

# Negotiating successfully with automotive manufacturers

EXTRACT of:

A manual for suppliers includes a  
model to evaluate the negotiation capability

# **1. Negotiations in the automotive supplier industry**

- Environmental description
- Strategies of OEMs and suppliers
- Area of disagreement

# **2. The process of negotiations**

- Cultural impact on negotiations
- Preparing for negotiation
- Types of negotiation
- Negotiation principles
- The power of language
- Negotiation tactics
- Leading negotiations
- Post-processing
- Negotiation as an organizational capability
- Negotiation skills
- Summary and verification of research substance

# **3. Evaluation of negotiation capability**

# Negotiations in the automotive supplier industry

# Negotiations in the automotive supplier industry

This chapter will describe the market environment by outlining the relevant factors for this research by deducing the strategies of suppliers and OEMs. Finally the resulting area of disagreement will be discussed. This approach is the most appropriate since it shows what topics may be prevailing in negotiations.

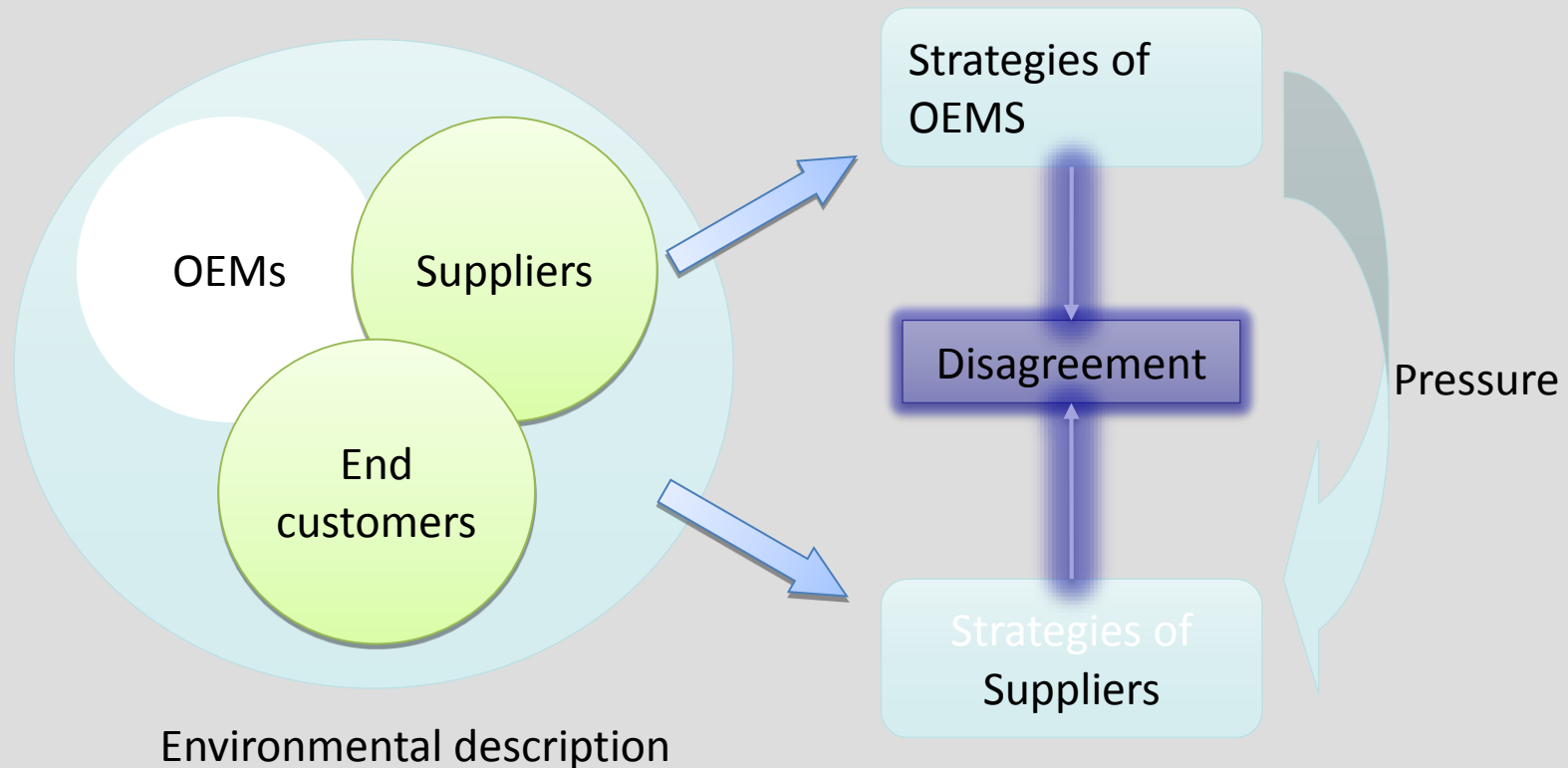


Figure 4: Framework for market description (Own development)

## Main problems of OEMs

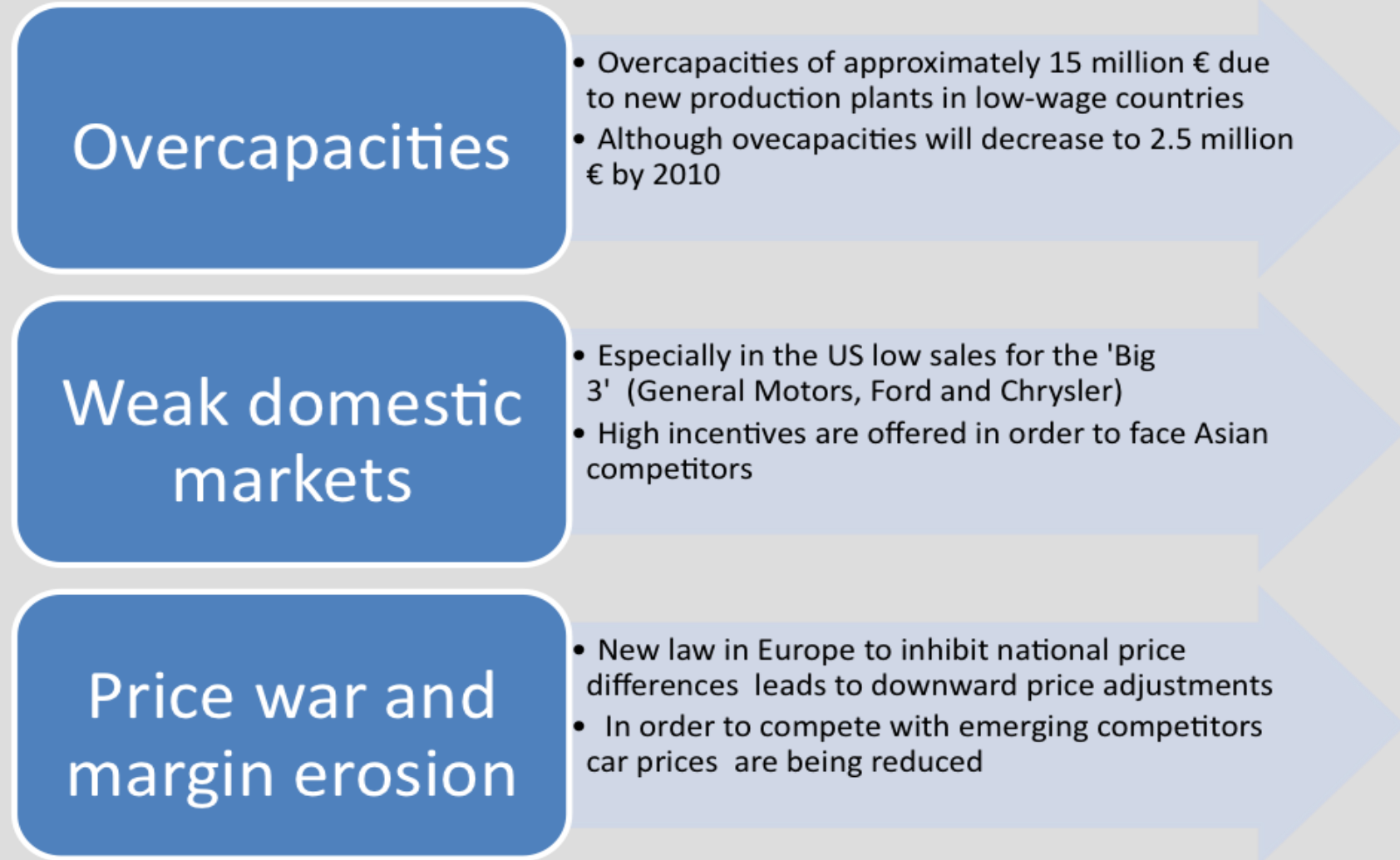
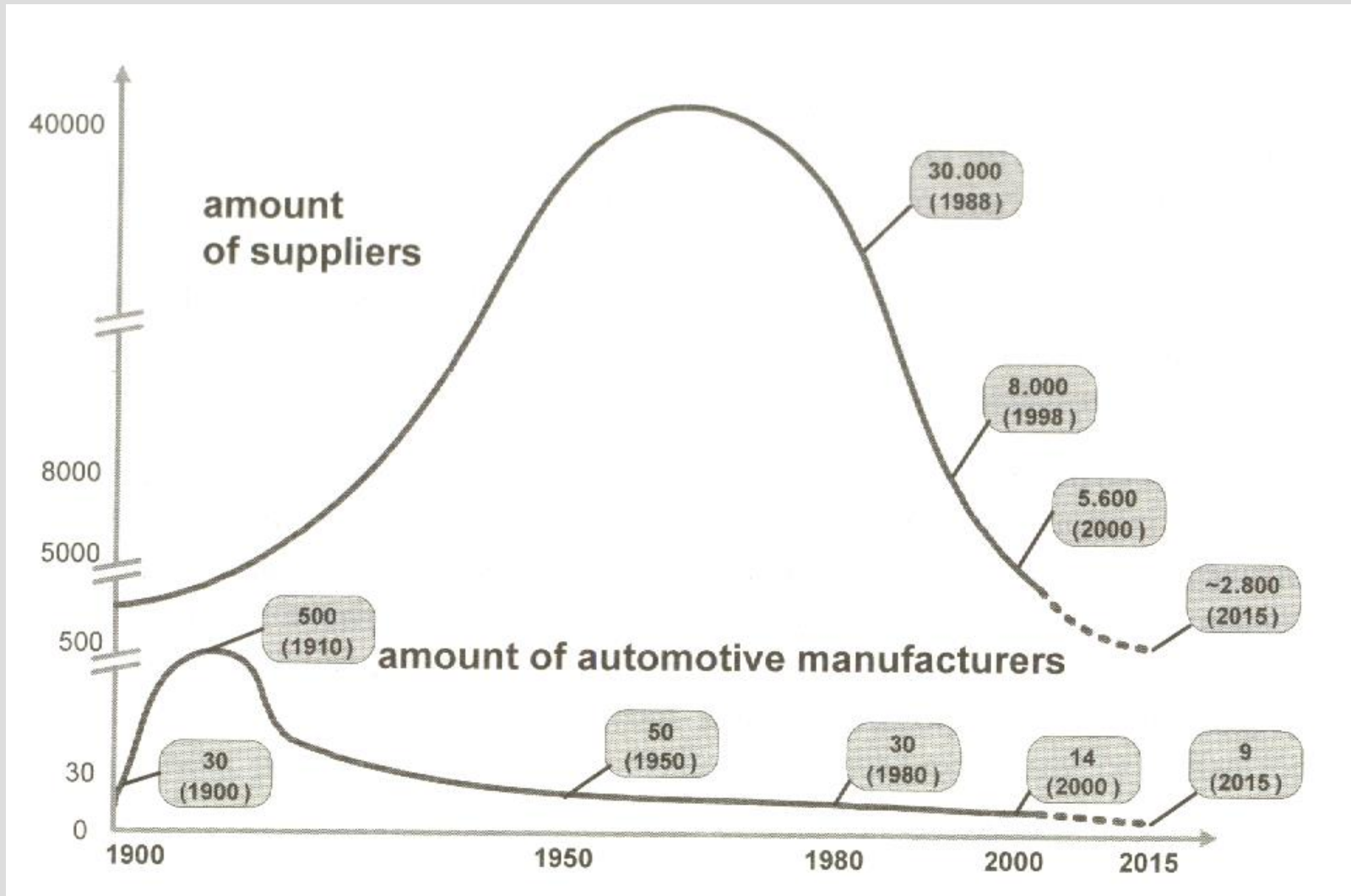


Figure 7: Main problems of OEMs (Design based on [www.corfina.de](http://www.corfina.de))

# Process of concentration



6 Figure 8: Process of concentration within automotive and automotive supplier industry (Becker 2006:169)

## Expected bankruptcies among first-tier suppliers in 2006 vs. 2005

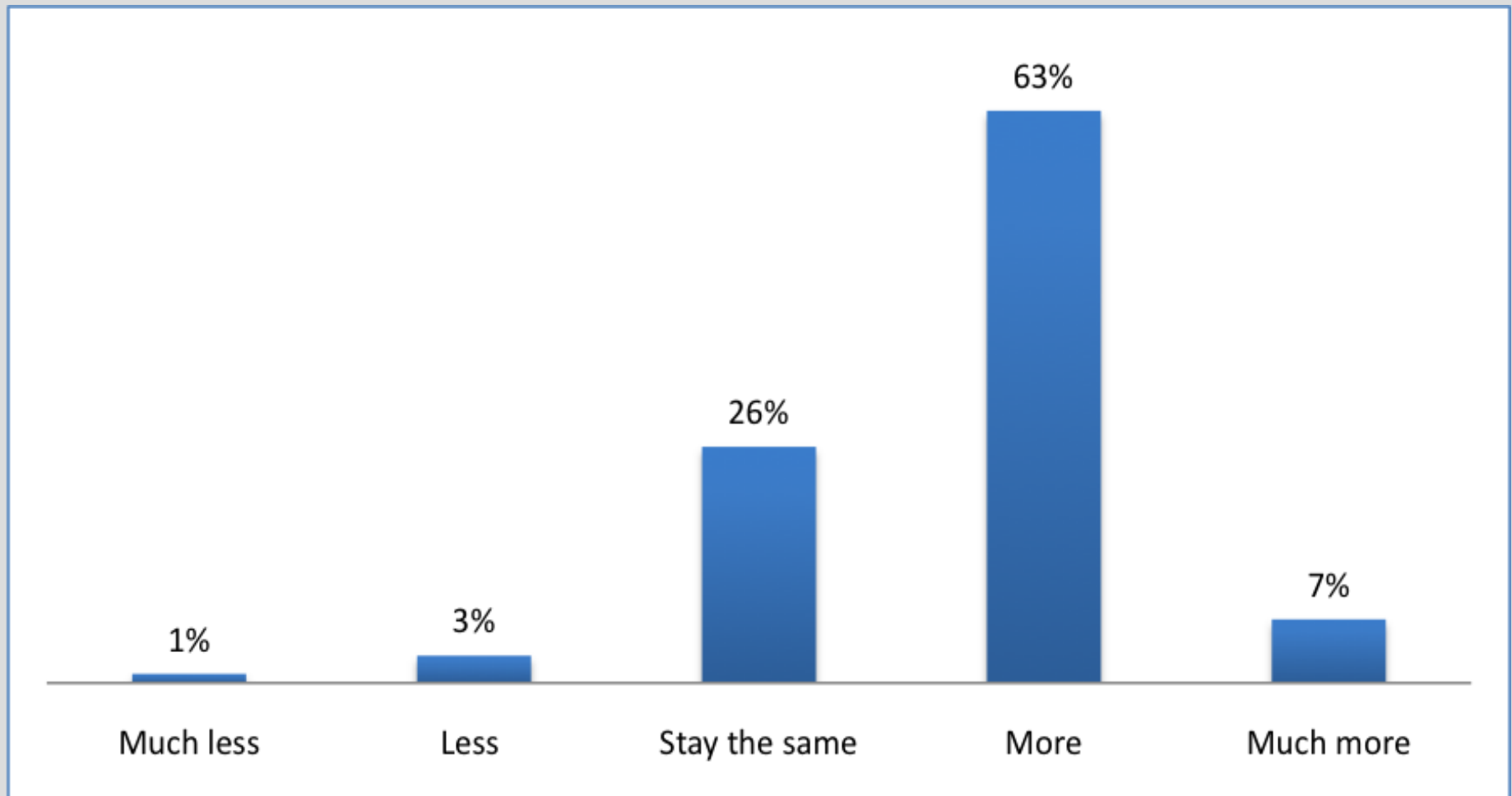


Figure 9: Expected bankruptcies among first-tier suppliers in 2006 vs. 2005 (Own Design, data from Berret 2006)

# Growth in sales for suppliers till 2010

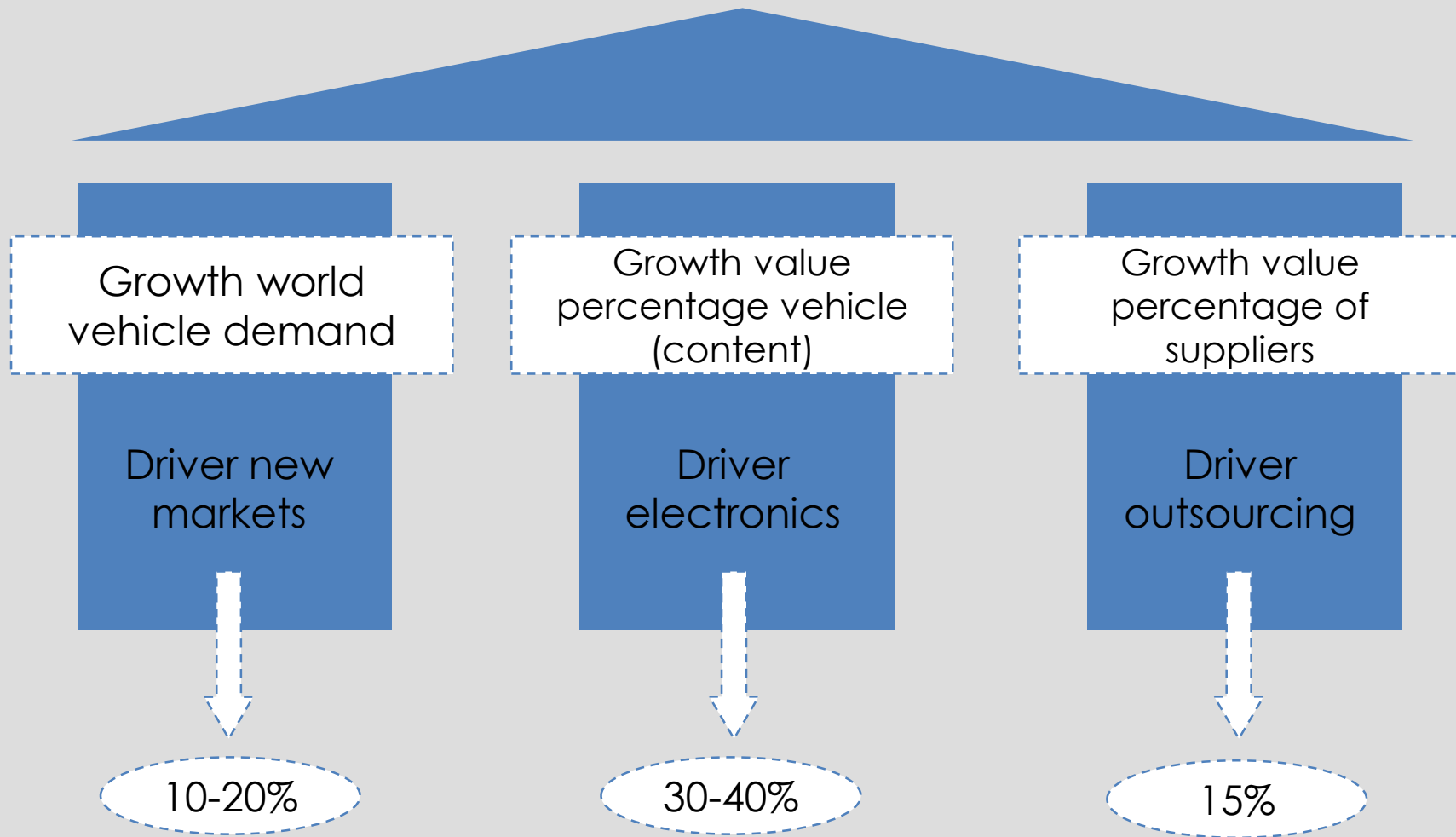


Figure 10: Growth in sales for suppliers till 2010 (Own design, data from Dudenhöffer 2003)



# Challenges affecting automotive suppliers

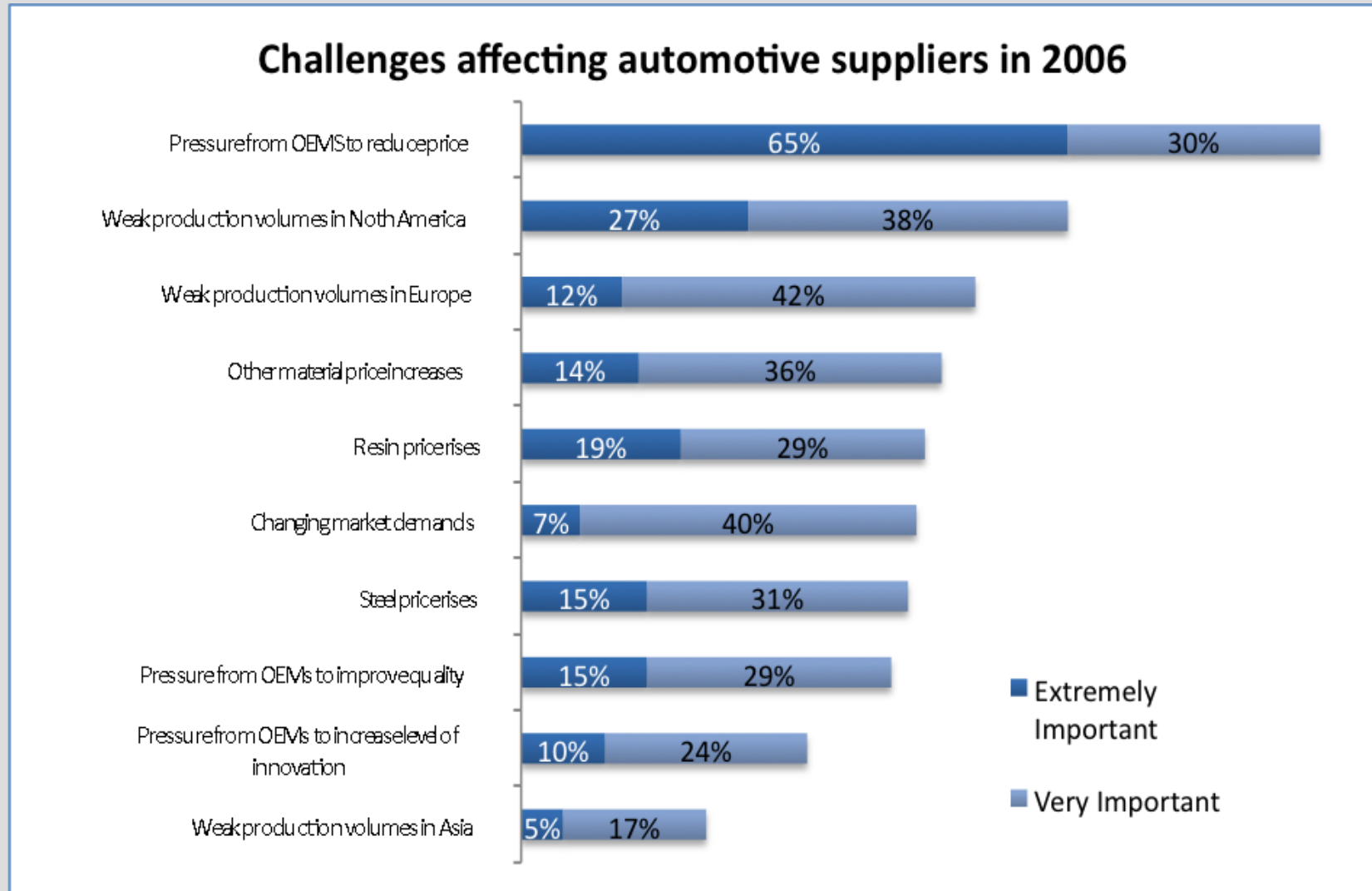


Figure 11: Challenges affecting automotive suppliers (Own Design, data from Berret 2006)

## Cost structure of suppliers

According to Dudenhöffer (2002), costs are not the only important competitive factor. Time to market is an important premise for being innovative and fast. OEMs demand that they get new technology in time and before their competitors. For a fast production and delivery, suppliers have to manage their sub-suppliers efficiently, claiming quality and delivery reliability.

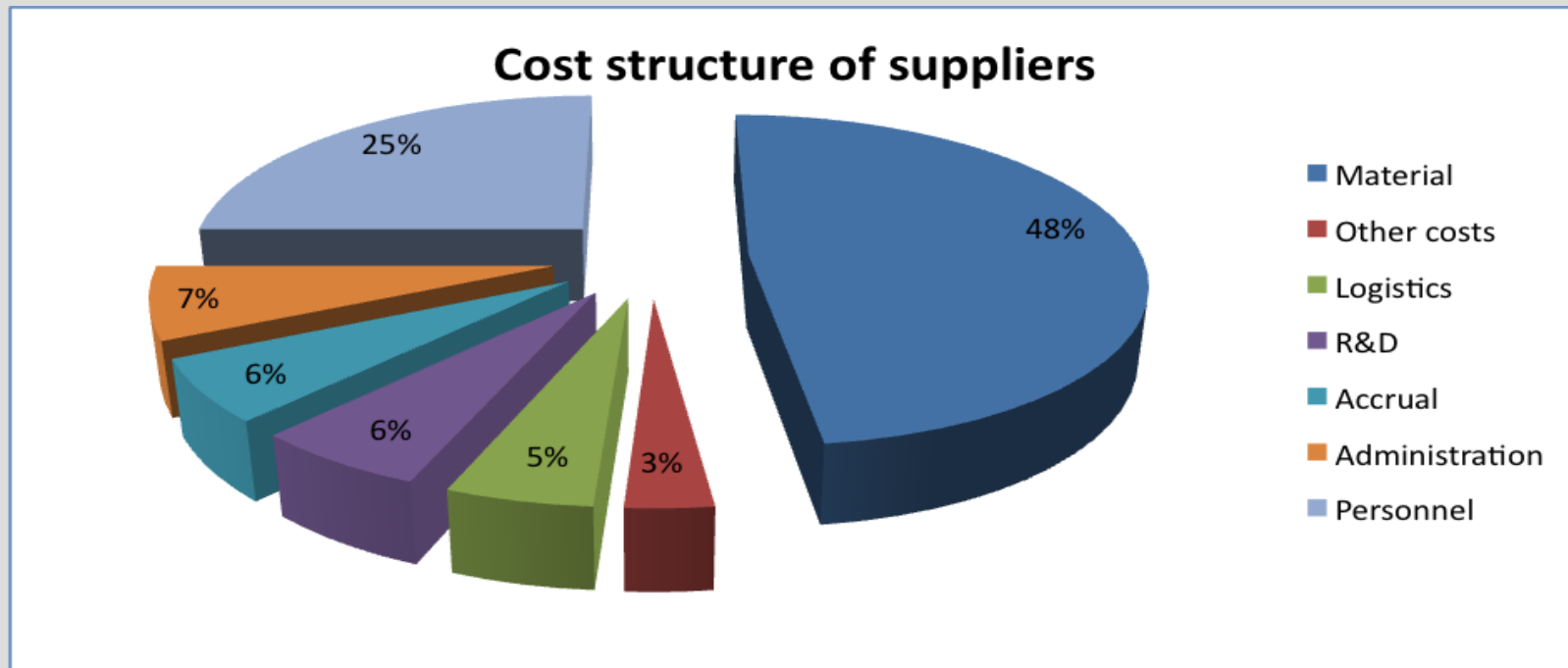


Figure 12: Cost structure of suppliers (Own design, data from Dudenhöffer 2005)

## Expected areas of disagreement between OEMs and suppliers

Price	75%
Payment for research and development	49%
Payment for system/ module management	49%
Payment for tooling	42%
Intellectual property	40%
Warranty	38%
Quality	10%
Product content	6%

**Figure 13: Expected areas of disagreement between OEMs and suppliers in 2006 (Berret 2006)**

## Area of disagreement continue

OEMs have a broad set of processes that regulate their negotiations with suppliers. For instance there is a specific procedure regarding the sequence of contracts: first there is a pre contract than the development contract et cetera, and in the end there is the final contract which decides whether the company will be their supplier or not. This constitutes a kind of 'corset' for suppliers and forces them to bargain multiple times to get the final contract.

# Reliability of OEMs on contract price agreements

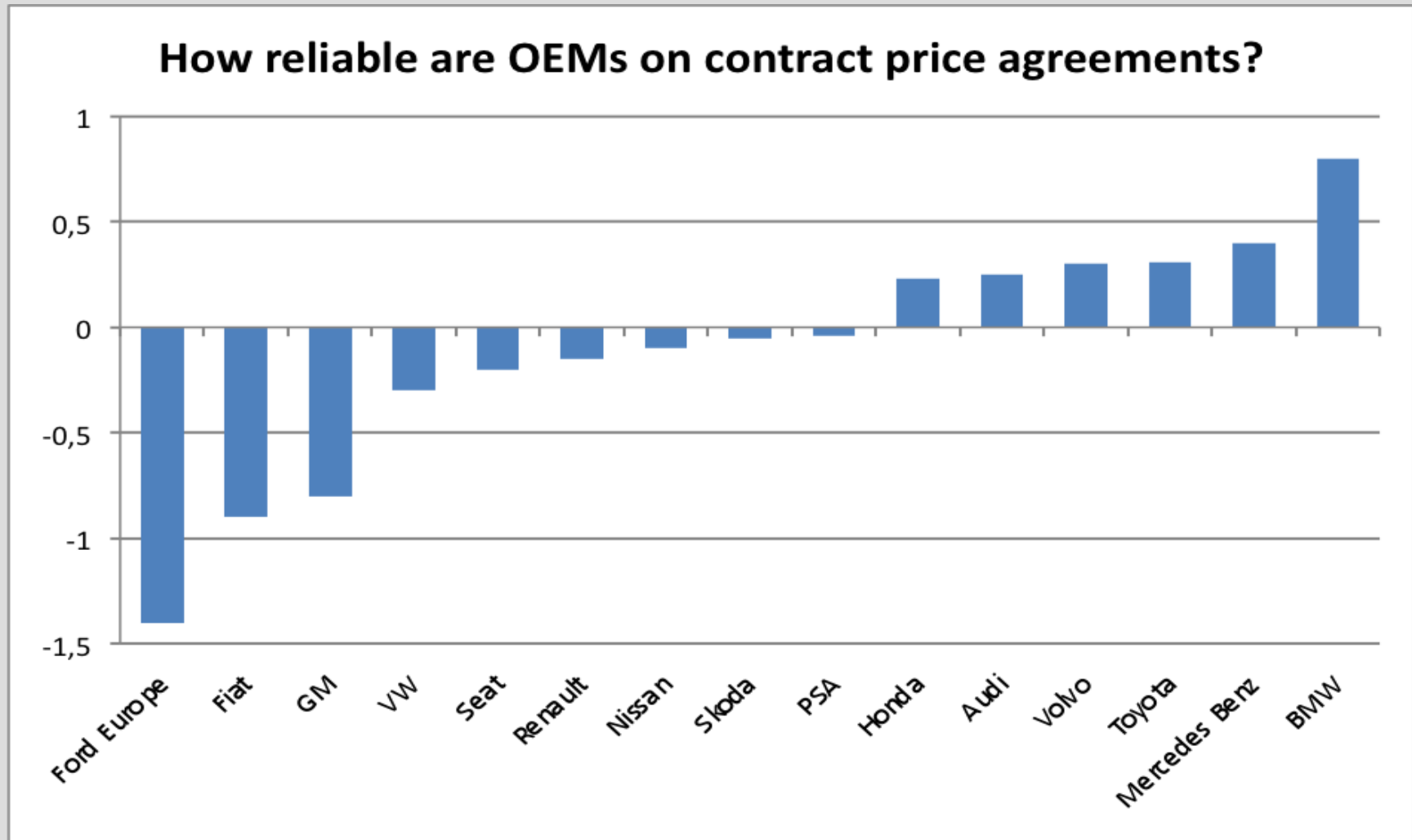


Figure 14: Reliability of OEMs on contract price agreements (Own design, data from on Kovacev 2006)

## Area of disagreement

### **Lessons learned for practitioners (Negotiations in the automotive supplier industry)**

- The oligopolistic market structure and higher concentration on the OEMs' side create a tough competition between suppliers: if a supplier loses a contract, the next supplier will already be waiting
- The previously discussed six meta strategies of OEMs force suppliers to be innovative and above all to reduce costs in order to meet the OEMs' demands after price cuts
- The dilemma hard bargaining (bargaining over price issues) versus negotiating a positive outcome for both, is the main challenge for suppliers
- Additionally, suppliers are faced with a very powerful and well-organized buying center organization

# The process of negotiations

# The negotiation circle

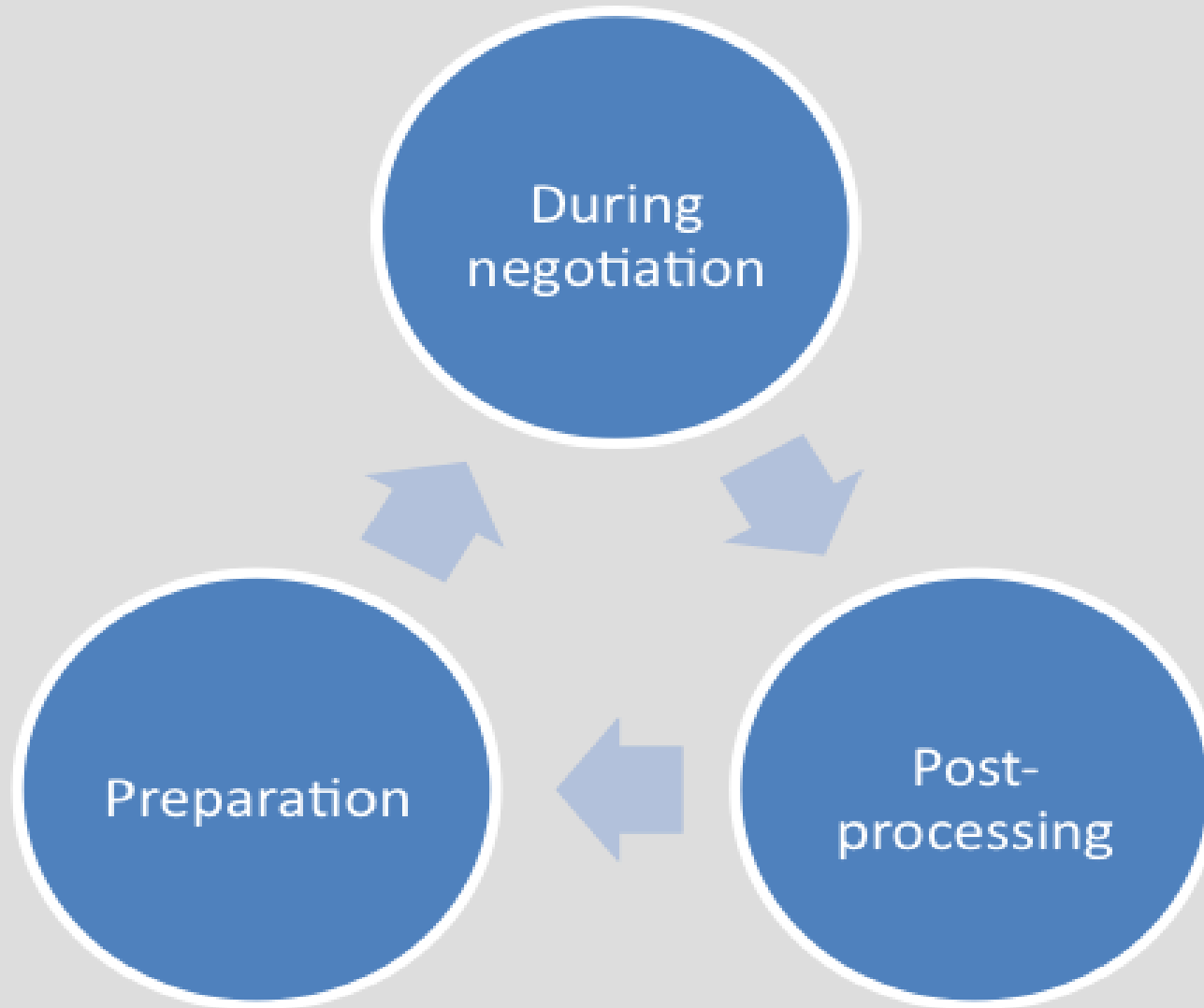


Figure 15: The negotiation circle



## Culture as the underlying truth

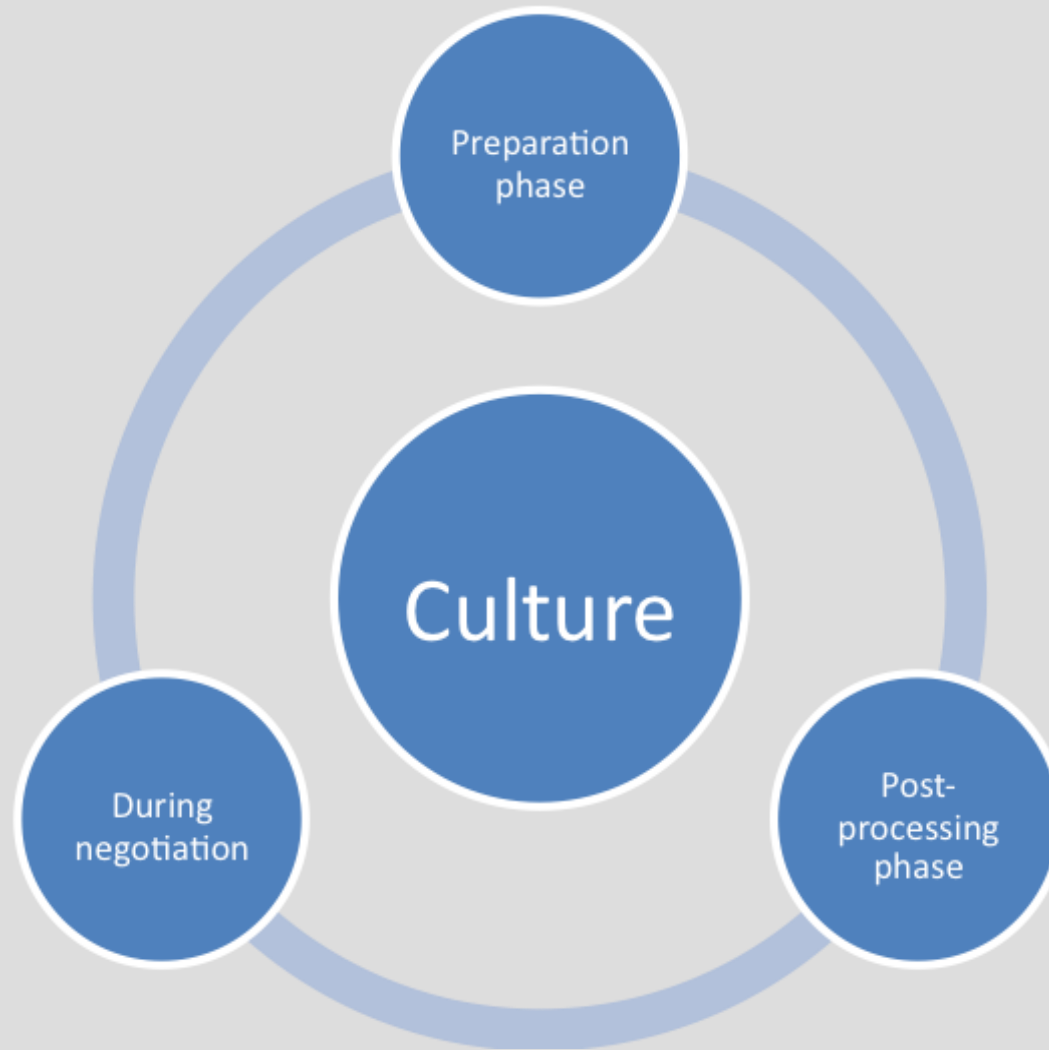


Figure 16: Culture as the underlying truth

# Cultural impact on negotiations

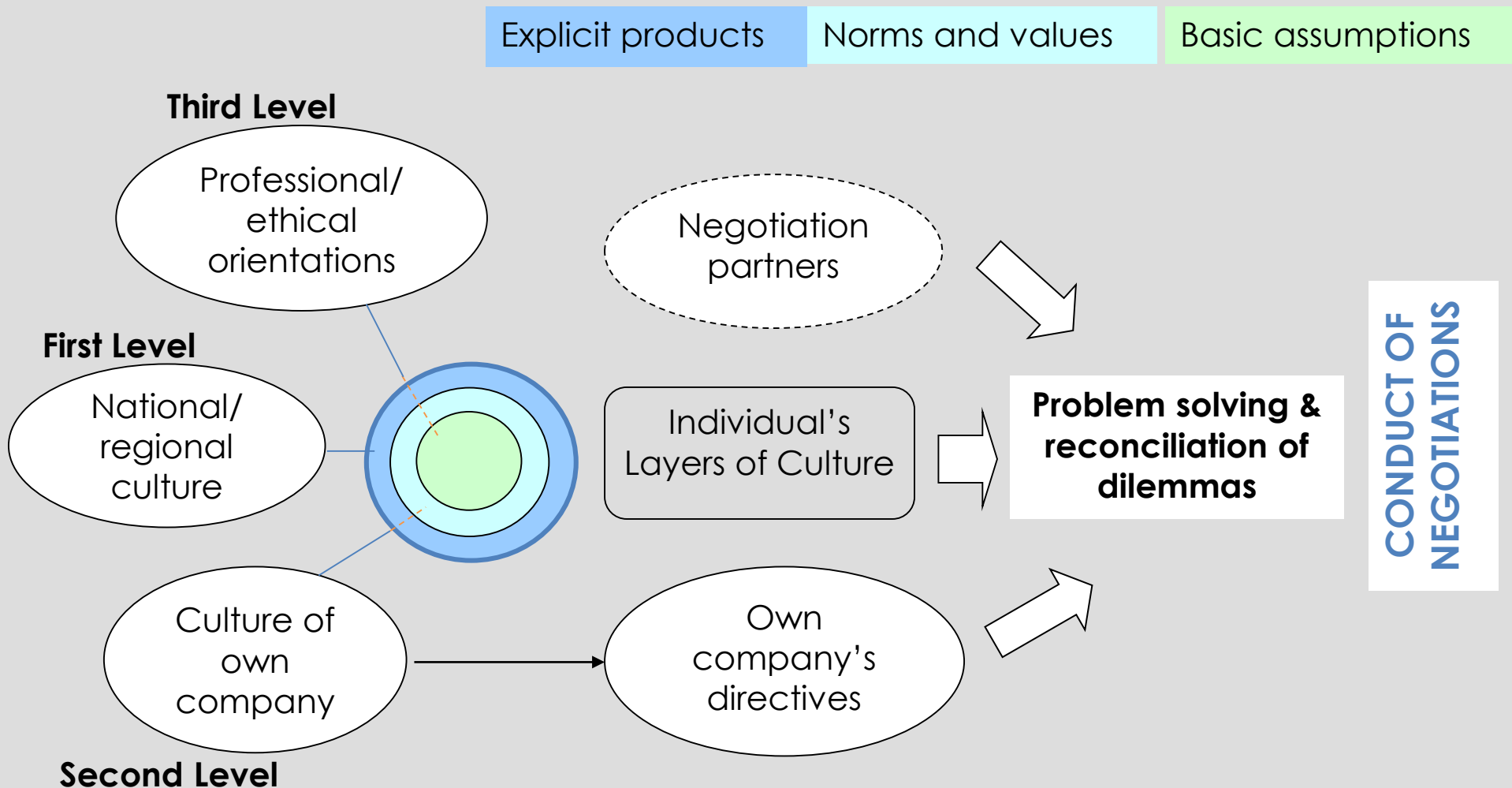


Figure 17 : Cultural impact on negotiations (Design, based on Trompenaars et al. 2005)

## Cultural impact on negotiations

### Lessons learned for practitioners (Cultural impact on negotiations)

- Sales Managers are daily confronted with people from various nations
- Especially in the automotive supplier industry it is essential to be aware of cultural influences
- Culture influences each individual's behavior, the own company's and the counterpart's company organizational and process structure
- Culture plays a decisive role in every phase of a negotiation

## Preparing for negotiation

Parties	Who will participate, or could participate, in the negotiation?
Rules	What are the rules of the game?
Issues	What agenda of issues will be, or could be, negotiated?
Interests	What goals are you and others pursuing?
Alternatives	What will you do if you don't reach agreement?
Agreements	Are there potential agreements that would be acceptable to all sides?
Linkages	Are your current negotiations linked to other negotiations?

**Figure 18: The seven key structural elements of negotiation after Watkins (2003)**

## Negotiation Fundamentals

Before negotiating with the other side, it is useful to study already available rules or to develop rules based on own requirements. In certain industries there can be already certain codes of conduct that both participants have to meet. Even intellectual property law and employment law may fall into this category. Here are some questions that can be helpful for this process:

- What laws and regulations apply?
- What social conventions shape the parties' behavior?
- Are there professional codes of conduct that apply?
- What other rules of the game will influence other parties' behavior?

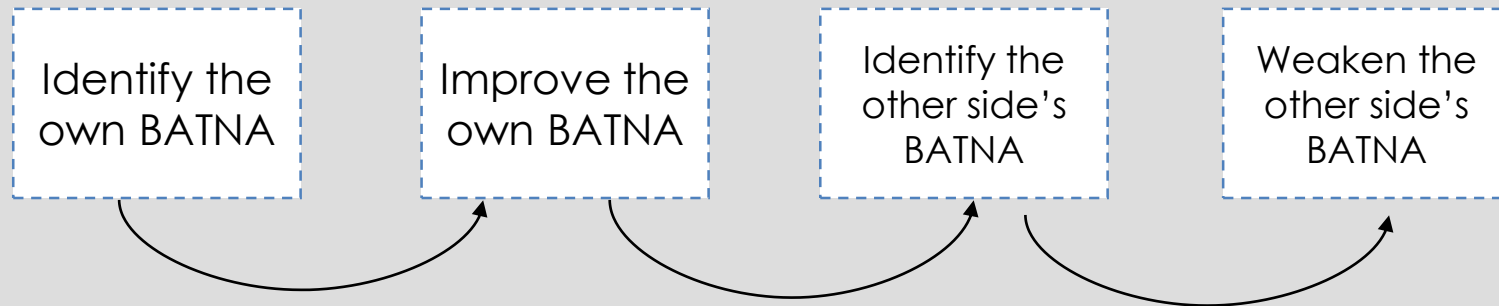
## Negotiation Fundamentals

it is essential to know the following points in order to negotiate successfully:

- Possible alternatives to negotiation
- The minimum threshold for a negotiated deal
- How flexible a party is willing to be, and what trade-offs it is willing to make

This is where the 'best alternative to a negotiated agreement' (BATNA).

In other words: What alternatives do you have if the negotiation fails?



**Figure 19: Four-Steps-BATNA approach (Own Design, based on Luecke 2003)**

## Negotiation Fundamentals

This approach can be summed up and scrutinized by asking the following set of questions developed by Watkins (2002:31):

- What will you do if you are unable to reach agreement? What will your counterpart do?
- Can you think of ways to strengthen your BATNA or weaken your counterpart's?
- Are you or your counterpart overconfident about what you will get if you don't reach agreement? How do you know you aren't overconfident?
- Can you alter other's perceptions of their BATNA by building coalitions? By promoting competing offers?

## Negotiation Fundamentals

When the reservation price of both parties is confronted, the so called 'zone of possible agreement' (Luecke 2003:24) (ZOPA) becomes relevant. Watkins (2003:32) denominates it as the 'bargaining range'.

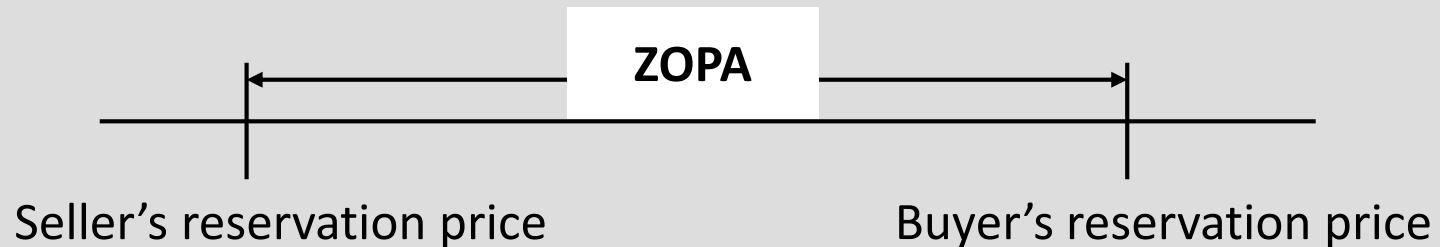


Figure 20: The ZOPA after Luecke (2003:24)

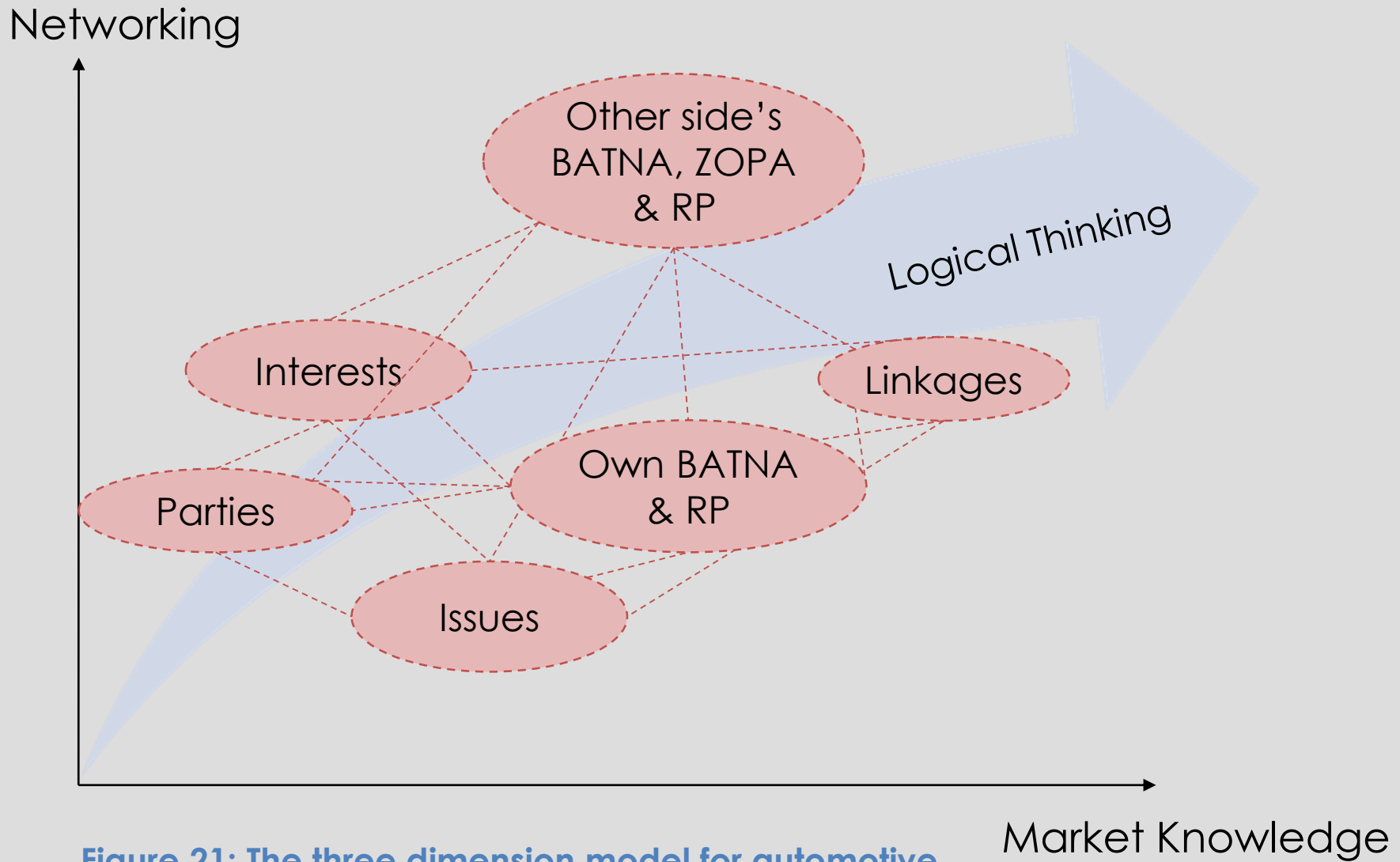


## Negotiation Fundamentals

For this section, the following questions after Watkins (2002:25) are relevant:

- What do the other parties care most about? What are trade-offs they might be willing to make across the issues?
- Do you and they share any goals that could be achieved by combining resources? Are there ways to realize economies of scale or scope?
- Could you create value by making trades across issues or by trading on your differences with regard to time, risk, or expectations of the future?

# The three dimension model for automotive suppliers



26 **Figure 21: The three dimension model for automotive suppliers**

## Preparing for negotiation

### Lessons learned for practitioners (Preparing for negotiation)

- For negotiators it is essential to be well prepared before entering a negotiation
- Knowledge about participants, rules of the game, issues, interests alternatives and linkages increases the possibility to negotiate successfully
- For a supplier it is difficult to find out all of these variables, especially the alternatives and the reservation price of the counterpart are rarely accessible
- To assess the own walk-away price and own alternatives, avoid the mistake to accept deals that are not favorable for the company
- The successful negotiator needs market knowledge, networking and logical thinking skills in order to gain a clear view of the current situation: The market is complex, fast moving and confusing and unpredictable negotiations are the result

## Types of negotiation

- Unfair conduct of negotiations
- Psychological conduct of negotiations
- Emotional conduct of negotiations
- Negotiations with excessive demands
- Negotiations with repetitive demands
- Negotiations in partnership

# Types of negotiation

## Lessons learned for practitioners

- In distributive (win-lose) negotiations both parties claim value, while in integrative (win-win) negotiations value is created
- In the automotive supplier industry both types coexist
- In distributive negotiations the stronger party (the OEM) usually is better off, while integrative negotiations are more advantageous for suppliers
- This is why suppliers need to shift the focus from distributive negotiating to integrative negotiating
- This can be done by explaining own interests and by finding out the interests of the other side
- Creativity should be used to find a deal which satisfies the interests of both parties

## Negotiation Principles

People	Separate the people from the problem
Interests	Focus on interests, not positions
Options	Generate a variety of possibilities before deciding what to do
Criteria	Insist that the result be based on some objective standard

**Figure 22: Principled Negotiations (Fisher & Ury 1992:11)**

## Value creation

- Use open-ended questions to learn the counterpart's needs, interests and concerns
- Explore whether the other side is willed to trade-off one thing for another
- Try to find the out the underlying interest – in other words, the reason why something is important to the other side?
- Listen closely without interrupting or objecting (active listening)
- Take active listening to the next step by expressing empathy over the other side's needs and interests

# Negotiation principles after Ambrosi (2007)

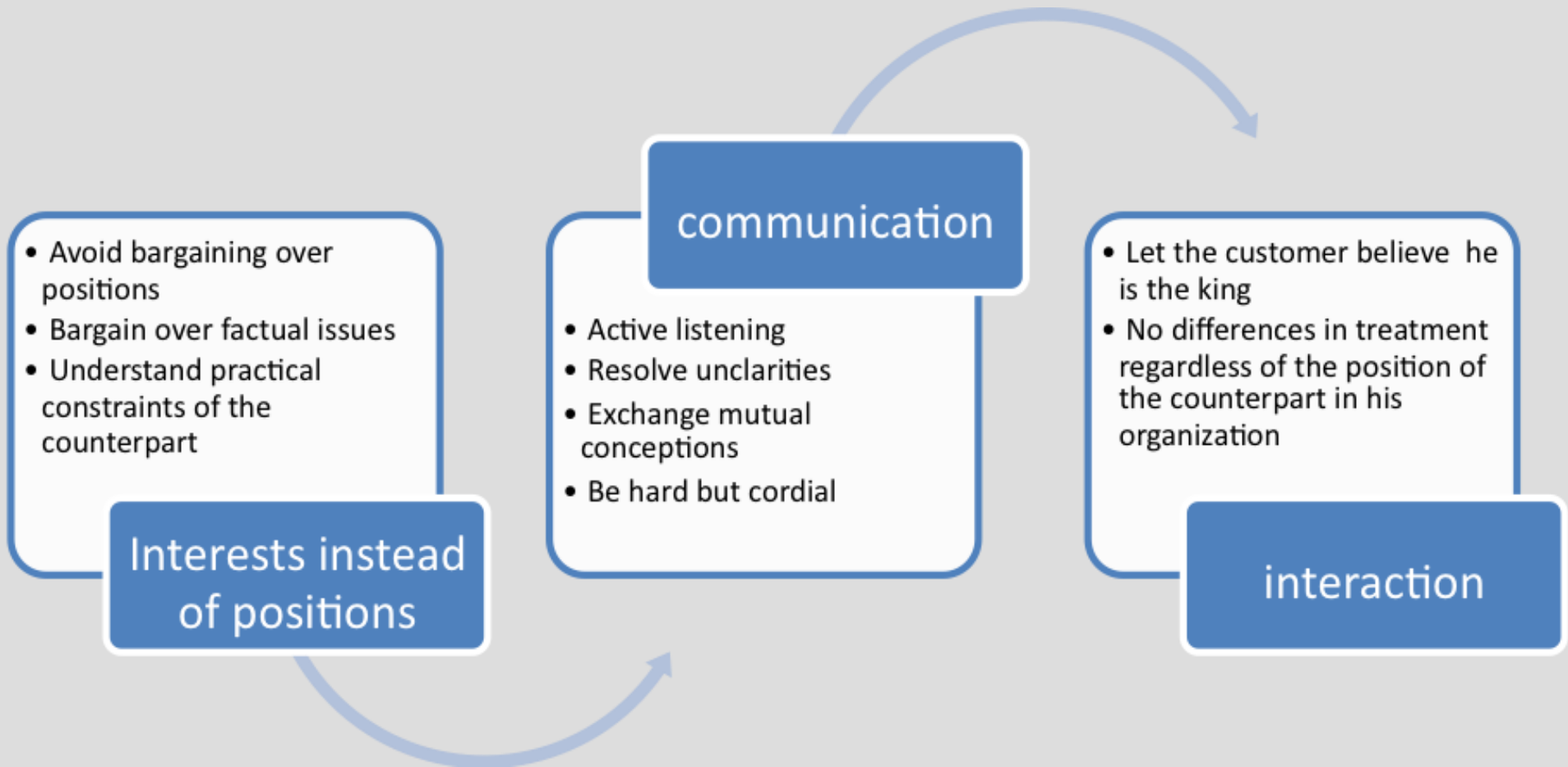


Figure 23: Negotiation principles after Ambrosi (2007)



## Micro-level factors

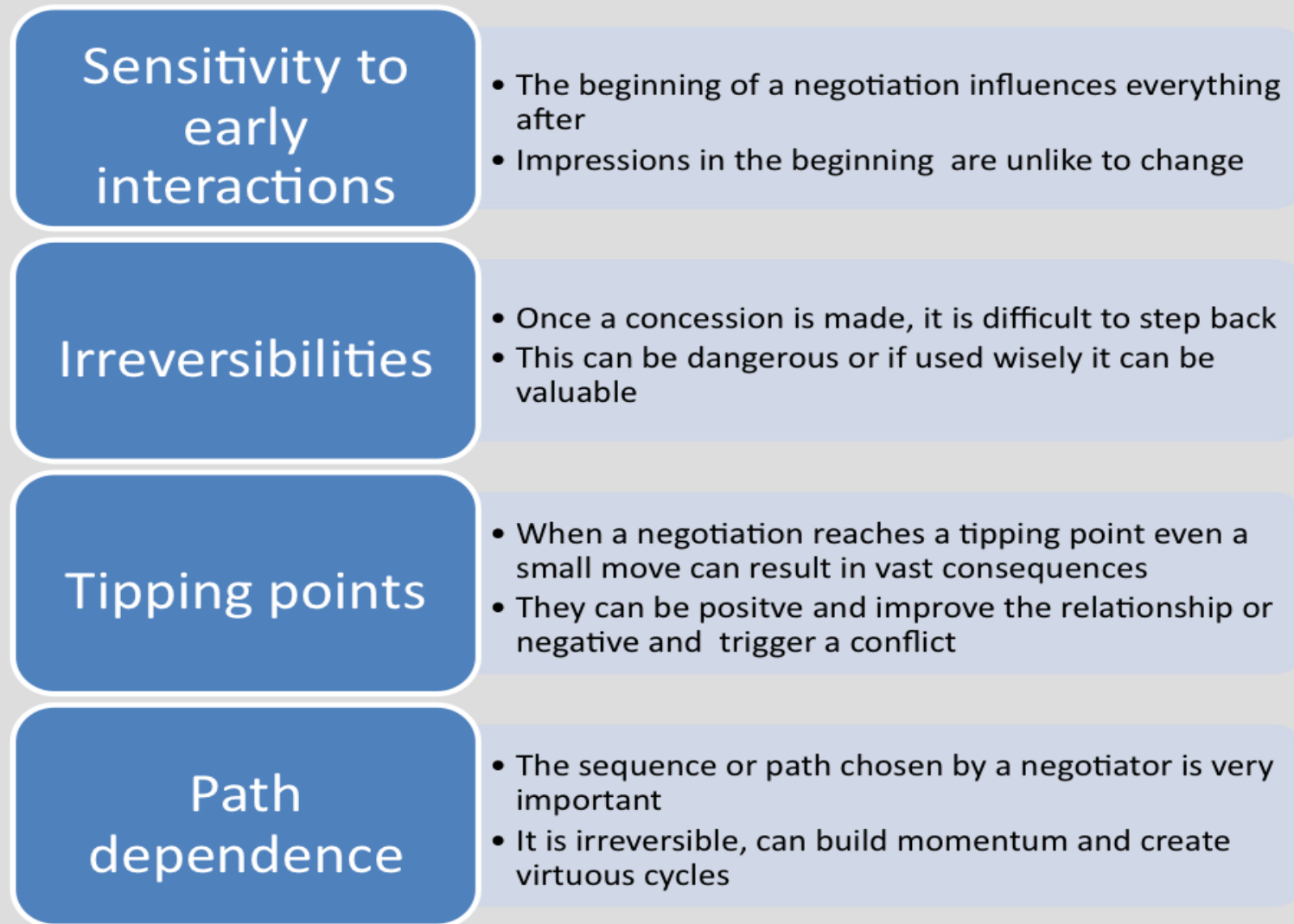


Figure 26: Micro-level factors (Own design, based on Watkins 2002)

## Value creation

### Lessons learned for practitioners (Negotiation principles)

- Separate the people from the problem and focus on interest instead of positions
- These two main principles are essential for creating value in negotiations where the OEM seems to be in a favorable position
- Communicating and interacting with the customer (the OEM) are two important pillars for every suppliers: The main goal should be to bargain over factual issues and not to dispute with the customer
- Depending of the negotiation phase, the own behavior should be adapted: The micro- and macro-perspectives of a negotiation may help to identify the optimal set of tactics

# Negotiation tactics

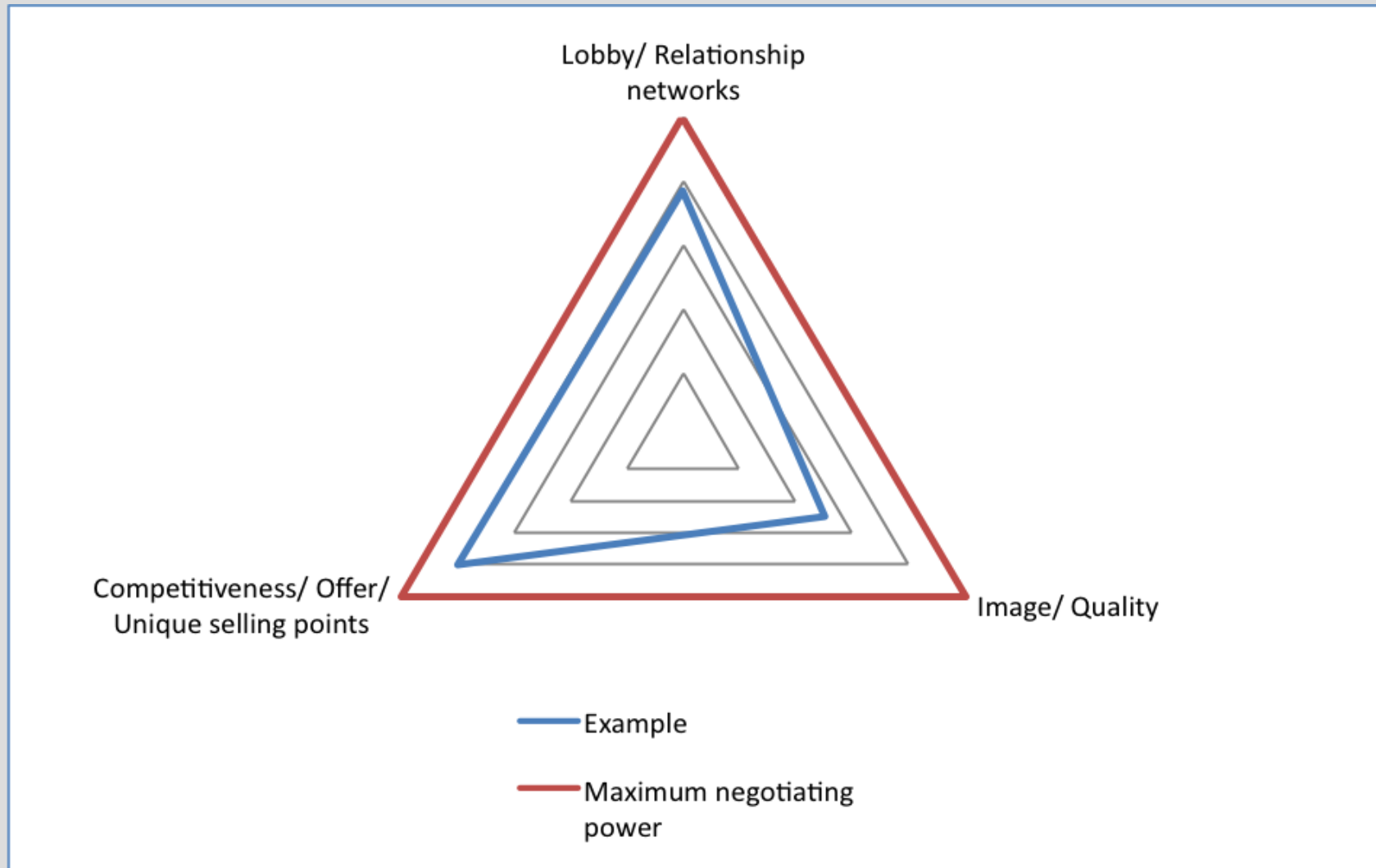


Figure 28: Maximizing negotiating power in the automotive industry (Own design, based on Ambrosi 2007)

Full presentation available. Please contact Dr. M. Ambrosi