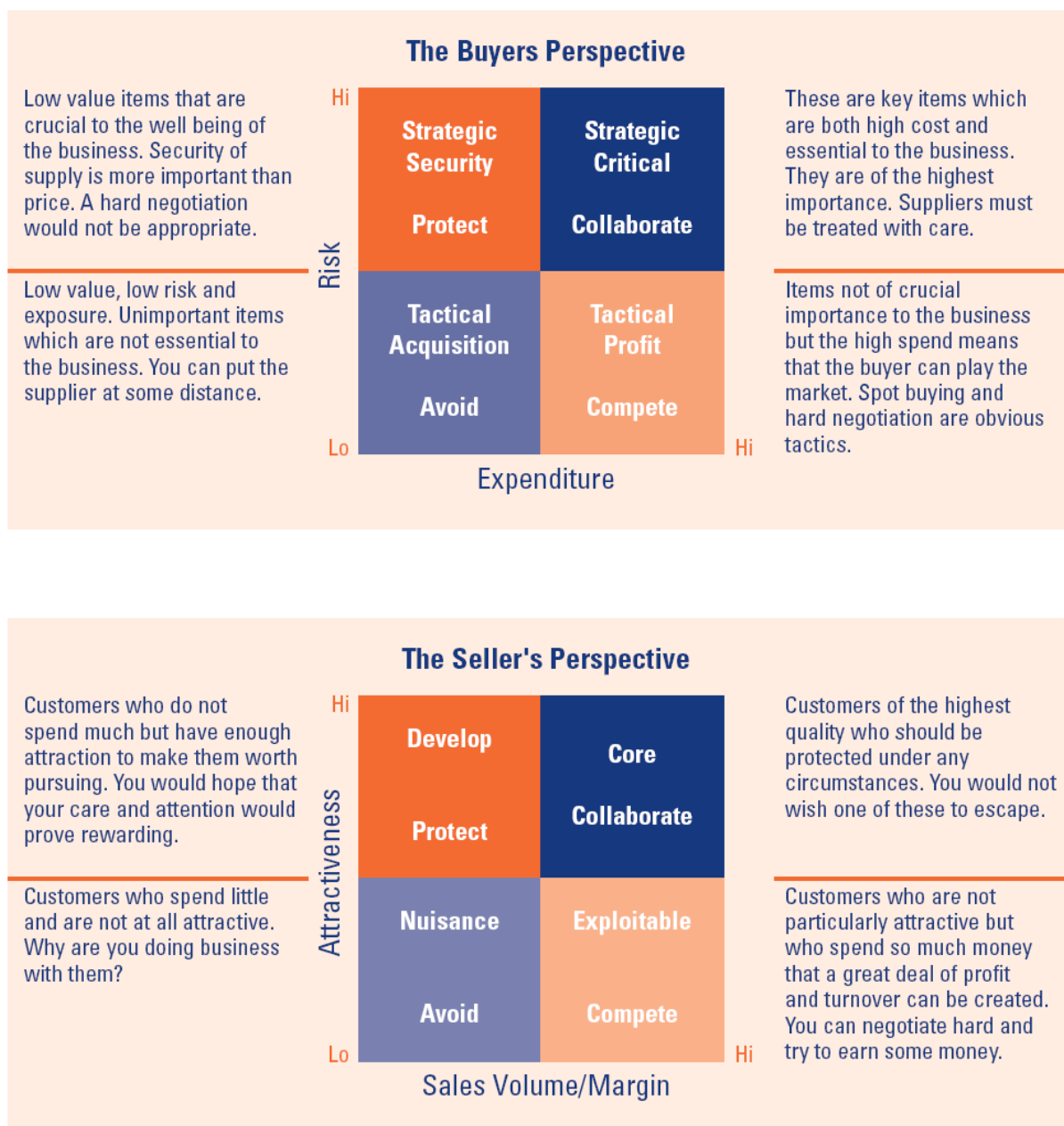


Figure 1: How to Negotiate Professionally –CIPS Australia

Issues to consider

CIPS believes that P&SM professionals should aim for a mutually acceptable solution for both parties, where appropriate. The balance of power in negotiations is always very important as it is rarely equal between the parties. Each party must be aware of their own bargaining position and what they want to achieve in the negotiation. Short-term wins are often gained at the expense of the relationship and so must be used with care if the relationship is business critical.

Different negotiating styles will be used in different market scenarios (Figure 1). Where there is healthy competition and multiple suppliers the buyer can drive a hard bargain. Where there

is little competition and just a few suppliers the negotiating approach will be very different especially if the product and/or service is critical to the buying organisation.

Conclusion

Negotiation is a key skill requirement for P&SM professionals, and they should be involved leading, supporting or facilitating any negotiations with suppliers. In order to ensure successful outcomes all negotiations should be carefully planned. It must also be kept in mind that negotiation is a skill which must be learned, and refreshed periodically.

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