

ANALYSIS OF THE PREPARATION OF COMMERCIAL NEGOTIATIONS OF FAST-MOVING CONSUMER GOODS COMPANIES IN PORTUGAL

ANÁLISE DA PREPARAÇÃO DE NEGOCIAÇÕES COMERCIAIS DE EMPRESAS DE PRODUTOS DE GRANDE CONSUMO EM PORTUGAL

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ABSTRACT:

The current business environment is characterized by globalization, technological development, strong competition, plus the growing need to identify opportunities and optimize resources. To succeed in this context, organizations require their executives to have excellent management skills particularly in the area of negotiation. There is a broad consensus in the scientific community about the importance of preparing for the negotiations as an essential step in determining a successful outcome (Thompson, 2008; Lewiki, Saunders & Minton, 1999; Ury, 1991; Kennedy, Benson & McMillan, 1986). This work aims to examine how executives of fast-moving consumer goods companies in Portugal prepare their commercial negotiations, and to identify differences that may exist between national and multinational companies. This study was based on literature research and on personal interviews conducted in 22 companies that altogether have a total turnover of approximately 3 billion euros, which is very representative of the large consumer goods sector in Portugal. The main conclusion of the study is that there are several areas of possible and desirable improvement, both in the evaluation of each of the parties and the circumstances in which negotiation takes place, as well as in their strategic and tactical planning.

KEYWORDS: Negotiation, Preparation, Commercial, Portugal, Companies.

RESUMO:

O actual ambiente empresarial é caracterizado pela globalização, pelo desenvolvimento tecnológico, pela forte competitividade e pela necessidade crescente de identificar oportunidades e otimizar recursos. Neste contexto, e para terem sucesso, as organizações necessitam que os seus executivos possuam elevadas competências de gestão nomeadamente em negociação. Existe um consenso alargado na comunidade científica quanto à importância da preparação das negociações, como elemento essencial, para potenciar o resultado das mesmas (Thompson, 2008; Lewiki, Saunders & Minton, 1999; Ury, 1991; Kennedy, Benson & McMillan, 1986). Neste trabalho pretende-se analisar a forma como, em Portugal, os gestores de empresas de produtos de grande consumo (FMCG's) preparam as suas negociações comerciais, permitindo também perceber quais as eventuais diferenças entre as empresas nacionais e multinacionais. Este estudo foi baseado em pesquisa bibliográfica e em entrevistas pessoais realizadas em 22 empresas que, em conjunto, possuem um volume de negócios total de aproximadamente 3 mil milhões de euros, pelo que são muito representativas do grande consumo em Portugal. Podemos constatar que existem muitas áreas de possível e desejável melhoria, tanto ao nível da avaliação de cada uma das partes e das circunstâncias em que a negociação decorre como no planeamento estratégico e tático desta.

PALAVRAS-CHAVE: Negociação, Preparação, Comercial, Portugal, Empresas

1. INTRODUCTION

Negotiation is part of our daily life. We all negotiate something every day, in most cases without realizing it. On a personal level, we negotiate with our family, neighbours and friends, among others. In business, negotiations occur at different levels and contexts: in the department, between departments, between companies and even between industries (Thompson, 2008; Shell, 1999; Lax & Sebenius, 1986; Fisher & Ury, 1981).

Thus, managers should have good negotiation skills in order to conduct effective negotiations in the above mentioned contexts (Thompson, 2008).

The initial part of the negotiation process is composed of preparation activities, which are critical for the success of negotiations (Thompson, 2008; Lewicki, Saunders & Minton, 1999; Ury, 1991; Kennedy, Benson & McMillan, 1986).

2. THEORETICAL CONSIDERATIONS

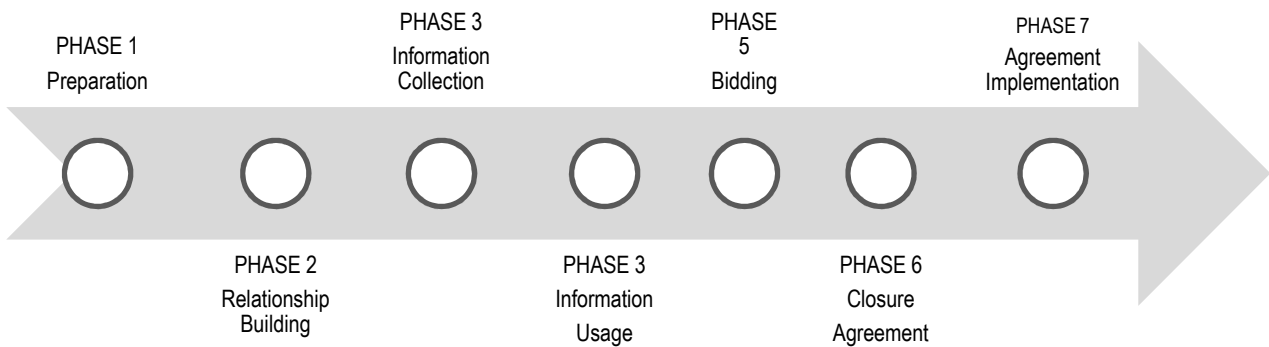
Lax & Sebenius (1986:11) define negotiation as "a process of potentially opportunistic interaction in which two or more parties, with some apparent conflict, seek to get better through action defined together than they would otherwise." Putnam & Roloff (1992: 3) define negotiation as a process that "entails two or more interdependent parties who perceive incompatible goals and engage in social interaction to reach a mutually satisfactory outcome". Fisher, Ury & Patton (1991: 6) argue that "negotiation is a means to get what we want from others. It is a communication process that aims to reach an agreement when the parties have some interests that are shared and others that are opposed". Jesuino (1992), says that negotiation is essentially a process of decision taking in a context of strategic interaction or interdependence.

According to Thompson (2008), negotiation competencies are increasingly critical to the success of organizations, for five reasons:

- Dynamic nature of the business world, with frequent adjustments and changes needs;
- Interdependence of people within organizations and between different companies (as in the case of the relationship with suppliers or the creation of a strategic alliance);
- Increasing competitiveness in the world we live in;
- New information age, which allows easy communications with people around the world, at all times, and access to a multiplicity of information sources;
- Globalization and the need for interaction with people of different nationalities and cultures.

The steps that make up a negotiation process are discussed by several authors, including Filley (1975), Fisher and Ury (1981), Pruitt and Rubin (1986), Ury (1991), Kersten & Noronha (1999), Carvalho (2004), Atkin & Rinehart (2006), Falcão (2013) and also Greenhalgh (2001) that presents a model that is particularly relevant for win-win negotiations, composed of seven distinct stages (see Figure 1).

Figure 1- Negotiation process stages



Source: Adapted from Greenhalgh (2001)

Kersten & Noronha (1999) define the negotiation process based on three phases: pre-negotiation, negotiation and post-settlement. The pre-negotiation involves situation analysis, problem definition, opponents, alternatives, preferences, among other things. The negotiation phase includes sharing of information, proposals and counterproposals to reach an agreement and the agreement. Finally, the post-agreement encompasses the analysis of results, the commitment of the negotiating parties and the satisfaction of the negotiators. Atkin & Rinehart (2006) advocate the division of the negotiation process in three steps: (1) Preparation, which includes the gathering of information and its use in the formulation of plans to help the company achieve its objectives, (2) Negotiation, which includes the implementation of these plans, as well as the trade-off of items being negotiated to meet the parties needs, (3) Result, that represent

the perception of the parties of the agreement that was reached, and while a positive perception can lead to additional business between the parties, a negative perception can lead to the dissolution of the relationship.

Preparation is key for the negotiations' success. Thompson (2008) says that preparation is essential for a successful negotiation, and approximately 80 percent of the effort should focus on the preparation, and the remaining 20 per cent should be focussed on the actual work done during the negotiation. Most people are clearly aware that preparation is important, although do not prepare in an efficient manner. According to Ury (1991), the secret of effective negotiation is simple: prepare, prepare, prepare. Most negotiations are won or lost, even before the start of the talks, depending on the quality of the preparation. People who think they can improvise often discover they are deeply mistaken. Even if they reach an agreement, they may have missed opportunities for joint gain that could have been very well identified in the preparation stage. There is no substitute for effective preparation. The harder the negotiation, the more intense should the preparation be. In addition, Lewiki, Saunders & Minton (1999) state that the preparation that takes place before the interaction is a major force in the success of a negotiation. Kennedy, Benson & McMillan (1986) defend that good preparation is essential because it results in a safer way to get a satisfactory negotiation as a poorly prepared negotiator will be limited to reacting to events and can never drive them. A very good preparation is one of the few ways that smaller companies can get an advantage when they negotiate with larger companies (Falcão, 2013).

3. OBJECTIVE

The preparation phase is, as recognized by the above-mentioned authors, critical to the success of commercial negotiations. This study aims to analyze how the commercial negotiation preparation is made in FMCG companies in Portugal and also to identify differences between domestic firms and multinationals.

For that, the authors sought to identify:

- which method is used in the preparation of commercial negotiations;
- the reasons for the use of the current method of preparation;
- the level of satisfaction obtained with the method currently used.

This work focuses on bilateral negotiation between FMCG companies and retailers and wholesalers as their clients. The preparation is viewed from the perspective of the sellers in

negotiations with significant interests for both parties. The negotiations are explicit (negotiations in which parties seek to achieve a mutual agreement through a binding contract) and not tacit.

4. METHODOLOGY

The authors followed a qualitative research based on semi-structured interviews, which allowed respondents to make their own observations rather than strictly responding to a questionnaire. The context of dialogue and sharing of information encourages respondents to provide spontaneous insights, to identify sources of corroborating evidence and provides access to valuable information (Yin, 1994). These semi-structured interviews allowed making a deeper analysis, producing a better insight into the process of preparing for negotiations in organizations.

The companies that participated in this study were large companies in various categories of consumer products. There were interviews conducted in 22 companies (11 domestic companies and 11 multinational companies) between April and July 2012. Companies that collaborated in this study provide a good representation of the mass market in Portugal, since they had a total turnover close to 3 billion euros in 2010 and were present in more than 75 categories of products.

The interviews were carried out with commercial directors, sales directors, business unit managers, channel managers, national account managers or key account managers, each responsible for major commercial negotiations and with an average of more than five years of work in the current professional roles.

To ensure that interviews were effective, a pilot interview was conducted which allowed fine-tuning the interview structure and process.

To ensure the confidentiality of the information obtained, the answers will not be identified or presented individually.

5. STUDY VARIABLES

The structure of the present study was mostly based on the approach of Thompson (2008).

The study is divided into three distinct parts:

a) Which method is used in the preparation of commercial negotiations?

In this first part of the study, 76 items were considered, divided into four blocks: Self-assessment, Assessment of the other party, Situation assessment, Negotiation planning;

b) What are the reasons why the current method of preparation is used?

In this second part of the analysis, seven items were considered:

- International guidelines,
- Managers' own accumulated experience,
- Internal and / or external training,
- Aiming to meet the reality of customers (e.g., information available, sophistication of management processes),
- The method that has always been used / practiced in the company,
- The belief that the method works well,
- Other reasons.

c) What is the level of satisfaction obtained with the method used?

In this third part of the analysis seven items were considered:

- Very dissatisfied,
- Dissatisfied,
- Moderately dissatisfied,
- Neither satisfied nor dissatisfied,
- Moderately satisfied,
- Satisfied,
- Very satisfied.

6. RESULTS ANALYSIS AND CONCLUSIONS

As seen in the data analysis, the preparation of commercial negotiations by FMCG companies in Portugal shows areas of possible improvements in the negotiators' self-assessment, assessment of the counterparts and assessment of the situation as well as in the negotiations strategic and tactical planning.

Firstly, at the level of self-assessment, negotiators from national and multinational companies analyze in detail their goals, the resistance point and the items under negotiation. However, they do not search for knowledge of their:

- alternatives to reach an agreement in the situation (particularly BATNA - Best Alternative To a Negotiated Agreement),
- sunk costs,
- willingness to risk,
- predominant negotiation style.

which strongly limits their preparation and consequently the chances of success.

Identification of alternatives to a possible agreement in a negotiation (particularly, the BATNA) is a determining factor for a proper definition of the strategy and tactics of the negotiation. In fact, a strong BATNA is the most important form of power in a negotiation process.

The lack of an objective and structured self-assessment, either of the predisposition to risk or of the predominant negotiation style implies that negotiators are not aware of their natural preferences and therefore can not adjust their preparation work for each negotiation.

In summary, the negotiators know what the imperatives of their organizations are but are not well self-aware of their own alternatives to reach an agreement in the situation.

Secondly, at the level of negotiators' assessment of their counterparts, negotiators from national and multinational companies seek to know their counterparts in the negotiations, but are partially unaware of what:

- are the personal interests of the negotiators of the other party,
- are the alternatives that they have to reach an agreement in the situation (particularly, their BATNA),
- is their resistance point,
- is their negotiation style.

The identification of the personal interests of the negotiators of the other party is important, since these can be a barrier or a facilitator in the negotiation process, depending on how they are managed.

- The knowledge (objective or estimated) of the other party's BATNA is essential to try to anticipate:
- the relationship of power in negotiation,
- the possible strategy and tactics of the counterparts,
- the counterparts' resistance point, which allows the negotiator to guide the presentation of negotiation proposals.

In most national companies, the identification of the strategic direction of the other party in the short, medium and long term is not a rooted practice.

In summary, the knowledge that negotiators have about the other party is relatively limited and restricted to the most visible and most superficial aspects. A more comprehensive and systematic collection of information and a profound reflection on the characteristics of the other part, would deepen the negotiator's knowledge and help in identifying their own assets, allowing to considerably enhance their own results.

Thirdly, at the level of the assessment of the situation, i.e., the context in which negotiations take place, the negotiators of multinational and national companies seek to make a comprehensive evaluation. However, understanding the negotiating context could be significantly improved if the negotiators effectively used an analysis of power in a structured way, using different dimensions of power such as:

- BATNA,
- information,
- status,
- social networks,
- physical appearance,
- strong brands,
- time,
- level of penetration in the business.

This analysis would help to assess the relationship of forces between the parties and the power dimensions in which the company is weaker and those where it is stronger.

The preparations for negotiations, with regard to the analysis of the situation, would be more appropriate if the negotiators identified the negotiation zone (ZOPA - Zone of Possible Agreement) and the corresponding gains from the negotiation or, as it is often said, «the cake» that results from negotiating that is available to be divided between the parties. Each negotiator tries to get the biggest possible slice, i.e., seeks to maximize his/her gains.

The national and multinational companies do not perform a systematic analysis of the current level of trust between the parties. The correct identification of the current level of trust between the parties is essential to define how to develop it further during the negotiation, through rational mechanisms and psychological strategies, in conjunction with the strategy and tactics defined.

Thus, the study results show that the assessment of the negotiation situation could be improved if the negotiators analysed the relative strengths of the parties, assessed the potential joint

gains and had a clear perspective on the current and the desired level of trust in order to leverage the outcome of their negotiations.

The vast majority of negotiators do not have a clear and conscious strategic orientation of their commercial negotiations. The vast majority of respondents does not have a clear notion of the concepts of distributive and integrative negotiation. In many cases, negotiators believe that their negotiations will be win-win if they transmit to their counterparts that they will have that posture, if the concessions of each part are equal, if the differences are split in half and if both have a cooperative attitude. These aspects are important but not sufficient to guarantee that the joint gains are maximized. The way to prepare the negotiations denotes a mainly distributive orientation for several reasons:

- Lack of development of an appropriate relationship and of high levels of mutual trust that would allow maximizing opportunities to create value,
- Lack of sharing information openly,
- Need for further diagnosis of the needs, priorities and medium and long term strategy of the other part,
- Lack of a continuous search effort for new items to add to the negotiation in order to maximize the size of the «cake»,
- Reduced incidence of contingency contracts, that can leverage different expectations in order to create value in the negotiation,
- Distributive nature of most of the tactics chosen by the negotiators.

Many companies, in their preparation stage, do not invest enough in their choice of tactics in conjunction with the defined objectives and strategy. As a result, during the negotiations, the tactics appear automatically based on experience of the negotiators and following the reactions of the other part, which may compromise the results of the negotiation.

The negotiations preparation focuses mainly on issues related to substance (value) and not so much with relationship or communication. There is a strong focus on the value of the results to be achieved since the negotiation planning is concentrated around aspects such as:

- What proposals to do? In what order? When?
- Who should make the first offer?
- What is the impact on profitability of the proposals to submit?
- Is there an objective reasoning to support the proposals?
- What are the future implications of the proposals?
- What is the reaction of the other party to each of the proposals?

- Which concessions to make (type and magnitude)?

Companies do not invest enough in planning how to develop the relationship, both in terms of creating a sense of interdependence and of building confidence, which would help to enhance the negotiation results. Communication is a key factor in the negotiation and, as such, negotiators should plan how to communicate and to constantly monitor its effects. Asking for feedback allows negotiators to identify the difference between the message intended to convey (intention) and the impact it had. Since most of the messages' content is transmitted in a non-verbal communication, this should be clearly a priority in the preparation of negotiations. To maximize the effectiveness of communication, there must be a consistency between verbal and non-verbal messages.

Less than half of the companies studied defined previously the small talk to perform with the other part. In most of these companies, small talk is intended merely to «break the ice» and reduce stress, not being considered as an excellent opportunity to pass messages, identify new needs, develop the relationship and overcome negotiation obstacles.

Only a small number of companies plan the beginning phrase of each negotiation. The first perceptions are very important for the progress of the negotiation. Gladwell (2009) defines the quick perceptions as «thin slices», which correspond to the ability of the unconscious to find patterns in situations and behaviors based on an experience of short duration. First impressions, which are unconscious thin slices of experience, form the basis for instant long-lasting assessments of others. Negotiators should open negotiations with the approach that reflects the orientation chosen and the framework for the desired relationship. The initial phrase is an important element to influence the emotional environment of a negotiation.

None of the studied companies set the negotiation style they want to adopt in each of their negotiations. This condition is related to the fact that companies do not have a model to characterize the predominant negotiation style of its managers or, in some cases, wish to create a typical negotiating style of the company that all managers should implement in all negotiations.

Regarding operational negotiation issues such as negotiating individually or in teams, place and time of the negotiations and the agenda and supporting visual elements, they are at different levels of development:

- Most of the studied companies participate in negotiations with a team. In multinational companies, attention is also given to factors as the choice of teammates and the definition of how the team should prepared to negotiate. With a very few or no occurrences, these issues are prepared: the desirable size of the team, communication among team members, cohesion in the team, information processing by the negotiators and programming of interruptions during the negotiations.

- All companies studied define where and when their negotiations occur. These are always face-to-face, which allows a better management of information (verbal and non-verbal). Media technology (telephone, fax, email or video conferencing) are often used to answer questions, make proposals or formalize agreements.
- All multinational companies and a vast majority of national companies define or influence the agenda of the negotiations, in terms of items to address, their order on the agenda and the time allocated to each item.
- Almost all companies, both national and multinational, use elements of visual support whenever necessary during their negotiations. Examples include powerpoints, models, samples and brochures.

The assessment of the negotiations is carried out by just over half of Portuguese companies, both national and multinational, although it is not deep. To improve their future performance and consequently the performance of their organizations, negotiators should devote more attention to the assessment of their own effectiveness and efficiency. The assessment should focus on the substance of the negotiation, but also on the relationship and the communication with the counterpart.

In summary, companies planning negotiations concentrate their efforts primarily in the development of proposals, the analysis of the impact on profitability and future implications thereof, the preparation of arguments to support the proposals, the anticipation of the reactions of the other party and the planning of concessions. The strategic planning, the tactical and operational aspects of the negotiation is insufficient or nonexistent.

Regarding the main differences in the method of preparation of commercial negotiations between national and multinational companies, the latter have higher values in 27 of the 76 variables studied, with particular focus on the planning of negotiation (18 of 27). The variables where multinational companies have more pronounced differences when compared with the national companies are:

- What is the negotiation style(s) of the counterpart?
- What are the perceptions about the counterpart?
- What is the strategic approach of the counterpart in the short, medium and long term?
- Are there opportunities? What are the implications of these opportunities?
- Are the benefits of our proposals clear to the counterpart?
- Are concessions planned?
- How to develop the relationship?
- How to build trust?

- What diagnostic questions to do?
- Is it possible to add more items to the negotiation?
- Which negotiation tactics should be used?
- What small talk to develop?
- What should the beginning phrase be?

On one hand, multinational companies are more likely to reach integrative agreements, because they undertake a better overall preparation of their negotiations, and in particular due to aspects such as the strategic analysis of the other party in the short, medium and long term, relationship development, building trust and a constant attempt to add more items to the negotiation.

On the other hand, national companies have higher values than multinationals in only 2 of the 76 variables of the study. The variable where the difference is more significant is the identification of the resistance point of the counterpart.

The current method of preparation of the negotiations in FMCG companies in Portugal results mainly from the know-how accumulated by negotiators throughout their careers. However, the more significant difference between national and multinationals firms is that the latter offer more regular training to their sales teams.

Regarding the level of satisfaction with the method of preparation used, national firms are more satisfied than multinational corporations despite having less elaborate methodologies. The fact that multinational companies are more modest about their level of satisfaction with the method used in the preparation of their negotiations, according to the study, indicates a greater concern to improve and refine their business management practices, which will help to enhance their results in the medium and long term.

In conclusion, the study identified a broad set of data and drew conclusions about how the preparation in commercial negotiations is done in FMCG companies in Portugal and about the differences between national and multinational companies.

Since negotiation is a core competency in management and preparation is critical to its success, FMCG companies in Portugal have a wide range of aspects where negotiations can be improved. One of the main drivers of change should be a strong investment on regular training of negotiators which, as responsible for sales teams, must ensure that training results translate into significant improvements in the work of their teams. Another way to make progress, perhaps sooner, will be through the recruitment of talent that can bring in examples of best practices.

7. LIMITATIONS AND FUTURE STUDIES

In the research carried out, the preparation was analyzed from the perspective of commercial negotiation sellers. Particularly at a time when there is a lively debate on the power relations between manufacturers and distribution, the authors consider that it would be interesting to study the preparation work developed by buyers and compare the two realities.

The authors also think it would be interesting to perform the same study in other cultures, in order to realize how cultural factors influence the process of preparing for negotiations.

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