

**Retail Management**  
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**Lecture-40**  
**Vendor Negotiations**

Hello everybody, welcome to this NPTEL swayam course on retail management, this is professor Swagato Chatterjee from VGSOM IIT Kharagpur who is taking this course for you. We are in week 8, this is lecture 40 and in the next few lectures we will talk about how to deal with vendors. So, this particular video is on vendor negotiations, so what are the various aspects of negotiation when you deal with the vendor, when you negotiate, when you try to crack a deal which is beneficial for you? How to deal with those vendors is something that we will be discussed.

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What do Buyers do at Market?

- Meet with vendors
- Discuss performance of vendor's merchandise during the previous season
- Review the vendor's offering for the coming season
- May place orders for the coming season
- Sometimes they do not buy at market, but review merchandise, return to their offices to discuss with the buying team before negotiating with vendors

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So, what do buyers do at market? They meet with vendors, so discuss the performance of vendors merchandise during the previous season. And then review the vendors offering for the coming season, whatever they can buy from the vendor's in the coming season. They may place orders for the coming season sometimes and sometimes they do not buy at market but review merchandise, return to their office to discuss with the buying team before negotiating with the vendor.

So, these are some of the pre negotiation activities that you do. Now once you have decided that ok, I will buy something from the vendor for the first time or for the repeat there are certain activities that somebody has to do to negotiate with the vendors.

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The slide is titled "Negotiating with Vendors". Below the title is a definition: "Two-way communication designed to reach an agreement when two parties have both shared and conflicting interests." To the right of the text is a photograph of two hands shaking over a document. At the bottom right of the slide is a small video inset showing a man in a striped shirt speaking. At the bottom center, there is a small text credit: "Retail Marketing Prof Swagato Chatterjee".

So, what is negotiation? Negotiation is a two-way communication designed to reach an agreement when 2 parties have both started with a shared or conflicting interest. So, sometimes it can be shared interest you both want this to grow, sometimes there can be conflicting interest there is a profit pie and who will take? So, see here in the context of vendor and retailer there are certain shared interest also and certain conflict interest also.

Both of them want the number of units sold and the total revenue that is getting generated out of this activity gets higher, it should grow as much as possible. So, this is a shared interest, however both of them wants that out of the margin amount they should get the higher share in percentage terms, now that is the conflicting. Because if the vendor gets higher percentage of the margin the total revenue - the cost curve goods sold from the vendor directly, that is the overall margin.

That overall margin who will take how much? Whether the vendor will be taking or whether the retailer will be taking and there is a conflict there which where they negotiate, so that is a conflicting interest. So, when there is some shared and conflicting interest comes up that is

where the negotiation starts happening. And the vendors and the retailer in these case 2 parties come together and start the two-way communication.

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The slide is titled "Planning Negotiations" and contains a bulleted list of steps for planning negotiations. In the bottom right corner, there is a small video inset showing a man with glasses and a striped shirt speaking. At the bottom center of the slide, the text "Retail Marketing Prof Swagato Chatterjee" is visible.

- Consider prior history
- Assess current situation
  - General market conditions
  - Vendor's position
  - Power of vendor
- Set goals
- Be aware of vendor's goal's
- Number of people involved
- Select an advantageous place
- Be aware of deadlines

So, when you plan for the negotiation you should know information, in any negotiation information is the key. So, you consider the prior history what is the past history of this kind of negotiations, the results of this kind of negotiations, the outcome of whatever deal that you have created etcetera, etcetera. Then you also assess the current situation, the macro and micro environmental situation also has to be taken care of.


Like general market conditions or vendor's position in the market or power of the vendor whether the vendor can shift from you to some other retailer or whether you are the big retailer in this organization in this market? Whether it is the oligopoly market or monopoly market? So, overall macro and micro conditions you have to think about. You also should set goals, there are certain goals which has to be achieved; there are certain goals which is relaxed kind of goals.

Which goal will get more priority and which goals will get less priority for you from the outcome? You will want to achieve all the goals but or sometimes it is not possible to achieve all the goals. So, you have to also keep your mind or write somewhere that which one I should achieve at any cost and which one I may achieve may not achieve and which one I let them go. o, if you can write them out or if you can plan them out before you go to the negotiations, that help.

Be aware of the vendor's goals as well, so in any negotiation it is very important to understand what the other person wants. So, if you know what exactly the other person wants, you should be try to give that to the other person without making a problem for yourself. Then there is a win-win situation which you can try to achieve. Number of people involved, if more the number of people involved in the negotiation the more will be the varied interests of people in the negotiation and that will create problems.

So, you have to know that and plan for that accordingly. Select an advantageous place and be aware of deadlines, so sometimes you should know that you should not keep on negotiating there is always a cut off after which the negotiation will not work. So, after which whether you get it or not get it whether you will win the negotiation or not win the negotiation has no meaning. So, in that context you should be aware whatever is your deadline.

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The slide is titled "Issues to Negotiation" and lists the following items:

- Price and gross margin
- Additional markup opportunities
- Purchase terms
- Delivery times and exclusivity
- Advertising allowances
- Transportation

On the right side of the slide, there is a vertical graphic with the text "NEGOTIATION CONTRACT AGREEMENT" and a small image of a die. In the bottom right corner, there is a video inset of a man with glasses and a striped shirt, identified as Prof. Saugato Chatterjee. At the bottom center, the text "Retail Marketing Prof Saugato Chatterjee" is visible.

So, there are certain issues in negotiation. One is the price and gross margin in this case, what will be the MRP and what will be the gross margin? So, MRP is where some retailer's and company's compete with each other. Because let us say the vendor or the manufacturer might not want them to be positioned to be a very costly brand or they do not want to be very low cost brand.

So, they might sometimes be very finicky if you give a discounts and etcetera, when I am a very well known bank because that reduces the brand image. So, their brand is an asset which is a long term benefit that they want to leave, they are not reaping benefit for the next 1 years deal that, they are doing with you. So, price is a very important factor and the moment you let say that ok, you have the higher call in the price then I should have the higher call in the margin.

And how much is the margin, what percentage of margin will be shared by the retailer and the dealer or the supplier or the manufacturer is something that becomes a issue. So, that is an issue of negotiation. Additional markup opportunity, can I have additional markup prices in the offerings, the purchase terms, what will be the purchase term, do I have to buy in bulk, can I buy in small, small packets or can I ask you to serve whenever time I want the particular product in my retail store?

What will be the cost of let us say expired product? Will you take those expired products back or what will be the cost of sharing means how we will do the profit sharing exactly? So, all these purchase terms becomes a factor of negotiation. The delivery times and exclusivity, this is very important. So, within what time we will be delivering? So, because demands are fluctuating and demands today the demand is there, tomorrow the demand might not be there.

So, you should also ask and ensure from the supplier that what will be the delivery time if I give an order within how many days you will be delivering that order in my inventory; also do I have an exclusivity in this particular market? So, sometimes in an exclusive distribution system the exclusive or even a franchisee system probably the exclusivity plays a very important role. So, whether I have the exclusive right towards this market that has been created in and around me or not?

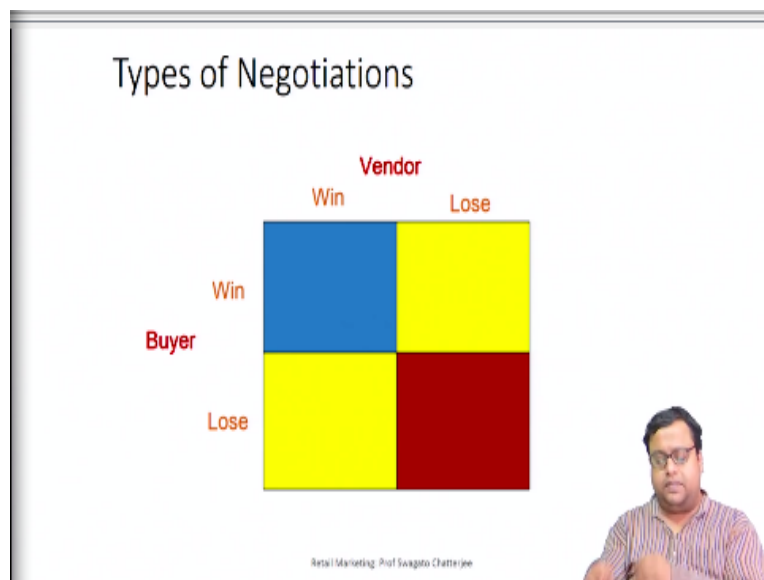
And advertising allowances, so who will be paying for the ads? So, let us say if it is a global or national level brand, then the companies the manufacturers itself play for the advertisement allowance. And because they pay a lot for the advertisement the gross margin is low, the price decisions are in the hand of the manufacturer. But if the advertisement is done at a local level, for

example let us say Great Eastern or any kind of this kind of companies like who sells electronics products which are not like Croma which are local brands.

The great eastern is there in Calcutta or eastern part of India, I am pretty sure similar kinds of names are there in other parts of India. So, now you think about them, they do give advertisements in the local newspapers, one page full newspaper on electronics and etcetera. So, they are also investing on some amount of advertisements and also some national level advancements happens but you see LG or Samsung and etcetera do not do a lot of advertisements nowadays.

So, then if this kind of thing and people are not watching probably quite a bit of TV right now, people are moving from TV to or probably the people who have the purchasing ability are slowly moving from classic old days TV programs to OTT based programs where generally ads are not there. So, then if this kind of a changes are happening then you have to rely on the retailer a lot and retailer that means the advertising allowances are coming down or advertisement expenditure by the manufacturer brand is coming down. And that means the retailers become powerful over time. So, those things are coming in the issues of negotiation as well.

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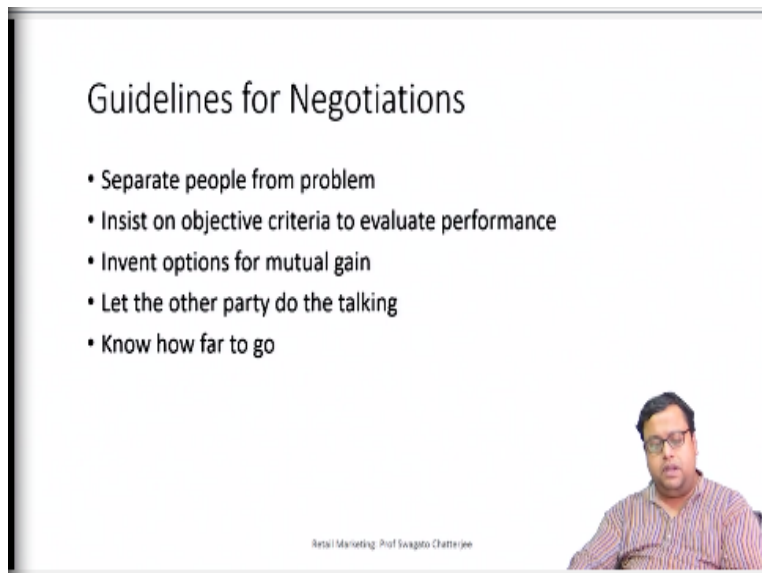
Transportation, who will transport the product from here to there? Whether the transportation cost will be by the person who is delivering or the person who is taking their delivery is

something as a question as well. Now when you negotiate there are different kinds of negotiate. So, like when both of them buyer and vendor in a lose-lose position, they do not buy in, they make sure that our issues will be taken care of and both of them lose. That is not the something which is a very good situation, nobody wants it.

But in a win-loss situation sometimes that comes up, that depends on the power of the person that depends on the negotiation power. Whether if the vendor or the manufacturer is have higher negotiation power, they will go for a basically buyer loss and vendor win kind of a situation. And if the buyer the retailer is strong and the let us I am Walmart and you are delivering me certain doormats which is basically a local a small scale industry. Then I have higher negotiation power and the doormat producer has lower negotiation power, there is a win-loss kind of a situation.

Both these situations are basically not stable situation, so it is not equilibrium situations. Always buyer whoever is the loss situation will try to move from the win situation and probably may not stay in the relationship for quite long, they might go out from the relationship. So now to have a long lasting, strong, beneficial for both situations you have to create a win-win situation. So, that is why you have to know what is win for the other party and how I can give that without losing, so those kind of things are very important.

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Guidelines for Negotiations

- Separate people from problem
- Insist on objective criteria to evaluate performance
- Invent options for mutual gain
- Let the other party do the talking
- Know how far to go

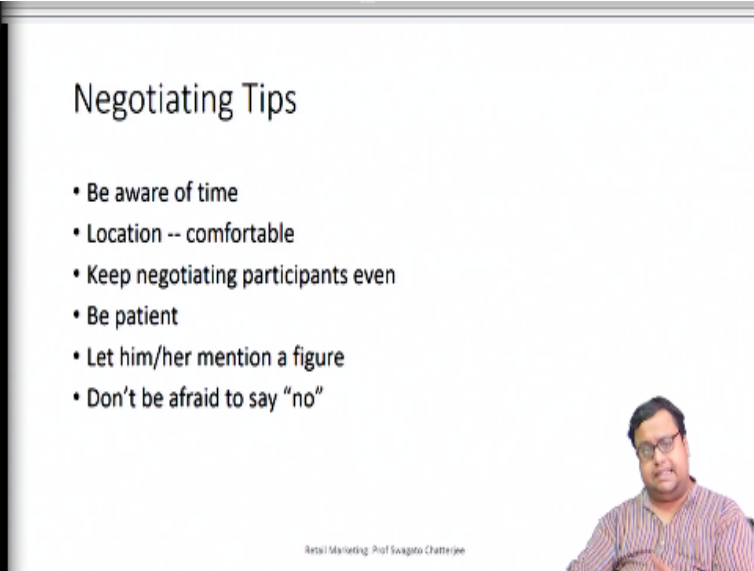
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So, what are the guidelines, some of the basic guidelines are separate people from problem. You should know that a problem and the person are 2 different people, you cannot become personal when you are getting into a negotiation. So, this is a very important thing that you are dealing with the issue, you are dealing with certain advantages that you are using you are trying to get for your organization.

For that if sometimes ego comes up within the negotiation table that becomes a very important very detrimental factor. So, you should separate people from problem, insist on objective criteria to evaluate performance. So, it should be any performance evaluation, any kind of measurement should be as objective as possible, it should not be subjective because all subjective things can be challenged at a later point of time in court, in arbitration etcetera.

So, it has to be as objective as possible. Invent on options for mutual gain obviously as I must keep on telling that you have to understand what is beneficial for the other party also and you have to help them let the other party do the talking. So, you should not say fast that want to do, let listen, listening is very important, so listen what they are asking for. And know how far to go, so you should also know that how long I will negotiate or how far I will push the negotiation? So, that we get a win-win situation, because if you push too much the negotiation might fail and there might not be any deal at all which may not be a good situation always.


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**Negotiating Tips**

- Be aware of time
- Location -- comfortable
- Keep negotiating participants even
- Be patient
- Let him/her mention a figure
- Don't be afraid to say "no"

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So, as again and again saying be aware of time, find out a location where you are comfortable in negotiation, keep negotiating participants even. So, you should not have a lower order person on the other side and the higher order person in your side. So, you should put similar stage or similar kind of level because otherwise the ego will come up very easily. Be patient in the negotiation, let the other person mention, so as I was telling that listen first. So, let them put a figure in the story and do not be afraid to say no, so you can always say no but it is better to say no as soon as possible, so that you can start negotiating with somebody else.

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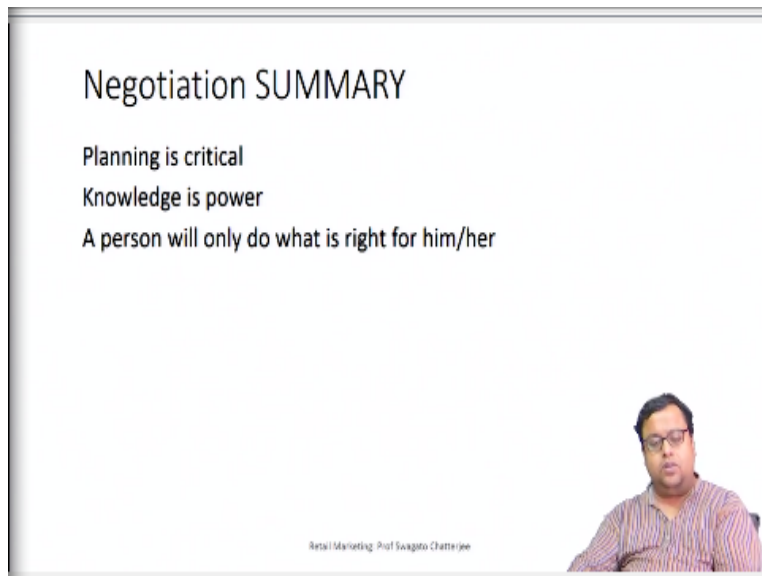


Do not over negotiate, do not assume, so it is very bad to assume in a negotiation context it is better to get hard information about anything that you want to bank on. So, assumption is not a good thing to bank on. Visualize the negotiation, you should think that how this negotiation will happen if I keep on doing it. As timing is everything, always leave the door open, so always give the option for the other party also that you can leave.

If you make the other party hostage, then they might be very I would say sometimes very finicky, they might get very hostile in this particular position. And they might do more harm to you while doing harm to themselves as well, so which you might not want or sometimes. And maintain a self-esteem, so these are some of the negotiation tips that sometimes comes up in the story.

Obviously this is not something that can be taught in a class, it has to be practiced. But just by giving one particular lecture on negotiation I am telling that negotiation is the important part and organizations should spend time on training how to negotiate, how they can play the role of negotiation in the vendor and retailer kind of negotiation activities? So, they should spend time, they should have training within the organization, they should sometimes bring in the specialist who have done negotiation, hire specialist for them. All these things are possible in the negotiation context.

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So in summary, planning is critical, knowledge is power and person will only do what is right for him or her. So, you should also focus on the person which person you are letting in the negotiation for you. Because he will ultimately do what is better for him, he will never goes for some options which is better for the organization. So, putting a person whose personal goal and organization's goal are in sync is something very important which is not the case for all members in your organization.

So, that is how I will stop this negotiation discussion. We will discuss a different topic in the next session which is on merchandising, how to buy different kind of merchandise, what are the ways to buy different kind of merchandise and see you in the next video, thank you very much.