



Institute for Market-Oriented Management

Competence in Research & Management

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## IMU Research Insights

# 011

# How to Successfully Conduct Price Negotiations in Business Markets

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2012



UNIVERSITY OF MANNHEIM  
BUSINESS SCHOOL

## Relevance of Study

- The price pressure of their customers is a critical issue for most firms in business markets.
- In business markets profitability is mostly determined “at the bargaining table”.

## Method

- Laboratory negotiation experiment based on a typical negotiation task in a business-to-business setting.
- Manipulation of buyer’s and seller’s negotiation goals.
- Sample of 420 negotiations.

## Key Contributions

- The study examines the influence of different negotiation goals of buyers and sellers on both economic and relational outcomes.
- The study addresses major pitfalls in sellers’ conduct of price negotiations and introduces instruments to increase performance with respect to economic and relational outcomes.

## Findings

- Setting ambitious negotiation goals effectively improves economic outcomes, such as settlement prices. This holds for both the seller and the buyer side.
- However, when sellers have ambitious negotiation goals, buyer’s perceived conflict during negotiation interaction increases and in turn lowers relational outcomes, such as buyer’s trust, commitment, and satisfaction.
- Setting conservative negotiation goals limits buyer’s perceived conflict but has no performance effect on settlement prices.
- This trade-off between the attainment of high economic and high relational outcomes can be avoided when sellers apply integrating negotiation tactics (i.e. taking a problem-solving approach that integrates requirements and preferences of both parties) more extensively. This buffers buyers’ perceived conflict and in turn protects relational outcomes while maintaining the performance effect of ambitious goals.

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- Topic Relevance and Key Questions
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- Study Characteristics
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- Study Results
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- Managerial Implications
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- Contact and Further Information
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### **A lack of strategic preparation and conduct of price negotiations can severely harm a firm's profits and endanger business relationships.**

#### **When negotiating prices, selling firms often:**

- Face high price pressure from determined buying centers and centralized procurement processes.
- Believe that settlement prices are subject to bargaining power.
- Incentivize their sales representatives with respect to sales rather than price or profitability measures.
- Fail to assign specific negotiation goals to their sales representatives.
- Apply negotiation tactics which are harmful for the business relationship.

#### **Major pitfalls in price negotiations:**

- Firms unwittingly give away margin when negotiating prices with their customers.
- Firms often think they must invest in future relationships by giving price concessions.

In order to find measures to improve seller profitability, our study examines the influence of negotiation goals on negotiation performance – concerning both economic and relational outcomes.

**Key Question 1:** How are settlement prices affected by the different negotiation goals assigned to sellers and buyers?

**Key Question 2:** How is the buyer's perceived conflict affected by the different negotiation goals assigned to the seller?

**Key Question 3:** Are sellers facing a trade-off between reaching high prices and high relational outcomes? And if they do, how can they still be successful on both dimensions?

Our recommendations are based on large-scale negotiation experiment based on a negotiation task typical for a business-to-business setting.

## Method

- Laboratory negotiation experiment
- Subjects are assigned to the role of seller or buyer firm representative
- Experimental manipulation / independent variables:
  - seller's negotiation goal (ambitious vs. conservative vs. „do-your-best“\*)
  - buyer's negotiation goal (ambitious vs. conservative vs. „do-your-best“\*)
- Dependent variables:
  - settlement price
  - buyer's perceived conflict
  - buyer's trust towards, commitment to, and satisfaction with the seller
- Negotiation task: subjects have to find an agreement on
  - the price per unit of a storage battery
  - a potential product adaptation
  - the completion date for the order
  - delivery or no delivery

## Sample

Subjects:

- 420 business administration students

Data characteristics:

- 420 negotiations

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\*„Do-your-best“ goals are unspecific goals like the order to do one's best or to earn as much as possible.

The average settlement price is **higher** when **the seller** is assigned to an **ambitious** goal than to a conservative or do-your-best one:

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious	536,9		
conservative		527,6	
do-your-best		527,9	

Across ambitious, conservative and do-your-best goals from buyers, sellers with ambitious goals achieved this settlement price.

The average settlement price is **lower** when **the buyer** is assigned to an **ambitious** goal than to a conservative or do-your-best one:

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious			
conservative	526,9	532,9	532,9
do-your-best			

Across ambitious, conservative and do-your-best goals from sellers, buyers with ambitious goals achieved this settlement price.



The assignment of ambitious negotiation goals improves the economic outcome of a price negotiation. This holds for both the buyer and the seller side.

Considering the negotiation goal of the opponent, two situations occur. Buyer and seller are...

...assigned to the **same goal**:

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious	532.0		
conservative		528.5	
do-your-best			529.5

Settlement prices are **fairly equal**:  
The performance effect of the seller's goal is compensated by the buyer side and vice versa.

...assigned to different goals:

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious		539.9	539.1
conservative	524.6		529.8
do-your-best	523.6	530.2	

The settlement price is **higher** when **the seller** is assigned to an **ambitious** goal than to a **conservative** or **do-your-best** one.

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious		539.9	539.1
conservative	524.6		529.8
do-your-best	523.6	530.2	

The settlement price is **lower** when **the buyer** is assigned to an **ambitious** goal than to a **conservative** or **do-your-best** one.



Buyer's perceived level of conflict\* is **higher**, when the seller is assigned to an **ambitious** goal than to a conservative or do-your-best one.

Negotiation goal of seller	Negotiation goal of buyer		
	ambitious	conservative	do-your-best
ambitious	3.60	3.56	3.36
conservative	3.15	2.49	2.85
do-your-best	3.59	3.15	3.60

\* Buyer's perceived conflict during negotiation interaction was measured using a 1-7 scale with anchors 1 = "very low level of conflict" and 7 = "very high level of conflict".

Buyer's perceived level of conflict is consistently higher when the seller is assigned to a do-your-best goal than to a conservative one.

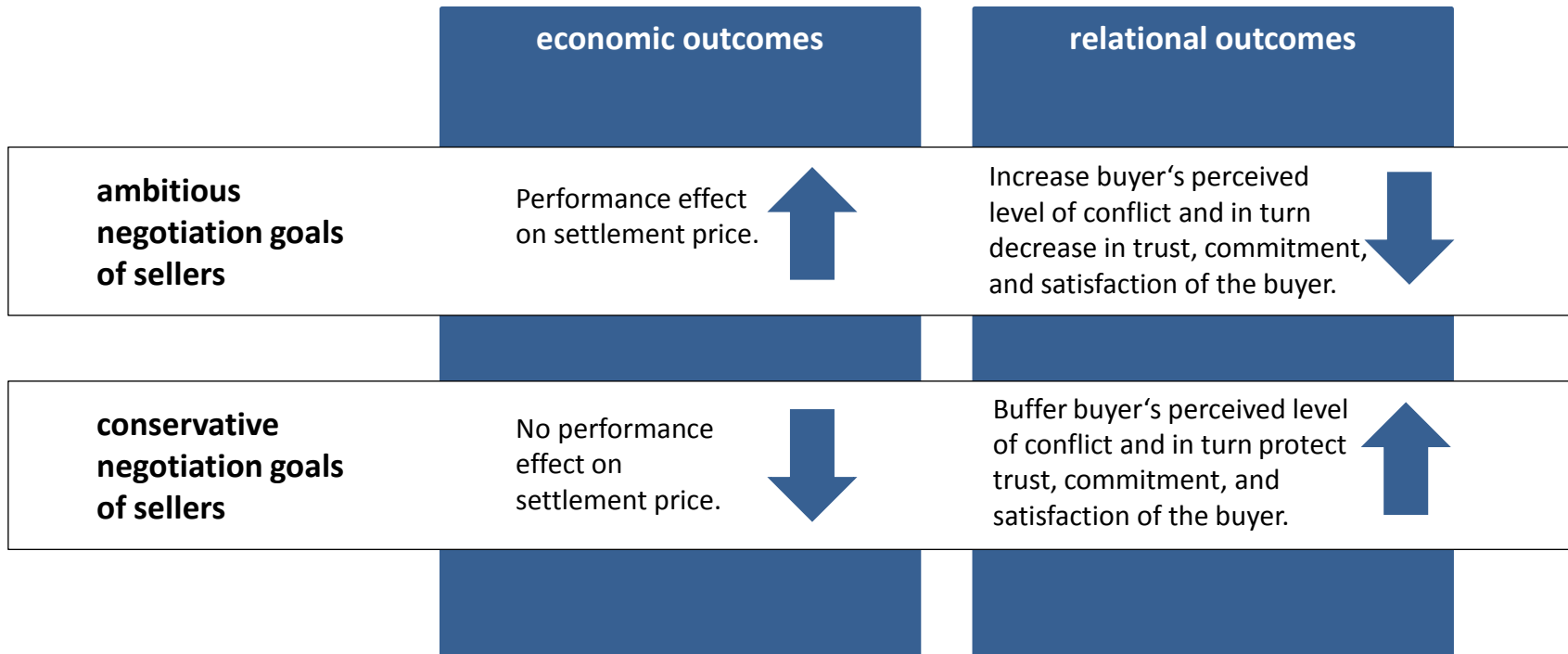


Sellers assigned to ambitious negotiation goals increase buyer's perceived conflict during negotiation interaction.

Higher conflict levels **hurt relational outcomes** since they are negatively related to buyer's trust towards, commitment to and satisfaction with the seller.

Do-your-best goals are always outperformed by specific goals: they have no positive effect on either economic or relational outcomes.

When assigning negotiation goals, there is a trade-off between the attainment of high economic and high relational outcomes.



However, there is **no link** between **settlement price** and **buyer's perceived level of conflict**.

Since high prices do not automatically imply high conflict and low relational outcomes, a solution to this trade-off is possible.

A solution to the trade-off pertains to the negotiation strategy the seller uses. There are two broad approaches:

## **Integrating negotiation strategy**

is based on mutual concessions and a problem-solving approach that integrate requirements and preferences of both parties.

This involves, for example, that both parties openly engage in information exchange, are open for concessions and show at least some degree of flexibility.

Examples:

- *“Delivering the products increases my costs per product by €2.”*
- *“Let’s move away from mere price discussions and talk about your preferences concerning a potential product adaptation.”*
- *“It’s true that it doesn’t make any sense to deliver the batteries as it’s cheaper for you to collect them.”*

## **Distributive negotiation strategy**

is used to obtain unilateral concessions from the other party and to stabilize the anticipated outcome(s).

### **Attacking negotiation strategy**

takes an offensive negotiation approach such as promises, nonconcessional offers, or threats.

Examples:

- *“If you don’t agree to this final offer, we’ll have to end the negotiation”.*
- *“I have come to agreements with negotiation partners who were by far more competent than you are.”*

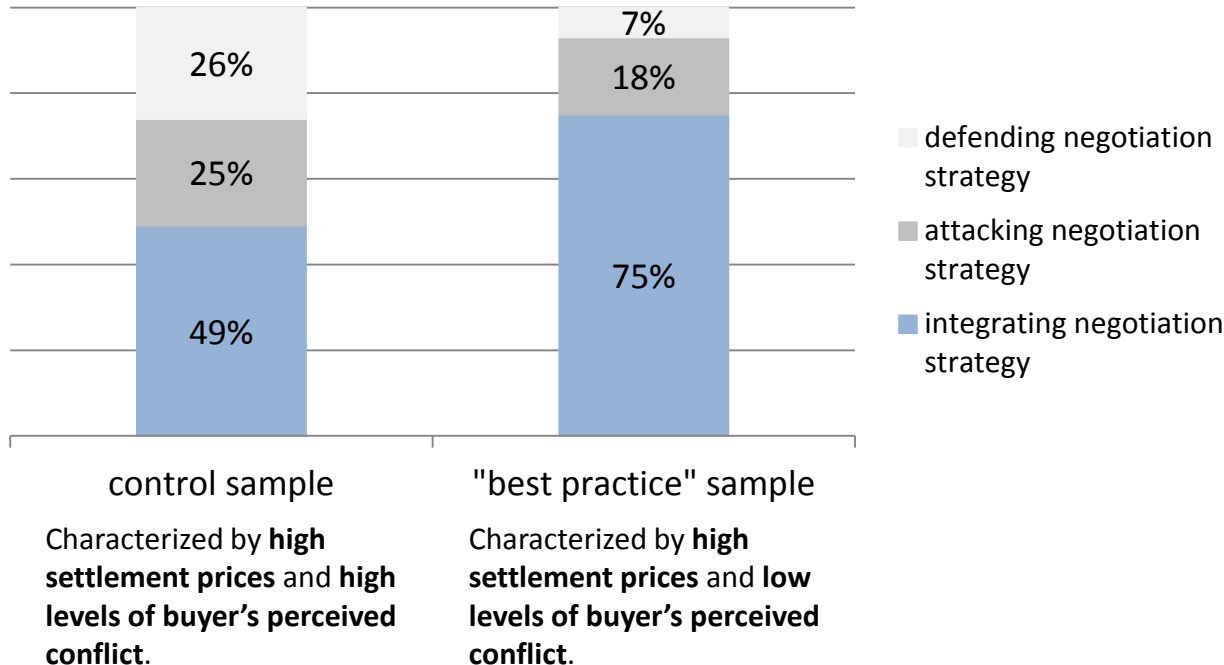
### **Defending negotiation strategy**

consists of supporting one’s own position or rejecting offers or information of the opponent.

Examples:

- *“The quality of our competitors’ products is not nearly as high as ours, so their prices are not a suitable benchmark.”*
- *“We can’t even cover our costs with a price per product of €500.”*

Application of **integrating negotiation** tactics is a way to avoid this trade-off: it buffers the buyer's perceived level of conflict while maintaining the performance effect of ambitious goals.



### Defending negotiation strategy:

- Position support
- Denial or question of information
- Offer rejections
- ...

### Attacking negotiation strategy:

- Nonconcessional offers
- Promises, threats
- Assertion of wants
- Commands
- ...

### Integrating negotiation strategy:

- Information sharing
- Questions
- Concessions
- Flexibility
- ...

1

Carefully prepare price negotiations by examining the chances and challenges of a specific negotiation.

2

Assign your sales representatives with an ambitious price or profit goal for every negotiation and tie its achievement to incentives.

3

Train your sales representatives in the development and application of integrating negotiation tactics to protect the business relationship during negotiation.

4

Never assign your sales representatives to “do-your-best” (i.e. unspecific) negotiation goals as they have no positive effect on either economic or relational outcomes – they are always outperformed by specific goals.

5

Examine whether beliefs about the dominance of bargaining power on settlement prices rather than negotiation excellence are fostered in your sales force. If that is the case, initiate a culture change.

The **Institute for Market-Oriented Management (IMU)** at the University of Mannheim (Germany) considers itself to be a forum for dialogue between scientific theory and practice. The high scientific and academic standard is guaranteed by the close networking of the IMU with the three Chairs of Marketing at the University of Mannheim, which are highly renowned on a national and international level. The Academic Directors of the IMU are Prof. Dr. Dr. h.c. mult. Christian Homburg and Prof. Dr. Sabine Kuester.

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