



Do Your Negotiating Techniques Create Value?

It's no longer a game of hard-ball. Today's negotiations are about more than just money.

In the late 1990s, a European beverage company, number one in its market, squeezed suppliers so hard on price that a glass manufacturer with a strong supply links to the company went bankrupt. Not unusual in the cut-throat world of business but this time the tough stance backfired. When the market took an upturn a few months later the beverage company, with limited bottle supply, couldn't feed demand and fell from number one to number two in a market of just three or four players. The company, according to **Horacio Falcao**, INSEAD Affiliate Professor of Decision Sciences who was brought in to look at what went wrong, lost more money in that one year than its aggressive procurement techniques had saved in ten.

"By squeezing everything you have you can get results very quickly," says Falcao. "But it does have a cost: it has a cost of consequences."

Negotiating in a crisis

The last five years have seen a spike in instances of hardball negotiation, with companies like the beverage manufacturer exerting very aggressive, often manipulative techniques.

"Whenever there's a type of crisis people tend to look at negotiations as a quick cost-saving opportunity," notes Falcao. "People get agitated. They get nervous, they get fearful because end-of-

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year results are not looking promising and they try to scrape value anywhere... This might be understandable but it also might be an easy way out... (and) you might trade long-term value for small, short-term gain."

By wringing all they can out of suppliers, businesses can do irreparable damage to long-term relationships and destroy trust that has taken years to develop. It turns suppliers' products into commodities only negotiable on price, severely eroding supplier margins forcing them to reduce product innovation and upgrades, cut back on quality support and, predictably, look elsewhere for customers.

A second trend

But another less obvious trend during the past five years, and one which began some years before, says Falcao, is the steady increase in companies who are doing quite the opposite.

"A lot of bigger companies, especially in the Western world but even countries like Japan, Singapore and Korea, are now realising that you can't survive in the long run just competing on price," notes Falcao who authored the book *Value Negotiation: How to Finally get the Win-win Right*, published by Pearson Education and who was interviewed by INSEAD Knowledge on the sidelines

of an INSEAD programme on Value Negotiation on the Abu Dhabi campus.

“What I’m seeing is that bigger and bigger companies who do have enormous market power – manufacturers of fast-moving consumer goods and agriculture products – are looking for a different approach... one that creates long-term value.”

The automotive industry, historically one of the most hardball of all manufacturers when it comes to squeezing their suppliers, are among those rethinking techniques, realising that saving 20 percent off the bottom line in costs doesn’t necessarily translate into value for their company. Faced with competition from cheaper Chinese cars on the market, manufacturers are concentrating on maintaining or improving quality and developing innovative products.

“To do this they have to select a few suppliers, the ones that add more to their product chain, and then try and develop true – and I know that this is a word that is very beaten up – partnerships,” says Falcao.

Change of approach

Switching from aggressive win-lose negotiation tactics to the more value-driven win-win partnership approach is not easy.

“You need to be able to say ‘I need better innovation, I need better on-time delivery, I need better inventory, I need better quality and I also need a better price,’” Falcao notes, admitting this is a very difficult combination to get. “You have to work really closely together. Of course you expose yourself a little more to this other person, but they’re exposing themselves to you as well so the balance of power doesn’t necessarily shift.”

Companies don’t have to overpay to win. There are other ways of meeting suppliers needs, such as co-investing in innovation projects which has the double benefit of keeping the supplier happy and preventing him providing that innovation to competitors.

Negotiation skills

Time, patience, a genuinely inquiring mind, and a belief that working through issues will lead to better outcomes are important characteristics of a good negotiator. The ability to listen, says Falcao, is vital. Hearing what the customer or supplier wants and looking at ways in which you may be able to give it to them. By asking more questions and making diagnostic decisions all the time you are able to draw out information and try and understand where the other person is coming from and at the same time let them know where you are coming from. If

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negotiations fail it’s important to keep the door open for future possibilities.

“Some people enter negotiations with the theory if it’s a repeat game I have to collaborate, if it’s not a repeat game I should compete. I think this is too quick a decision because it underestimates the ability of the negotiator for changing the game,” notes Falcao.

“I go into negotiations as I would have a date on a Saturday night. Am I going to marry this woman, probably not. It may only be one dinner but you never know what might happen.”

Negotiation across cultures

Win-win strategies like this also help negotiators avoid mistakes when operating in an increasingly global world where managers are expected to be sophisticated negotiators in many different cultures. “It’s impossible to learn to negotiate with the Russians today, the Chinese tomorrow, the Japanese the day after and so on. There’s way too many cultures and way too much change. What you need is a system that allows you to learn (about the potential partner) as you go and win their trust,” says Falcao.

“Win-win brings openness, transparency, ethical behaviour and a more socially conscientious approach to negotiation. You’re not just trying to take at any cost... you’re generating better - not just shareholder value - but stakeholder value.”

And has this open negotiation gained traction off the global trend towards more accountability and transparency in financial transactions? “While transparency and the ethical approach of win-win negotiation is attractive for a few people,” agrees Falcao, “I think what is attracting people to this technique is the realisation it’s creating value and getting better results for their company.”



Horacio Falcao is Affiliate Professor of Decision Sciences at INSEAD. He is also the Programme Director of Negotiation Dynamics, part of INSEAD's portfolio of Executive Education Programmes.

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