



The Knowledge to Decide

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Bargain Hunting

Good prices for bad times

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Amidst the economic gloom, both consumers and businesses are reviving the ancient art of haggling to get what they want at the price they can afford. Businesses are jumping on the bandwagon to quietly offer better prices and freebies to customers who demand more value. And in business to business dealings, there is no better time to hone those negotiation skills. But is there a formula to successful haggling? This article argues that bargaining skills can be surprisingly useful in all kinds of business-to-business negotiations.

An ancient art revived

In the Middle East and much of Asia and Latin America, haggling is not only a common practice but the general expectation, and prices are artificially inflated accordingly. In particular, Asians have shown a propensity to bargain and a competitive bargaining style, even where business norms are similar to those in the Western world.

The methods of bargaining have evolved into a myriad of approaches to different situations. Aside from cutting prices, the rewards for driving a hard bargain can include non-price benefits of varying degrees, both concrete and intangible.

As the global recession bites deeper, many are turning back to this ancient art to ensure they get what they want at a price they can afford. Businesses, too, are stepping up their demands for value.

60% of large fixed-price stores in Singapore gave non-listed discounts and freebies to seal the deal with customers.

In Singapore, journalists experimented with bargaining at large fixed-price stores at the start of 2009. The result was that six of 10 stores were willing to give more discounts or throw in freebies to seal the deal with customers.

Harvey Norman Singapore, for instance, held a massive price reduction sale in early 2009 and advertised that some prices were even below cost. LCD televisions came with shopping vouchers or an additional home theatre system thrown in. Yet, salespeople were able to lower the prices advertised to interested customers further still.

As discretionary spending is squeezed, organized retail chains have restructured their pricing strategies to address this rising propensity to bargain.

In China, McDonald's and other fast food chains have cut prices to woo mainland diners.

In February this year, the world's best-known food-service chain revised its prices downwards in China. McDonald's announced savings of up to one-third from the original price. It was not the only franchise to have lowered prices in a bid to woo bargain-hungry diners. Others like KFC have also started promotions as mainland consumers worry about the slowing economy and rising unemployment¹. While these price cuts do not amount to a willingness to bargain with individual consumers, they do point to the magnitude of the increase in price-sensitivity that the current crisis has engendered.

Consumers get with IT

Haggling works best in hard-hit industries: car dealers are more willing than ever to hammer out a bargain now that sales have slumped, and property brokers will cut prices and fees when pushed. But the trend is spreading across categories. The bargaining culture is going beyond mom-and-pop operations to take root in major organized retailers.

Bargains are affecting sales in not just big-ticket items but also furniture, clothing and cameras.

Savvy consumers, empowered by the Internet, are finding that they can drive down prices, and not just on clearance or big-ticket items. Prices of lower-cost goods such as cameras, furniture and even clothing are quietly being quibbled over. Providers of phone and internet services are also willing to cut monthly rates to keep customers from cancelling or switching.

While tough times offer a reason to change behaviour, it is the wealth of information about products and services made available on the Internet that gives consumers the know-how to undertake the practice. People can now quickly amass information on product availability and pricing across channels and brands, helping them develop strategies to get the best deal.

The boom in E-communities², of which Spire estimates there are now over 100,000 across Asia, has facilitated bargaining by empowering and informing consumers about "price per spec" and easing the collation of mass orders. Ordering in bulk online, commonly known among netizens as "sprees" or "team buying", has become a fixture on forums. Buyers from the same state or country pool their orders to qualify for bulk discounts from Internet merchants and then split the cost of shipping the goods.

¹ International Herald Tribune, "McDonald's lowers prices in China", 5 Feb 2009

² Spire's definition of E-communities: Social platforms with over 1,000 E-communities in Asia with over 1,000 subscribers each, bringing together individuals with a common profile or shared interest in particular hobbies, sports or subjects.

In Singapore, regular sprees are conducted on E-community channels such as fashion website Flowerpod, IT website VR-Zone and parenting website Singapore Motherhood, for items ranging from luxury bags and iPhones to clothes and cosmetics.

Then there are business models built entirely around the bargaining table, enabling customers to easily compare prices or even indicate the value they are willing to pay via an Internet auction system.

Amidst the slowdown in the travel industry, bargain sites such as Zuji and Priceline see steady sales.

Even as more families and executives remain on the ground and tour agencies scramble to stay afloat, international travel website services such as Zuji and Priceline saw steady sales – in 2008, Priceline's gross travel bookings were approximately USD7.4 billion, a 53.2 percent increase over 2007³.

Auction websites, which allow users to bid for offerings along the lines of what E-Bay offers in the US, have also received a second wind. These sites have been fairly well established in the Asian countries with high levels of internet and e-commerce penetration, but are seeing greater interest in the current climate. In Korea, sites like Auction and Gmarket are major phenomena, with millions of subscribers. As at end-2008 Gmarket, for example, had 15.7 million registered Korean subscribers and had established a similar site in Singapore in partnership with Yahoo! Many Korean internet shopping malls also enable the buying and selling of goods auction-style.

While certain cultures regard haggling as an essential part of the shopping experience, the practice has traditionally not been as prevalent amongst shoppers in the economically developed West. With the advent of the recession, however, more are reviving this ancient art with the aid of the Internet.

East to West

In America, 72 percent of consumers have haggled in the months of winter and spring into 2009, compared with only half of all consumers a year earlier⁴.

³ Hotelmarketing.com, "Priceline continues to grow, despite challenging global economic conditions", 19 Feb 2009

⁴ BBC News, "Haggling and bartering gain appeal", 12 Feb 2009

In the US and UK, customers choosing to bargain have risen by about 50 percent over the previous year.

In light of the current credit crunch, more British adults are choosing to bargain over the price of goods such as cars and televisions, according to research by Experian's CreditExpert arm. In their 2008 study, 57 percent of British adults were now more likely than they were a year ago to try

negotiating a discount on an advertised price – probably because of fears of an economic downturn.

Retail chains are stepping up their game. In 2008, Home Depot, among others, adopted an 'entrepreneurial spirit' campaign to give salespeople more leeway on prices in order to keep customers. "We want to work with the customer, and if that happens to mean negotiating a price, then we're willing to look at that," said Kathryn Gallagher, a spokeswoman for Home Depot⁵.

The downside to this strategy is that it could lead to loyalty to the lowest price, not to any brand or a retailer.

The downside to this strategy however, is that entertaining haggling might lead to loyalty to the lowest price, not to a brand or a retailer. In a worst-case scenario, price wars could debilitate entire industries.

However, Home Depot begs to differ. Gallagher believes that by allowing staff to make some pricing decisions, and therefore giving customers room to negotiate, the company was creating a friendly environment that felt more "personable" than a corporate superstore.

Likewise, Professor Richard Zeckhauser at the Harvard Business School, believes haggling is beneficial to a struggling economy. "Retailers set prices well above costs," he says⁶. "Most businesses would rather have a sale at a lower price than have no sale whatsoever."

At the business table

Bargaining to get the best deal in business-to-business (B2B) negotiations has long been established, but as the economy slows, the tendency is intensifying and permeating all forms of business relationship. Business life is becoming practically a permanent negotiation with other firms who are defending their own interests.

While money is always at the centre of negotiations, the lowest price is not always the winning formula. Intangible benefits can be as valuable, especially in long-term relationships. At the end of the day, negotiation in business is very

⁵ The New York Times, "Even at Megastores, Hagglers Find No Price Is Set in Stone", 23 Mar 2008

⁶ BBC News, "Haggling and bartering gain appeal", 12 Feb 2009

much about understanding and the other party - their motivations and desires - and how to match those with one's own.

A new supplier-retailer relationship was pioneered between P&G and Wal-Mart, enabling P&G's sales to Wal-Mart to grow from USD 350 million to USD7.8 billion.

Procter & Gamble (P&G) proved this back in 1987, when P&G executive Tom Muccio pioneered a new supplier-retailer partnership between his company and Wal-Mart⁷. Built on proximity and growing trust (both sides eventually eliminated elaborate legal contracts in favor of Letters of Intent), the new relationship focused on establishing a joint vision and problem-solving process, and generally moving away from "lowest common denominator" pricing that had defined their interactions previously. From when Muccio initiated the changes to 2003, shortly before his retirement, P&G's sales to Wal-Mart grew from USD350 million to USD7.8 billion.

While many contracts are signed off after straightforward negotiations, there are others that become complicated, drawn-out affairs. The importance of taking a long-term view is illustrated by the deal Volkswagen initiated with China.

The first Western auto manufacturer to enter China, Volkswagen managed to build a leading position in the Chinese car market. Its success hinged on a key business negotiation between Volkswagen and the Chinese government. There were six long years of dialogue from 1977, involving at least seven parties on the Chinese side. Major contracts were negotiated: a joint venture contract, a technology transfer agreement, articles of association, supply agreements, and a planning agreement.

Eventually in October 1984, Volkswagen signed on the dotted line with China – one of the country's first major joint venture agreements. Being the first into the mainland proved lucrative for Volkswagen. Initially, China's car sales volume was less than 30,000; in 2002 it was 720,000, half of which belonged to Volkswagen. Since China's entry into the WTO, the prices of imported cars have dropped significantly, but no other carmaker has yet been able to whittle away Volkswagen's competitive edge.

Heinz Bendlin, one of the original Volkswagen negotiators, advised⁸: "Try to take advantage of the Chinese way. Have a disciplined team, prepare carefully, speak as a team with one voice, and try to solve your problems during the breaks, or even ask for a break to avoid showing disharmony within your team on matters you are negotiating."

⁷ The Negotiation Experts, "Negotiating with Wal-Mart"

⁸ The Negotiation Experts, "VW's Long-Term Negotiation Thinking pays off in China"

More recently, Britain's National Health Service (NHS), in the form of Collaborative Procurement Hubs representing 220 Trusts across England, signed a deal to deliver huge savings on purchases of desktop and laptop PCs by maximising their collective buying power. The project was slated to deliver more than £6.5million of savings in its first year⁹.

As companies look to offer more reasonable terms during the recession, now could also be the ideal time to negotiate a long-term sponsorship deal, according to Professor Pascale Quester of the University of Adelaide.

"I think that if some smart companies out there have figured that there is a sport, activity or event that they would benefit from in terms of association, now would be a good time to negotiate a long term agreement," Quester said¹⁰. "The property would probably not feel so hesitant about signing long term and may also be more reasonable in the terms they set."

Getting to yes

During boom times, deal-making is relatively easy. A rising tide lifts all boats and the knowledge that there are lots of opportunities out there makes the deal appear an end in itself. But as markets slow, opportunities dwindle, and every deal matters. This makes the question of negotiation strategy ever more critical to successful deal-making.

B2B negotiating strategies are generally based on varying degrees of concern for the relationship and for the outcome:

Table 1: Negotiating strategies

Type	Layman terms	Relationship priority	Outcome priority
Avoiding	Lose-lose	Low	Low
Accommodating	Lose to win	High	Low
Competing	Win-lose	Low	High
Collaborating	Win-win	High	High
Compromising	Split the difference	Combination used in a variety of situations	

Source: Roy J. Lewicki and Alexander Hiam, "Mastering Business Negotiation"

A general strategy is the "principled negotiation", of which the four fundamental principles are¹¹:

⁹ IT Pro, "Public sector procurement bags some IT bargains", 15 Aug 2008

¹⁰ Marketing Magazine, "The Jolt: Perfect timing for sponsorship deals", Mar 2009

¹¹ Roger Fisher and William Ury, "Getting to Yes", 1981

1. Separate the people from the problem – separate relationship issues from substantive issues, and deal with them independently;
2. Focus on interests, not positions;
3. Invent options for mutual gain; and
4. Insist on objective criteria

Principled negotiation is an excellent approach to many bargaining situations, but it needs to be supplemented with other approaches in the case of intractable differences. It is also more attuned to cultures which emphasize rational cost-benefit analysis, and de-emphasize the importance of relationships and emotions. Negotiators for one side may achieve a profitable deal in the short-term but fail to sustain the relationship with their counterpart. In such a case, the negotiation can be considered successful only if the short-term goal is the first priority.

Asian culture places great emphasis on the importance of relationships.

Many Asian companies would view such an outcome as a failure. They consider maintaining a good relationship the higher priority. In such cases, the goal is to achieve the intended outcome while maintaining the relationship. Such companies are more likely to employ accommodating, collaborating and compromising strategies.

Collaboration is generally the better strategy, as it can achieve a desirable outcome and even strengthen the business relationship. Mutual negotiation, where it appears that there has been some form of compromise, can have a significant effect in closing the deal by inducing the feeling that both parties have secured the best possible outcome – a win-win situation for all involved.

Cultural differences consistently influence international business negotiations, as seen in the popular conception of the Eastern and Western negotiating styles. International business negotiations are typically more complex because the underlying business cultures of the negotiators are different. They have specific perspectives on power, time, risk, communication, and complexity. International business negotiators need to understand each other's values so that they can adapt their negotiating approaches to each situation.

Mission possible

So how does one prepare oneself for the battle over price? While business negotiations over procurement can differ vastly from, say, a consumer purchasing an iPhone, as long as the seller is hawking his wares and the buyer has the intent to purchase, there are still valuable lessons to take off the streets and into the boardroom – and vice versa.

Knowledge is king

Knowledge is a powerful weapon, which is why consumers tend to do extensive price and specification comparisons before approaching the retailer. Citing the numbers enables them to bargain for a better deal.

Do research on the terms of the deal to ensure that it is the best possible conclusion. Keep information on hand to be easily pulled out for reference and as bargaining chips.

Alternatives elevate

Have alternative solutions on hand. Sellers who know that consumers can always give their business to the next seller work harder to close the deal.

Any strategy begins by a clear apprehension of the balance of power between the negotiators. In order to know whether or not to accept a proposed settlement obtained through negotiation, one must know whether or not one can achieve a better outcome in some other way, also known as a "Best Alternative to a Negotiated Agreement" (BATNA)¹².

Success belongs to the negotiator who makes known that she has the Best Alternative to a Negotiated Agreement (BATNA).

Negotiators with the best BATNAs enjoy the best negotiating position. Good negotiators know when the other party is desperate for an agreement. When that occurs, they will demand much more, knowing their opponent will have to give in. If the other party apparently has many options outside of negotiation, however, they are likely to offer many more concessions in an effort to keep them at the negotiating table. Thus making one's BATNA as strong as possible before negotiating, *and then making that BATNA known to the opponent*, will strengthen one's negotiating position.

Question and listen

Believe that a deal is possible. Consumers tend to double-check if the price can be further lowered or sweeteners thrown in. Query whether fixed terms cannot be altered. In this way, one may be able to bring unexpected factors into the bargain.

Appear positive as it is easier to get more out of the process if the other party believes the discussion will be amicable. Practise effective listening and be open

¹² Roger Fisher and William Ury, "Getting to Yes", 1981

to the other party's message. Latch onto giveaway phrases indicating the other party's interest.

Take time

Haste makes waste. Veteran consumers linger on their decisions to see if a better opportunity presents itself before closing the sale.

Take time to clinch the whole deal, as the other party could still introduce new factors as time wears on.

Be upfront

Consumers are usually open. They typically let the retailer know their specifications and/or budget and let the salesman lead the pitch.

If one communicates to the other side some idea of where one wants to go and makes encouraging indications on the way, the other party is far more likely to head the same way.

Know when to walk away

Once the buyer's baseline value requirement is breached, the deal is no longer an option. The buyer either turns to another seller or, if none meets the expectation, lowers his target.

Determine the walk-away point even before the negotiation begins.

It is important to determine the walk-away point beforehand. This is a decision that must be reached before the negotiation because it is difficult to identify this point in the heat of the discussion. Approach the walk-away point calmly with the desired relationship and outcome in mind, because negotiators truly need to understand what each side requires to make a win-win agreement.

Appreciating the similarities between retail and B2B negotiations can be a great asset. In summary, the best rule of thumb for a successful negotiation is to go in fully prepared, knowing what one wants and what alternatives one has - and not hesitating to act boldly on this knowledge
