

Chapter 9

Negotiating effectively in the face of a significant power imbalance

Based on an Interview with Raphael Lapin

There are times when negotiation success in a given context seems almost impossible. The three words that often invoke such a perspective are *sole supplier negotiation*. When someone has to negotiate with a sole supplier, which means that a supplier has a monopoly on an item or service, they usually have very little leverage to do so. They are confronted with a binary decision -- to buy on the supplier's terms or to not buy at all. There is often not much choice for the unfortunate buyer, and the stage is typically set for exploitation.

In this case example, the reader will see that negotiations of this type are not always what they seem. Good preparation, constructive questioning of key assumptions, and really creative thinking can alter the balance of power in this kind of negotiation enabling the parties to reach an agreement. Here is how it was done.

Background and the Negotiation Challenge

The buyer in these negotiations, called Innoagri, was a manufacturer of heavy agricultural implements and mining equipment in Shanghai. In addition to their Chinese clients, Innoagri also exported to clients internationally. Innoagri's current operations were working on outdated machinery and they needed to purchase new machinery to streamline their processes, improve their operations and products in order to keep up with their formidable competition, both locally and abroad. The problem was that the supplier of this much needed machinery, Solantar, was the only source for this equipment in all of China. Solantar was protected by the government in order to maintain control over this important aspect of the manufacturing industry. As an aside, in China it is common for a

supplier to have a monopoly on a particular industry. In fact, in some cases a monopoly may be protected by the government due to personal relationships, or other political or financial interests. In other cases, the government may even have significant equity ownership in the company.

In addition to the capital purchase, Innoagri also desired a service contract for the machinery. Solantar was demanding an exorbitant price for both the capital equipment and the service contract. Importing the equipment from another country would be prohibitive for Innoagri due to the severe protectionist government regulations in place.

A negotiation consultant was retained by Innoagri and tasked with helping it's procurement team prepare for the negotiation with the objective of reaching an agreement on a more reasonable price. This was a tough task indeed.

Preparing to Negotiate

The procurement team from Innoagri, was comprised of three Chinese nationals and two Australians. After some carefully targeted questions and further information transfer, the consultant began to understand the severity of the situation. This consultant had to think very carefully and creatively to find some potential path forward to resolve this dilemma. The consultant, after secluding himself for some time, came up with an idea that might help to guide the procurement team in this seemingly untenable negotiation. The consultant challenged the negotiating team to rigorously consider what they might do, if Solantar, suddenly went out of business. To make the challenge even harder, the consultant insisted on a three day deadline for a solution to this hypothetical problem.

At first the team from Innoagri was stunned and thought the task they had been handed was impossible. However, after some self-pity, they broke out of that way of thinking and began to brainstorm and explore all sorts of possibilities. One idea that emerged was to try to re-engineer their own design, thereby obviating the need for this machinery altogether. Another idea was to talk to a company that manufactured similar equipment and to discuss the possibility of retooling that equipment to meet Innoagri's needs. While creative, neither idea seemed very workable in practice.

Eventually, one of Innoagri's procurement team members came up with a third idea. He suggested researching other customers of the supplier who may have bought this machinery in the past and was willing to sell it now. After some further contemplation and several phone calls, the team found a customer in Mongolia who was willing to sell their used, but working equipment to Innoagri.

Having no further current need for the equipment, the company in Mongolia was happy to discuss selling it and trying to recoup part of their investment. This was the breakthrough Innoagri had hoped for. Although their first choice was still to purchase new equipment with warranties and service agreements from Solantar, this was a viable BATNA that they could live with, should it be necessary.

The Negotiation

Equipped with this improved BATNA, the mood in Innoagri shifted dramatically from despair to optimism and from an imbalance of power to more of a level playing field. Put differently, Innoagri was now equipped with the needed leverage to achieve a reasonable price from Solantar. The Innoagri team presented their proposal to Solantar, with a figure slightly better than their reservation point, and significantly below the initial inflated price that Solantar had demanded. The Innoagri team indicated to Solantar that they wanted to do business with them, but at the same time, made it clear to them that they did have a credible alternative should negotiations fail.¹

As the negotiations progressed, Innoagri's representatives were actually able to start a bidding war between Solantar and their Mongolian customer who wanted to sell their used equipment. After intense and somewhat lengthy negotiations, Innoagri got a very reasonable deal for themselves and something Solantar could also live with in terms of the equipment sales and the service contract. That evening, both the negotiation consultant and the Innoagri team enjoyed celebratory cold beers like never before.

Lessons Learned

Negotiating with a sole supplier can be one of the most challenging situations for a business. As the reader has been able to comprehend from this example, despite the belief that there is very little that can be done in these situations, with some creative thinking and hard work the negotiation landscape can be changed. The lessons below highlight the best chance for success when confronted with this type of scenario.

Lesson 1: Be prepared.

First, this negotiation is an excellent example of why preparation is so critical. Preparation provides you with the confidence and composure to stay on course toward your objectives and not give away more than is necessary. Innoagri

worked very hard to find a better BATNA and it was all due to their preparation. In addition to improving their BATNA the preparation that was done here also helped to preempt any potential surprises that may have presented themselves during the negotiation. While all of these things cannot be anticipated in every negotiation many of them can through this careful analysis.

Lesson 2: Thinking through your BATNA carefully

Second, the critical factor to this negotiation was Innoagri rigorously exploring their alternatives and BATNA. Although initially it appeared that Innoagri had no leverage at all and a very poor BATNA, with the help of their consultant Innoagri was able to improve their BATNA dramatically. With this new BATNA Innoagri felt much more confident and negotiated in that manner with Solantar. Solantar was forced to adjust their negotiation position when they realized that Innoagri did indeed have a viable alternative.

Lesson 3: Assumptions wreak havoc on negotiation

Third, it is essential for a negotiator to closely examine all the assumptions they make in a given negotiation. Innoagri initially assumed that they were dealing with a sole source supplier and, more importantly, they had no other way forward. By carefully challenging that belief, and being prepared to abandon this assumption, their minds were free to unlock other creative possibilities.

Lesson 4: Outside eyes can be very valuable

Finally, when preparing for a negotiation, enlist the help of a consultant or a person within your organization who has some background in negotiation, but who is not directly involved in the specific negotiation in question. A fresh and informed perspective will challenge assumptions and can help to induce more expansive and creative thinking among the negotiators and how they approach the challenge.