Negotiations in Business Relationships

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ABSTRACT

Business is always easier when those involved have a comfortable personal relationship. In many cultures a solid relationship between the parties is required before any business is possible. This article deals with negotiation relationships and gives some rudimentary rules for successful negotiation.

INTRODUCTION

Relationships are an integral part of doing business. In the United States, we rely on detailed contracts to hold the other side to what was promised. In many parts of the world, differences between partners are not decided due to rigid contracts. You must get to know the other side well enough that they trust you as an individual. Cold calls don’t work in Central and South America, the Middle East, Africa, and many other places. Building the relationship to the point of mutual trust may take weeks. Understand that this is a two way street. You also have to trust them as contracts may not exist or may not be enforceable. Business is conducted on a handshake, and you must trust the other side as there may be no other recourse if things go wrong. To protect yourself, you need to know all about your partner’s past business dealings from sources other than the other person. What is his or her reputation? Then you must get to know them as an individual and build a relationship of mutual trust. The other side will be doing the same thing.

To build a relationship, if possible, get introduced to the person you wish to do business with by someone they respect. That respect then makes a good start to the relationship. Traveling to the other culture before the meeting can give you time to visit local landmarks and historical sites. This experience will give you ample things to talk about after meeting your potential business partner. Don’t start the first meeting talking business, and you may want to wait until the other side brings it up. Discussing family depends on where you are. Mexicans like to know about your family and will tell you about theirs. Families, and especially wives, are not discussed in the Middle East. You may ask about your partner’s wife only after you have been invited to dinner at his house and have met the family.

CONTINUING NEGOTIATIONS

One time negotiations are about claiming value. They are distributive in nature in that they revolve around the division of resources. In order for one side to save money on a piece of machinery, the other side has to sell it to them for less. In that way, the first party retains more of the money resource than it otherwise would. This process is referred to as distributive bargaining.

In continuing negotiations, each side is counting on repeated business and is usually willing to give a better price since they can make up the profits over many deals in the future. This type of negotiation is referred to as integrative, and the goal of such negotiations is to maximize profits for both sides. This is a process of creating value rather than claiming it. Continuing negotiations are the rule between long time
suppliers and their customers. If either side tries to take advantage of the other, it can ruin the relationship. This does not imply that the price of goods is necessarily consistent over time. A supplier may allow a special deal to a customer to allow them to put the merchandise on sale. This sale saves the ultimate end user customer money, but also gets the end user to sample the supplier’s brand. Everyone can win in this situation, especially if they know that the long term relationship is more important than the smaller current problem. Probably the best example of this is a long marriage or long business relationship. There may be no arguments at all after both sides determine how important the relationship is to their own well-being.

EMOTIONS

Some cultures, such as southern Europeans or South Americans show a lot of emotions in bargaining. Brazilians make impassioned emotional pleas during negotiations. Germans, on the other hand, are all business and don’t enjoy small talk before getting down to the negotiating. They are a lot of fun at the beer garden after work, but seldom make jokes or otherwise waste time during working hours. In Japan, showing emotions, especially anger, is a sign of a loss of control and is considered to lose much face. The internet provides much information on how to act in different cultures in order to be accepted. These actions should include careful attention to hand signals. Americans wave to other drivers that let them enter in traffic. This same sign means “Stupid” in Greece.

Family Businesses: Families pose a special example of relationships in negotiations. We are emotionally bound in our families and are apt to react in different ways than we would to strangers. Although this is certainly not an attribute to all family businesses, it can lead to arguments in others. The biggest thing we want to avoid in potential arguments is the mammalian fight or flight syndrome.

When humans are aroused by the fight or flight syndrome, hormones flood the body, typically adrenalin and testosterone. These hormones raise your heartbeat and blood pressure. You be sitting down and have the same heartbeat rate of someone that just ran a 100 meter dash. Perhaps the worst result of these hormones is that the blood flow is reduced to the part of your brain that is responsible for higher reasoning. Results of these changes can mean that real communication decreases while the issues become blurred. After a short while the participants in the argument can’t really remember what the argument is about. They just want to win. This anger can ruin business relationships and bring discord to families.

The best way to avoid the fight or flight arousal is to stop it at the very beginning. If either side refuses to get ruffled emotionally by a confrontation, the situation can be handled more easily. The angered side may not like the lack of response to their anger, but that is the only way to change argument into problem solving. If the anger gets up on both sides, you may have to just walk away from the confrontation. That never solves anything. You still need to come back at some future time and say “We had an issue today. Would you please tell me exactly what the issue was from your prospective so we can work on it.” A big part of interpersonal differences is how we frame or define the problem. If we both see the problem from very different viewpoints, we will never solve the problem. Getting the frames right and agreeing on what the problem actually is may include defining what specific key words mean to each player. No one can solve a problem if they cannot agree on what the problem is. In the end, all negotiation is just mutual problem solving.
GENERAL RULES FOR NEGOTIATION

Having talked about the importance of lasting relationships to business negotiations, there has to be a start to the relationship. The first negotiations may determine if there will ever be a relationship. First dealings with a potential customer or supplier can influence all later business opportunities. No one wants to be taken advantage in that important first encounter. With that in mind, are some rules for conducting initial negotiations without losing your advantage.

RULE 1

Do your homework! Any book on bargaining will advise that the most important work takes place before negotiations begin. Negotiators should take the time to thoroughly investigate all available information on the potential deal and the other negotiator before negotiations begin. You should have researched enough to know what other options are open to you if current negotiations fail. Where else can you get the needed goods and at what price? In this way, you can always back out of a deal if you have other better options.

You never know what the other side really wants until you sit down at the table with them. You can do extensive research on advertised prices, on the competition, and on the negotiator and still be surprised at what they really want. This surprise can be in your favor or not. The product you are looking for may cost far more than you expected or far less. Having done your homework and studied the market, you will at least know what to expect and whether or not you are getting a good deal. If the other side expects a lasting relationship, they may make you an unexpectedly good deal in anticipation of future profits.

RULE 2

Never fall in love! It is, of course, fine to fall for the man or woman of your dreams. But be very careful about falling in love with objects. Vehicles, new machinery, locations, buildings, etc. can all hold a great allure to a buyer. Be sure to have done your homework and discovered alternate ways of getting the job done. If you fall in love with one product, the seller can ask more than the product is worth, and you will pay it. By having many alternatives, you protect yourself from having to have the latest one you find. Careful research on the full range of alternatives is the best protection from falling in love with just one alternative. You also need to consider the future relationship you may be creating by choosing one brand over another. Is this the company you want to work with in the future? What is their reputation in your industry? Initial purchases can lead to having to buy other machinery, parts or other products from the same vendor in the future. This may lead to a long relationship through time, and if the people you will be dealing with are difficult, you may be very much better looking elsewhere.

RULE 3

When you fall in love, and you will, don’t let the other side know it. Here again, your research works in your favor. If you often refer to the competition’s products and how they stack up with the ones you’ve fallen for, the seller may not know you’ve fallen for their product line. The prospect of you buying someone else’s products can act as a buffer to keep the seller from asking more for his product.
Keeping emotions at bay is important in hiding the fact that you have fallen for the product. Gushing over how great the product is only leads to the other side knowing the sale is already made and that they can take advantage by asking a higher price. Deep knowledge of other available alternatives is essential as you can compare advantages of each to the current product. The more you do this, the less likely it is that the person you are dealing with will realize that you have fallen in love with his product and is more apt to give you a fair price. This is especially true if a longer term relationship is a possibility, and the other side wants to cement the relationship for future profit potential.

RULE 4

Get the other side to go first: As stated above, you never know what the other side wants until you sit down to bargain with them. You can study the market place and have other fallback deals in mind if the current negotiations fail, but you still don’t know what is in the other side’s mind and what their immediate needs are.

A friend asked his employee friends at a large corporation what the starting pay was for a specific job. The friends all agreed that that position never started for more than $56,000. Since you should never ask about money on the first interview, the applicant assumed that $56,000 was going to be the offer. In the second interview, the interviewer stated that they thought their pay was competitive. This gave the applicant the opening to ask what they thought was competitive. The answer came back as $70,000 which stunned the applicant as it was above his other job offer. The corporation evidently really wanted the applicant as they eventually offered him $90,000. If the applicant was asked what salary he was looking for initially, he would have said $62,000 hoping to get about $60,000. This demonstrates that you can negotiate more salary in 15 minutes of bargaining than you can make in years of raises on the job.

Relationships are of great importance in modern business as they have been for centuries. Finding the right partner, one you can work with easily, can make your job much easier and lead to greater profits for all involved. Choose your partners wisely and it can pay great dividends. Choose poorly and it can cause continual problems for decades to come. One way to help judge potential partners is to observe how they conduct the initial negotiations sessions. Are they using hardball tactics such as good cop bad cop to gang up on you? Are they trying to intimidate you by “beating you up”. This involves bullying or insulting you because that works on some buyers. Another ploy is the exploding offer. They offer what looks like a good discount, but pressure you into making the decision right away. This is an attempt to keep you from doing your research to determine if it really is a decent deal. People that employ these tactics will be difficult to work with in the future even if you are a good bargainer. They should be avoided in favor of potential partners that are offering a quality product at a fair price and are willing to work with you on the initial deal. Past behavior is the best predictor of future behavior. If they are easy to deal with and willing to work with you today, they are a prime candidate for a future partner that you can trust and rely on.