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# Overcoming Price Suspicion in Negotiations

**Use opportunities to prove your fairness during negotiation.**

As individuals we frequently find ourselves in negotiation settings. Customers in many countries wouldn't consider negotiating over price in a department store or a supermarket, yet they may at a farmer's market, when buying a new or used car or a buying property. Such transactions are straightforward, in that finding strong legitimacy for such prices is fairly easy (price comparison is easily available online, for example), and subjective in that the transaction normally has an emotional component since it may involve personal desires and intangible preferences.

The stakes are much higher in business transactions, with more complexity, fewer customers and higher transaction values. Business negotiators are usually more sophisticated, know the market and may have strong purchasing power. On both sides, budget, key performance indicators and reputations play a big role in influencing decisions.

For example, if buyers are not fully convinced of the value of a product being offered, they would be reluctant to accept it. While a shopkeeper can get away with a price based on an aggregate buyer's willingness-to-pay (WTP), such practice is trickier in a business setting as it signals that the seller is unilaterally extracting all possible value from the negotiation.

This is because corporate buyers are more likely to come prepared with what they expect to be a fair or legitimate price, based on their research and data. If the price turns out to be different from their expectation, corporate buyers are likely to become suspicious and resist the seller's price even if generally acceptable or fair. Complicating the matter is the fact that a business buyer is not likely to reveal their WTP even if it is higher than the price.

Perceived price unfairness (PPU) will be inflated if the buyer's best alternative to a negotiated agreement is significantly below the offered price, or if the price is higher than the buyer's budget or KPI.

**Reputation matters**

There are two ways to diffuse this suspicion. The first is reputation. According to **research**, a seller's good reputation has shown to generate goodwill and decrease PPU, softening the **buyer's response** to the seller. A seller would do well, therefore, to build a good reputation ahead of the negotiation but if they're meeting the buyer for the first time or if the company is a new entrant, the seller could use opportunities in the negotiation to build reputation. In a business setting, WTP is a bigger factor than in a consumer setting, but that doesn't mean lowering the price is always a good idea. This could put a seller on the back foot, making them seem desperate or cavalier.

Studies reveal business-to-business (B2B) marketing to be reliant on complex and interdependent relationships between a buyer and a seller with focus on customer retention over the longer term. This interdependence also matters for pricing, where the complexity of B2B price negotiations demands a more collaborative, flexible, rational, legitimate and long-term oriented negotiation approach consistent with win-win negotiation techniques, such as cost transparency. If the seller can help the buyer understand the input costs of the product or service, this could go a long way to reducing PPU.

**Be transparent**

This leads onto the second point, which is proactivity. If the seller is strategic about when they reveal the price, they can also foster this collaborative environment. For example, revealing the price at the beginning of the negotiation risks the need to subsequently justify it, which raises suspicion. If sellers start by showing clearly how they arrived at the price before they reveal it, it is likely to reduce suspicion instead. Being proactive in helping the other party understand costs or even possible savings can help.

**Research on cost transparency** is emerging as a field of growing interest and is found to be associated with better profitability. This has important implications for those managing strategically important relationships and the implementation of an ideal pricing policy, which we will discuss in the next article.

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