5

Ordering Products: Pricing Decisions

INSIDE THIS CHAPTER

- Understanding Pricing
- Negotiating Prices
- Pricing Discounts

CHAPTER LEARNING OBJECTIVES

After completing this chapter, you should be able to:

- Explain the factors that affect product pricing.
- Summarize the importance of and the steps useful in effective negotiation.
- Describe several types of pricing discounts and explain rebates.

KEY TERMS

cash on delivery (COD), p. 126

cherry picker, p. 125

demand, p. 119

differential pricing, p. 123

discount, p. 138

fall-back position (negotiation), p. 132

free market, p. 124

going-in position (negotiation), p. 132

negotiation, p. 127

net price, p. 138

purchase unit (PU), p. 120

rebate, p. 140

value perception, p. 122

CASE STUDY

"It's really tough to get lower prices from vendors, isn't it?" asked Jake, the chef and food buyer at Carmel Straits Restaurant.

"Yes," replied Ilze, the restaurant's manager. "I think we've tried lots of things to reduce our prices. Maybe we should reduce our quality standards and then just shop around with different vendors to get the lowest price."

"Well," Jake said, "you might be right. But quality is important, and I think we need to determine the *quality* of products that we need and then look for vendors that will give us the best price."

1. Who do you think has better ideas about reducing prices: Ilze or Jake? Why?
2. What are some things that the chef and manager can do to reduce the cost of food products without sacrificing quality?

Exhibit 5.1

UNDERSTANDING PRICING

The objective of effective purchasing is to obtain the right quality of products at the right price from the right source in the right quantity at the right time. The right price is not always the lowest price.

Few restaurant or foodservice managers think that the best meals are the least expensive meals. In fact, a focus on lowest price alone often indicates a lack of understanding about the economics of pricing on the part of buyers.

Buyers must know how to obtain the right price when they purchase food and beverage products (*Exhibit 5.1*). A good way to begin is learning how vendors establish their product selling prices.

Factors Affecting Selling Price

Vendors set prices by using specific information. Four primary factors influence the prices vendors charge their customers:

- Prices reflect costs
- Prices reflect consumer demand
- Prices reflect service features
- Prices reflect vendor quality

A buyer's understanding of these four factors is important. They suggest the complexity of vendor pricing and illustrate the need to consider all aspects of price when products are purchased.

PRICES REFLECT COSTS

Few people are in business "just for fun," and even those who are probably do not want to lose money. A vendor sells a product for which it paid $10 including all allocated expenses. To recover that cost, make a profit, and maintain the business, the product will typically need to be sold for more than $10. If the $10 paid was fair and reasonable and customers do not value the product enough to even pay $10 for it, the business will fail.

Professional buyers understand that vendors must make a fair profit on what they sell. If they go out of business, this reduces competition and can place the buyer at risk of paying even higher prices. This text has emphasized a "win–win" partnership between buyers and vendors. A fair price that includes a profit in return for products, services, and information is part of that relationship.

PRICES REFLECT CONSUMER DEMAND

In many cases, prices are influenced by consumer **demand**: the total amount of a product or service that buyers want to purchase at a specific price. When products are in limited supply and are highly desired, the prices buyers must pay for those products will generally be high. In some cases, such as rare wines, the prices charged will reflect the limited supply. In some other cases, such as gasoline, it is not scarcity but simply the consumers' willingness to pay that most influences price.

Restaurant and foodservice buyers are just like other consumers. The price they pay for a product will be affected by the supply of and demand for that product. The best buyers know when they are paying for scarcity and when they may be paying a premium price for something like organic food items or bottled water that many people seem to want. This understanding is important because what other consumers are willing to pay for a specific product can vary widely based on factors beyond the buyer's control, including a greater perceived need for the product and lower profit requirements.

PRICES REFLECT SERVICE FEATURES

This factor can be easily understood by considering two buyers. One pays $100 for a case of fresh sirloin steaks but must drive to the vendor's location several miles away to pick it up. The other buyer pays $105 for a case of the same quality steaks, but the product is delivered to the buyer's establishment. Which buyer received the best price? Despite the fact that the price was higher, the second buyer received a service feature, the delivery, which would easily justify the slightly higher price.

When present, the importance of these added features cannot be overlooked. Timely delivery, the condition of the vendor's facility and delivery vehicle, and the quality of a vendor's service are important. Accurate invoicing and payment processing, order accuracy, payment and credit terms, and ease of order placement are likewise crucial. These are examples of service features that will be reflected in a vendor's prices.

PRICES REFLECT VENDOR QUALITY

Operations with a reputation for quality food and outstanding service can charge more for their products. Likewise, vendors that have excellent reputations can realize an important benefit: increased prices that deliver higher profits. Buyers who place a high value on vendors with a reputation for quality may pay more for the products they purchase from those vendors. However, the extra costs will be justified because of the peace of mind that comes from having confidence in the vendor.

OPEN FOR BUSINESS

WHAT'S THE FOOTPRINT?

Understanding what a product is really worth can be difficult because the demand for food and beverage products is not constant. As recently as a decade ago, significant sales of bottled water in restaurant and foodservice operations were virtually unheard of. The 2000s, however, saw an explosion in the sale of still and carbonated bottled waters, and profits were good.

Beginning in the late 2000s, environmental concerns caused many consumers to ask questions such as, "Does shipping bottles of water from Europe make environmental sense?", "How much energy is spent to bottle and ship it?", and "Is it really superior to filtered water from local water supplies?"

The consumers' view of value and, therefore, what they were willing to pay for bottled water was changing. A move away from bottled water reflects concerns about the "going green" movement to reduce the environmental costs of bottling and transporting water, energy spent recycling bottling material, and keeping plastic out of landfills.

If buyers focus only on a product's selling price per purchase unit without considering reputation, they may end up purchasing from vendors that provide neither quality nor value. **Purchase unit (PU)** refers to the weight, volume, or container size in which a food is normally purchased. For example, ground beef may be purchased by the pound, syrup by the gallon, and lettuce by the case. Vendors that do not operate ethically and do not stand behind their products and services often end up costing buyers more, sometimes much more, than what the buyers originally paid for the products.

Pricing: The Buyer's View

Some of the factors vendors consider when developing their prices have just been discussed. Buyers must also recognize that their own views affect buying decisions when alternative prices are evaluated.

Much has been written about how buyers react to selling prices. One way to examine prices from the buyers' view is to think of these views as being either traditional or nontraditional.

TRADITIONAL VIEWS OF PRICING

One traditional way that buyers view pricing assumes that vendors have carefully evaluated their own costs. Buyers assume vendors have determined a selling price that is low enough to attract customers and high enough to cover costs and provide a reasonable profit. When they think this way, buyers make one or more of the following assumptions:

- Increased price = Increased quality. This is often an attractive and reasonable assumption that can help buyers make informed decisions. For example, bar tops made from solid wood are generally perceived to be of higher quality than similar products made from pressed board. The quality of the better bar tops will be reflected in their higher prices. Similarly, a 20-year-old Scotch whiskey will likely taste better, and cost more, than a 5-year-old Scotch produced by the same distillery.

  To avoid purchasing errors, however, buyers must ensure that they are comparing similar products. Pressed-board bar top prices from two vendors should not be compared directly to the solid wood bar top prices of a third vendor.

  Likewise, 20-year-old Scotch prices should not be compared to those of 5-year-old products. The assumption that increased quality equals increased price should be used only when products that are truly identical in nature, such as two brands of solid wood bar tops, are compared.

- Increased price = Scarcity and value. Purchasers often think that if something is rare, a higher price is charged. Buyers who purchase Russian caviar, steaks of the very highest quality, or rare French wines understand the importance and often the truth of this belief. In many cases when demand for a product is significantly strong, the product's availability is limited, and this will be reflected in the selling price.

  However, scarcity alone is not a reason for increased value that justifies a higher price. If it were, the drawings young children make—rare and unique and likely highly valued by their families—would be worth a lot of money. In fact, scarcity of a product frequently reflects widespread lack of consumer interest and often justifies a lower, not higher, price.

- Increased price = Increased image. Customers of restaurant and foodservice operations have the same peer pressure and self-image concerns as other consumers. For example, consider customers dining at an operation that places ketchup bottles on the tables. They will likely view the establishment more favorably if a well-known brand is displayed rather than an unknown, generic product.

  Buyers should understand that paying for image makes sense only when the image is truly appreciated or demanded by customers. If it is not, the price paid for image is wasted. Consider the fact that buyers can spend hundreds of dollars per place setting, which includes glasses, plates, knives, forks, spoons, and other items (*Exhibit 5.2*). If they do so, buyers must ensure that the image, as well as the products they are purchasing, is worth the often much higher prices.

Exhibit 5.2

Traditional views about pricing most often relate the selling price of an item to the costs incurred by the item's vendor. This is also a typical way of setting menu item selling prices. It is common for a manager to determine a product's cost and then increase it by a multiplier to reflect non-food costs and profit in order to achieve a desired product cost percentage.

For example, assume a manager is working with an approved operating budget that requires a 25 percent food cost. This means that 25 percent of all revenue should be spent on food and that yields a multiplier of 4.

100	÷	25	=	4
Percent of revenue		**Percent of revenue**		**Multiplier**

This manager can then multiply a hamburger with a food cost of $2 by 4 to arrive at an $8 selling price, or a 25 percent food cost:

$2	÷	$8	=	25%
Product cost		**Selling price**		**Food cost**

LESS TRADITIONAL VIEWS OF PRICING

There are also less traditional views of pricing that might seem strange at first. However, they reveal some of the most useful thoughts about pricing:

- Price and costs are unrelated. This less traditional view of pricing recognizes that a vendor's cost and selling price may be unrelated. This situation occurs more often than some buyers suspect. For example, vendors may sell specific brands of bottled water at very high prices. They are able to charge high prices because extensive advertising campaigns sponsored by the manufacturer have convinced some buyers that the water is special and is worth the higher cost.

  Buyers who encounter situations in which vendors sell below their true costs can significantly offset one of the basic foundations of vendor pricing. These situations arise when, for example, vendors change product lines or even go out of business. Buyers should be alert to take advantage of them when they benefit the operation.

- Cost plus value = Price. Many accounting textbooks discuss a common and traditional view of how businesses should establish prices:

  Cost + Desired profit = Selling price

  A less commonly taught view restates how prices might be established:

  Cost + Value to buyer = Selling price

  This less traditional view shows that the buyer, not the vendor, ultimately determines selling price. Buyer value is the idea that a product's value relates to the purchaser's need for or interest in the product. Value is not inherent in the product itself. In this view, value is in the eye of the beholder. **Value perception** is the customer's opinion of a product's value to him or her. In the long run only buyers—not growers, manufacturers, distributors, or brokers—determine the prices that buyers are willing to pay.

  Purchasers should understand that value perception is more important than vendor cost because buyers are not interested in the vendor's cost. It is easy to disprove the idea that cost plus desired profit equals selling price. Just think about restaurant and foodservice operations that go out of business. If all managers had to do was determine their costs and add their desired profits, even the least skilled operators could remain in business.

  Rather, customers choose to visit some establishments based on whether their experiences have provided a value to them. Again, customers do not care about the owner's operating costs or desired profits. They care only about whether the operation provides value to them. If it does, they will gladly pay the posted prices. If not, they will not pay the price even if the owner accurately computed all costs and the desired profits.

The important point for buyers to remember relates to the value they place on an item to be purchased. The value they place on a less-than-essential item should be low. Then, the price they pay should also be low *regardless* of the vendor's price or costs. Alternatively, the value placed on some services will likely be very high. Consider, for example, the hourly rate for a plumber hired to fix restroom toilets at an establishment on a busy Saturday night. Excessive time should never be wasted over relatively small differences in vendor prices in situations like this one.

- Different prices are normal. **Differential pricing** involves charging different customers different prices for the same product. For example, a buyer who purchases 100 cases of a specific product will likely pay less per case than another buyer who purchases 10 cases of the same product because of a quantity discount.

  No business should charge higher or lower prices based on a buyer's race or ethnic background. However, many operations have historically practiced differential pricing based on gender and age. Consider "ladies' nights" at clubs, senior citizen meal discounts, and reduced menu prices for children. Experienced buyers understand that differential pricing decisions are often made without considering the vendor's actual cost of providing the product.

  Purchasers who can receive preferred prices because of differential pricing methods used by their vendors will pay lower prices, and they should do so. Those buyers whose operations do not receive a differential price should talk with their vendors to learn about the requirements to receive lower prices. There are often a number of reasons for being included in a special pricing group.

Here are three common reasons vendors sell the same products to different buyers at different prices:

- **Frequency of delivery:** Vendors incur a great expense when they deliver products to an operation (*Exhibit 5.3*). When they do so less frequently, their costs are lowered. Then, some of these savings can be passed on to their customers. In some cases, purchasers can reduce their costs significantly if they eliminate vendor delivery entirely and pick up their products at the vendor's place of business. This is not a widespread practice. However, it may be practical if the establishment is located close to a vendor or if someone from the operation routinely travels near the vendor's location. For example, the owner or manager might pass the vendor on the way to the bank or on the way to work.

Exhibit 5.3

- **Dollar volume of purchase:** Many vendors offer lower per-purchase-unit prices when items are purchased in large volumes. Buyers influence the amount of product delivered when they determine how frequently they want delivery, noted above as a factor. Buyers may also enjoy reduced costs when they combine orders and purchase a larger variety of items from the same vendor.
- **Payment terms:** Vendors typically provide reduced prices to buyers who pay more frequently, such as once weekly rather than once monthly. Vendors are concerned about cash flow just as restaurant and foodservice managers are. Vendors requiring cash quickly to pay their own bills may offer lower prices based on payment terms.

Other Pricing Concerns

Buyers will encounter several additional factors that affect the prices they pay for products. While their impact can vary, several of these factors affect all industry segments.

GOVERNMENTAL CONTROLS

The pricing discussion to this point has focused on willing vendors and willing buyers. Sometimes, however, local, state, or federal government plays a role in price determination. For example, the prices charged for utilities such as electricity, gas, water, and sewage are, to some degree, governmentally regulated and are not subject to normal pricing decisions. Alcoholic beverage prices are another example of governmental price controls.

Government agencies can directly affect the prices buyers must pay. Consider what businesses pay for water. This utility is generally owned by the community and is sold to commercial accounts. Water prices differ based on scarcity in an area and the total quantity purchased per month by the business. In some places, larger-volume users receive a reduced price for quantity purchases. In other communities, high-volume users pay higher per-gallon prices as their water usage increases.

CONTRACT TERMS

In a **free market** situation, the prices paid for products and services are determined by the vendor and the buyer who voluntarily enter into a contract. Their agreement addresses numerous issues including selling price.

Pricing based on contractual agreements is very common in the restaurant and foodservice industry for many purchases. For example, products are often purchased after a discussion about quantity, quality, pricing, and other issues that are summarized in a contract. Services such as cleaning of exhaust hoods, windows, carpet, and upholstery are also performed according to a contract. A price is agreed on for a specific period of time, and it is not generally subject to revision until the contract period expires. Sometimes the agreed-upon price is the vendor's actual costs plus an additional amount for profit.

NUMBER OF VENDORS

Many buyers must decide whether to buy specific products from one or more vendors. They recognize that as the number of vendors increases, more time must be spent in ordering, receiving, and invoice payment activities. However, they may fear that if they award all or most business to one vendor, prices will increase due to lack of competition. As a result, many buyers routinely split their business among several vendors on principle. That is the approach suggested in chapter 4 when addressing vendor sourcing decisions.

Experienced buyers in high-volume operations recognize that vendors are not likely to increase prices unless there is a real need to do so. Restaurant and foodservice operators share the same view. They are unlikely to take advantage of their best customers. In fact, restaurant and foodservice managers would likely offer additional service features, such as preferred tables to these customers. In the same way, many vendors offer preferred pricing to operations that do most of their buying from them. It is in the vendor's best interest to give a better price to a high-volume customer to retain that buyer's business.

The impact on price when a buyer decides to use single or multiple vendors can be complex. Professional buyers understand that the cost of delivering a $1,000 order is not very different from the cost of delivering a $100 order. Each delivery will require one truck and one driver. When the vendor's cost of delivery must be spread across fewer items, the likely result is an increase in purchase unit price.

Purchasers who concentrate their business with one or a very few vendors will generally pay lower purchase unit prices. This is why buyers employed by multiunit operations are able to obtain such attractive product pricing. For a vendor, the possibility of securing a very big order allows significantly reduced pricing because the cost of service can be spread across all of the products that are being sold.

Considering the prices charged by a few vendors for each order and selecting the one with the lowest prices for the same quality tends to increase average delivery size and reduce per-item prices. Alternately, giving one vendor all of an operation's business can be costly if the products vary widely in quality and price, or if they are often difficult to obtain.

For many buyers the logic of using multiple vendors appears sound. Often it is, but not always. For example, consider purchasers who continually compare prices among competing vendors. When quality is equivalent, they buy from the vendor offering the lowest price. They appear to be maximizing effort and minimizing cost. These buyers should, however, recognize that cherry pickers who purchase only a vendor's lowest-priced goods will be serviced last. **Cherry pickers** is a term commonly used by vendors to describe buyers who request bids from several vendors and then buy only those items each

REAL MANAGER

MULTIPLE VENDORS

As you probably know, there are two major soft drink suppliers in the world. Company B had used the same soft drink supplier since its founding, 25 years earlier. The contract came up for renewal, and it was a huge multiyear contract. I was asked to negotiate, but was told "we really don't want to change suppliers."

I noted that if we wanted the best decision, it had to be an equal playing field. If both companies submit a proposal, then both have to have a shot at the contract. The result was a long, complex negotiation. The company that had *not* had the contract previously made such a strong proposal, it would have been fiscally irresponsible to turn it down. We had formed a team of franchisees and company employees, and they made the recommendation to the president.

Moral: It took some convincing, but he could see that the playing field had been fair and equal. And this was the best decision for the company and the shareholders.

vendor has "on sale" or for the lowest price. If a buyer purchases only a vendor's low-priced items, that vendor will usually respond by providing limited service. This is a natural reaction to the buyer's failure to consider varying service levels, long-term relationships, dependability, or any other vendor characteristic besides lowest price.

PAYMENT HISTORY

Buyers for operations that do not pay their bills on time might be surprised to know what their competitors are paying for similar products. In many cases, managers of establishments that are slow to pay will find that their vendors have added the extra cost of carrying slow-pay accounts to the price. They do so because the slow-pay buyers are really purchasing products with the vendors' money, rather than their own.

Vendors are very concerned about when they are paid, and they carefully keep track of when they receive payments. When a buyer's payments lag behind due dates, notices are sent, and some costs for late fees and finance charges may be incurred. When payments are not made after the first or second notice, the prices quoted for products typically become less competitive. At some point, vendors will require cash on delivery, if they will make deliveries at all. **Cash on delivery (COD)** refers to a requirement that a buyer pay the full amount owed in cash or other acceptable payment form at the time products are delivered.

THINK ABOUT IT . . .

What should a buyer or manager do if a payment is due but must be delayed for a few days? What are the advantages and disadvantages of alerting the vendor immediately? What would you do?

Lowest Price Is Not Always the Best Price

Buyers must be concerned about many things as purchasing decisions are made. Not surprisingly, the challenge of determining the best price will always be important. The importance increases along with the amount of money involved.

The recognition that the best price is not always the lowest is one factor that separates an experienced buyer from someone who is just learning the basics. The best purchasers know they are buying a product, such as fresh seafood or canned vegetables. However, they also understand that the price they are paying covers several additional factors.

First, they must consider the quality of the product being purchased, which will be reflected in the product cost. Larger-sized shrimp cost more than smaller shrimp. A can of green beans containing beans of different sizes and colors and with stems should cost less than a can of trimmed, similarly sized green beans. When buyers say they want the lowest price, they should be saying they want the lowest price for a product of proper quality.

Service is also an important part of price. Why would a buyer make a purchase agreement for a lower-priced product required for the Sunday buffet if it will not be delivered until Monday? On-time delivery is a valuable service, and a purchaser should be willing to pay for it.

The selling price of a product also includes information. The value of information can range from almost nothing, when a vendor does not know about the products, to almost invaluable when a vendor provides critical information that can save a manager a lot of money. For example, a knowledgeable vendor could provide information about how to keep products safe and enjoyable for customers. It is acceptable and preferable to want the best price for products being purchased. However, the best price is not typically the lowest. Instead, the best price is the lowest price for a product of desired quality provided by a vendor that offers excellent service and the information needed to best use the product.

NEGOTIATING PRICES

Effective purchasers know how to negotiate as they buy the products and services required by their organizations. **Negotiation** is a process by which parties with mutual interests try to reach an agreement about something. Sometimes, negotiation involves only one issue, such as product price. Frequently, however, several concerns such as service, delivery schedules, and payment terms are important issues as the purchaser attempts to receive value.

Negotiation sessions with a vendor can involve only a single representative of the operation, such as the purchaser, or multiple representatives. Negotiations can be face-to-face or undertaken electronically. The time needed for negotiation can range from a few minutes to several months, or longer.

Overview of Negotiation

The desired outcome for negotiation is for the persons who are negotiating to reach an agreement that benefits each of them. Not surprisingly, that can be a challenging objective. Compromise is typically necessary, and it is common because negotiating parties usually have incentives to overcome each other's concerns.

There are three possible outcomes from any negotiation process:

- The parties can reach a mutually acceptable agreement, or compromise.
- The parties can fail to compromise; they can, in effect, "agree to disagree."
- The negotiation can be unsuccessful with an understanding that there will be more negotiation in the future.

"Win–Win" Negotiation Is Important

Some buyers think that one party must "win" and the other party must "lose" when they negotiate. This can occur when the parties are negotiating about the cost of a product for a single order, an equipment purchase on a one-time basis, or a nonrecurring service such as a construction project. For example, a buyer might be purchasing equipment from an exhibitor at a trade show. Another buyer might negotiate for the construction of a storage shed.

THINK ABOUT IT …

Negotiators must "think on their feet." Even with preparation, they cannot predict all points that might arise. What are two strengths negotiators can use? What are two weaknesses they must avoid?

If both parties believe it is unlikely there will be a future business relationship, the issue of price is likely to be very important. As the purchase price is negotiated, the vendor "wins" as the price goes up, or the purchaser "wins" as the price goes down.

However, there are even instances in these examples where issues other than cost can be negotiated. Perhaps, for example, the buyer purchasing equipment will transport it to the establishment at no expense to the vendor. The price of the shed construction may be influenced by payment terms.

More commonly, successful negotiation allows both parties to "win." This is the desired outcome when a long-term relationship is desired. For example, a vendor offering a price concession might be interested in a long-term relationship with the purchaser. In the previous situations, the equipment exhibitor might be interested in selling a new item because its presence in the community makes it convenient for other operators to see and learn about the equipment. The contractor building the storage shed may want a hospitality-specific reference to expand his or her business.

Purchasers representing their operation may sometimes be confronted with persons whose views about negotiation do emphasize the "I win, you lose" approach. Differences between the "win–win" and "I win, you lose" viewpoints are noted in *Exhibit 5.4*.

Manager's Memo

Why is the negotiation process necessary? After all, chapter 4 stressed the importance of identifying approved vendors to quote prices for needed products. Why is there a need to negotiate prices when competitive bids will be obtained?

Wise buyers know that there are other factors besides price for which agreements are needed. For example, one vendor might quote a very competitive price for a product of the required quality. However, perhaps the preferred delivery time is not convenient for the operation. Or, perhaps a buyer has a good price and the quality is excellent but payment is required before the buyer's establishment wants to pay it. These are examples of issues for which negotiation can be helpful.

Exhibit 5.4

DIFFERENCES BETWEEN TWO NEGOTIATING APPROACHES

Win–Win Approach	Win–Lose Approach
• Participants solve problems.	• Negotiators are adversaries.
• Goal is for all parties to win.	• Goal is for other parties to lose.
• Remove people from the problem.	• Focus on the problem and the people.
• Both parties trust each other.	• Do not trust the other party.
• Focus on and explore common interests.	• Do not compromise a position.
• Do not have a "bottom line."	• Focus on the "bottom line."
• Develop options that allow both parties to win.	• Search for one-sided gains.
• Develop multiple options; make decisions later.	• Insist that one position is correct.
• Use objective factors to evaluate compromises.	• Win a "contest of wills."
• Yield to principle rather than to pressure.	• Apply pressure.

The notion that vendors should provide value has been emphasized throughout this book, and it is also important in win–win negotiating. When possible, it is important that both parties gain lasting benefits from the negotiation process.

Exhibit 5.5

Negotiation and Value

Experienced buyers agree that the price of a product is important. However, value, which is the relationship between price and quality, is even more important. They also understand that the service and information they require is part of a product's cost. Three things—product, service, and information—are components of what is being purchased from the vendor. Wise purchasers realize that the vendor's information and service is bundled with the purchase price and, like the price, can be negotiated.

Most buyers recognize that it is worth something to consistently receive the correct quality of products, in the right quantities, at the agreed-upon price. They also know there are costs if these purchasing goals are not consistently attained. They are willing to pay for vendors' information about products and the possibility of price changes in terms of a slightly higher product cost. They also recognize the value of specialized expertise to address product-related problems (*Exhibit 5.5*).

It is also valuable for the purchaser to consider price negotiation issues from the vendor's perspective. Vendors are not likely to want to do business with a purchaser who paid a very high price when the chances for payment were risky and payments likely to be slow. They do not like to do business with buyers who consistently allege product defects that may not exist, or who have all-too-frequent stockouts with the need for additional deliveries.

While oversimplified, buyers want to purchase from good vendors, and vendors want to do business with good buyers. Strategies used during negotiation and the results of the process are likely impacted by the relationship between these two parties. The better that relationship, the greater the benefits to both will be.

Successful Negotiation Traits

Two types of concerns must be addressed as the negotiation process evolves. These relate to the interests of the operation and human concerns about those involved in the negotiation session. These concerns are interrelated, and several factors impact the success or failure of negotiation:

- The personality and skill levels of the negotiators
- The extent to which the personalities of the negotiators are compatible

Manager's Memo

Negotiation is only one way for non-agreeing parties to interact, and there are others:

- **Giving in:** One party may just accept the other party's offer. This may be the only alternative when there are few vendors or limited product availability. Conceding to a price for rare wines is an example of this "take it or leave it" situation. Conversely, multiunit organizations that purchase in large volumes may be able to dictate prices. Vendors can accept the price or risk loss of business.
- **Eliminating the issue:** A purchaser may experience difficulty obtaining an ingredient for a specialty menu item and must pay a high price. A menu change may eliminate the need for the ingredient.
- **Persuading:** Frequent and reasonable defense of a position may be helpful. For example, information sharing and explaining the circumstances of a purchase need are strategies that may encourage a vendor to accept a lower price.

RESTAURANT TECHNOLOGY

One traditional model of negotiation involves the vendor attempting to obtain the highest price for products. A relatively new approach uses technology. Potential vendors compete electronically to sell products at the *lowest* price.

To prepare for a reverse auction, buyers may contract with an outside company to manage the process. That company identifies and alerts potential vendors, organizes and manages the event, and provides information helpful in decision making.

The buyer issues a request for proposal (RFP) to purchase one or more items. Then, interested vendors input their proposed prices into an Internet auction site over a relatively short time period. Quotes indicate the price for which vendors are willing to sell the product meeting the requirements in the RFP. Buyers typically reserve the right to purchase from any vendor. This might be a vendor that did not submit the lowest price or even one that did not participate in the auction.

- Each negotiator's expectations about the other party's strengths and weaknesses, intentions and goals, and commitments to positions
- The ability of each negotiator to use persuasion and other strategies to modify the other party's position and to move both sides toward a mutually beneficial outcome

Many skills used by effective negotiators are the same as those necessary for success in any management position. For example, effective negotiators are excellent communicators. They use general communication skills, including effective speaking, listening, and organizing thoughts before expressing them. They can also use facts to defend their decision, and they recognize the importance of cross-cultural communication skills.

Buyers who are creative thinkers and who are dedicated to their establishment and concerned about the interests of the other party will likely be better negotiators. Each of these characteristics can be learned, or at least improved on. The saying "experience is the best teacher" applies to becoming a better negotiator.

Successful negotiators know that the process involves more than just making mutual compromises. People skills, especially listening ability, are critical.

The best negotiators are good problem solvers and decision makers, and they can spot shortcomings in the logic used by the other party. For example, an equipment vendor might say that his or her equipment is widely used and is therefore the "best." A wise buyer knows that what is best is that which is most suitable for its intended use. This will create a need for the vendor to discuss the equipment's features relative to the buyer's specific organization.

Incorrect information can be misleading and help one party gain an advantage. A negotiator might, for example, indicate the utility consumption rate for a specific equipment item. That rate might be correct for one but not all phases of equipment operation. Actual consumption might be significantly different from what was suggested. Skilled negotiators are able to consider statements, analyze them objectively, and quickly discover what statements should be questioned and what questions should be asked.

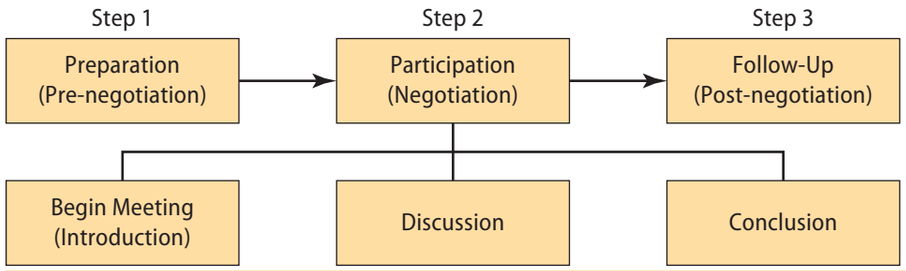
All of the successful negotiation traits discussed in this section can be summed up in being professional. The need for the purchaser to be courteous, respectful, and show concern should be obvious.

Negotiation Procedures

Exhibit 5.6 provides an overview of the steps in the negotiation process.

Exhibit 5.6

STEPS IN THE NEGOTIATION PROCESS



As seen in *Exhibit 5.6*, the negotiation process can be divided into parts. There are three steps: preparation, participation, and follow-up.

STEP 1: NEGOTIATION PREPARATION

There is no rule of thumb about the amount of time or effort required for negotiation preparation. The complexity of the negotiation and its importance to the operation will likely impact the amount of preparation time needed.

There are several tactics that are important when preparing for a negotiation session:

- Identify the objectives of the negotiation.
- Identify negotiation strategies.
- Establish going-in positions.
- Consider fall-back positions.
- Collect information and input from product users.

Purchasers preparing for negotiation have several primary concerns. First, they must know exactly what they want. Often, answering the following question can help: "If the negotiation process is ideal, what will happen?" Related questions include "How will we know?" "What benefits will we receive?" "What will be our relationship with this vendor?" and "How will our customers benefit?"

Some objectives of a negotiation activity may be relatively easy to quantify. Examples include a lower price, a different payment arrangement, and faster or different delivery times. By contrast, other objectives may be more difficult to quantify. Desired changes in product quality and ways to improve value in the products, services, and information provided by the vendor are examples.

Manager's Memo

When the purchasing process for recurring products and supplies is properly planned and well organized, there are relatively few times when significant negotiation efforts will be necessary. The importance of negotiation, however, is not always related to its frequency.

For example, consider the need to select designers, contractors, and other service providers for remodeling. This type of purchase does not occur frequently, but significant negotiation efforts will likely be needed for such a one-time purchase.

Fortunately, skills are similar regardless of the purpose of the negotiation. Successful negotiators are those who use these principles most effectively regardless of the frequency or the concerns that prompt the negotiation.

Manager's Memo

Buyers who are concerned about a value-driven relationship with vendors are basically preparing for possible negotiation with vendors on an ongoing basis. The purchaser is almost continuously researching the marketplace, addressing challenges experienced by product users, and considering how purchase value can be enhanced.

In the fast-paced world in which most establishments operate, it is likely that the marketplace will have changed, perhaps significantly, since the time of previous negotiations. Also, the buyer's product requirements may differ because they are driven by the wants and needs of customers, whose preferences evolve over time.

Purchasers preparing for negotiations must carefully analyze the situation at the time of any earlier negotiation sessions and consider what has occurred since those events. Then, to the extent possible, they must forecast the future and its implications on current purchasing decisions.

In addition to considering the objectives of the negotiation session, buyers should consider strategies designed to achieve those objectives. If more than one person from the operation will be involved in the negotiation, it is important to consider the basic responsibilities of each party. In other words, who will say what and when?

Wise negotiators establish **going-in positions** that prioritize the desired outcomes from the session. For example, desired quality changes might be very important, and different delivery times might be less of a concern.

The purchaser must also determine possible **fall-back positions**. This is where negotiation on a specific point must be concluded. For example, a purchaser desires twice-a-week delivery of a specific product instead of the current once-weekly delivery. That is the going-in position. However, the purchaser knows that delivery on another day will minimize the time in inventory for the majority of products. Therefore, a once-weekly delivery is acceptable if it is on a specific day. This becomes the purchaser's fall-back position.

Careful preparation can usually identify the best going-in and fall-back positions for a negotiator's most important concerns. However, during the negotiation process one party may change fall-back positions if the other makes a sufficient concession on a different issue.

In the example above, the vendor is concerned about delivery cost and will not likely want to provide twice-weekly delivery. The vendor also recognizes the buyer's concerns: two deliveries each week reduces inventory quantities as well as quality, theft, and storage concerns. The delivery schedule can be revised to bring products in on Friday because most of the buyer's business is on the weekend. There will be little or no additional cost for the vendor to do so, and the operation will benefit. In the process, the purchaser will realize greater value for the purchasing dollars being spent.

The vendor that has made this concession has gained an "edge" when the next point is discussed. As this process evolves, the relationship between the two parties will be improved. The purchaser should consider these compromises when preparing for the negotiation.

Often, the actual negotiation process will be much more complicated than these examples, and both parties must prepare accordingly. Remember also that the existing relationship of the two parties will impact their interests in moving away from their desired positions. For example, most buyers would rather pay $2.21 per pound for a product if they believe they would receive the right quality than pay $2.19 per pound to a vendor with a reputation for inconsistent quality.

Purchasers should use "common ground" agreements as a foundation for negotiation. For example, both parties may agree about the need for quality and appreciate their lengthy and mutually rewarding relationship. They both also likely share an interest in better serving customers to enable their business relationship to grow.

The purchaser may require significant information and input from product users while planning for the negotiation. What are the best estimates of business volumes? This will drive quantity needs. How, if at all, will changing customer preferences affect what is purchased? For example, changes in menu preferences impact the quantity of ingredients that will be needed. Are competitors doing anything now that may influence what the operation will need to purchase in the near or long-term future?

The list of possible questions could continue. The goal is to obtain the best estimates of what is needed during the period to be addressed during the negotiation. Knowledge of these facts will help the buyer stay on track during the negotiation.

Exhibit 5.7 shows examples of factors that may impact the negotiating abilities of buyers and vendors. Preparation includes considering these factors.

THINK ABOUT IT …

Do you think the factors listed in *Exhibit 5.7* would be important to you as a purchaser? If you were a vendor?

What other factors might be important for both parties?

Exhibit 5.7

FACTORS IMPACTING NEGOTIATION ABILITIES OF BUYERS AND VENDORS

Buyers Have a Better Negotiating Position When:	Vendors Have a Better Negotiating Position When:
• They are professionals.	• Company representatives are professionals.
• They pay their bills on time.	• Payment processing problems are minimal.
• Large quantities are purchased.	• The buyer's service expectations are met.
• Their quality standards are reasonable.	• There are few errors in product delivery.
• Commonly used (not specialty) products are purchased.	• The quality of their delivered products consistently meets the buyer's standards.
• They practice ethical purchasing procedures.	• They are ethical in all interactions with buyers.
• They provide value in the vendor–purchaser relationship. The vendors have an ongoing interest in continuing the relationship.	• They provide value in the buyer–vendor relationship. The buyers have an ongoing interest in continuing the relationship.
• Their organization has a reputation of being a good "community citizen."	• They help the buyer resolve problems.
• They desire a win–win relationship with the vendor.	• They desire a win–win relationship with the buyer.
• They have a long-term relationship with the vendor.	• They have a long-term relationship with the buyer.
	• They provide important information to the purchaser.

A final concern when preparing for the negotiation is to determine details such as the session's location, time, and related concerns. With these issues addressed, the buyer will be prepared to represent the establishment during the negotiation session.

STEP 2: NEGOTIATION PARTICIPATION

Exhibit 5.6 indicates that there are three parts to the actual participation in negotiations. Participants must begin the meeting, undertake discussion, and reach a conclusion.

MEETING INTRODUCTION Being on time and ready for the negotiation session is important (*Exhibit 5.8*). The purchaser should help maintain an environment that is professional and positive. Emphasizing the benefits of the historical relationship between the two parties is a good start. This can be followed by noting a sincere interest in reaching a mutually successful conclusion.

Exhibit 5.8

The beginning of the meeting is a good time to recall the importance of making careful, not necessarily quick, decisions. The buyer should also remember to use the three most important skills of negotiation: questioning, listening, and observing.

Someone should agree to take notes about the meeting's agreements. The notes can then be used as a summary of the session.

MEETING DISCUSSION As the negotiation process evolves, several strategies will likely be useful:

- Remember that arguments are never helpful. When problems are noted, the proposal of a constructive solution is better than assigning blame or becoming offensive.
- Provide summaries of important points as they are agreed on. This can help reduce later communication problems.
- Be aware that body language can help in understanding what the other party thinks. Body language involves nonverbal actions such as gestures, positions, movements, and expressions that a person uses to communicate. People often "say" a lot about their thoughts and feelings even when they do not use words. Knowledge of nonverbal communication can be a helpful tool as the buyer interacts with another party.

Exhibit 5.9 shows some examples of body language. The actions listed frequently have certain significance. Experienced negotiators often can determine whether the body language does communicate messages or whether the actions are meaningless.

Exhibit 5.9

EXAMPLES OF BODY LANGUAGE

Body Language	What Action May Mean
• Tapping fingers; drifting eye contact; moving body away from the other person	• Being untruthful or unwilling to compromise
• Hands and arms open; good eye contact; sitting on edge of seat	• Readiness to take action or to compromise
• Broad gestures; chin raised; leaning forward in seat	• Dominance
• Arms close to body; head down	• Submissiveness or unwilling to compromise
• Rubbing back of neck; increased eye blinking; crossing/uncrossing legs	• Nervous, tired, not feeling well, or bored
• Tapping fingers or pencil; yawning; angling body away from speaker	• Information overload
• Arms crossed over chest; frown or superficial smile; positioning body toward exit	• Closed mind or disagreement
• Looking away or at watch	• Desire to avoid further discussion or end negotiation session

Exhibit 5.10

Successful buyers consider several important issues as they negotiate. First, they remember that in one way or another, everything is negotiable. They do not necessarily accept the other party's going-in position. Buyers recognize that a vendor typically has fall-back positions, just as they do.

Buyers also ensure that they are negotiating with the person or persons with the authority to make a decision (*Exhibit 5.10*). For example, the purchaser might most frequently be in contact with a distributor's sales representative. However, it may be that person's supervisor, the sales manager, or even someone at a higher organizational level who has the final authority to make negotiating concessions.

Successful negotiators have several characteristics:

- They know the advantages of listening much more than they speak and of "reading between the lines."
- They ask open-ended questions that cannot be answered with yes or no.
- They are patient and do not appear to be in a hurry.
- They do not accept the first offer unless it is a very good one.
- They do not make one-sided concessions. For example, if purchasers receive something (e.g., frequent deliveries), they give up something (e.g., less frequent payments).
- They wait to learn the vendor's position before stating their own.
- They know it is not possible to negotiate without options, and one option should always be the ability to "walk away" from the negotiation.

Effective negotiators do not pretend to know everything about the vendor's situation. Instead, they ask questions, make simple points, and avoid getting involved with technical details unless it is necessary. They also take the time to consider responses before answering.

The use of several additional principles can help negotiators:

- They know the limits of their authority.
- While they have gathered all important information, they do not need to refer to it frequently.
- They think in "real money" terms. For example, a vendor indicates that an unnecessary processing step in a convenience food will cost only an additional fraction of a cent per serving. However, this can represent thousands of dollars or more during the life of the contract.
- They remain focused on the issues. Purchasers may or may not have control over the sequence in which concerns are discussed. However, they will understand their importance and know their priority.
- They end the meeting by congratulating the other party. An ideal negotiation session yields a win–win outcome. In contrast, imagine the impact on the long-term relationship if, after negotiation is concluded, the vendor is informed about numerous critical concessions he or she made.

MEETING CONCLUSION The final part of the negotiation session should include a review of major points and agreement about what both parties expect. Details should be recorded, and these notes can serve as session summary points that are circulated to review the results of the negotiation session. Any differences of opinion on the notes should be cleared up before the meeting ends. Then the agreed-upon summary will help provide the mutual understanding necessary to implement the agreement.

STEP 3: NEGOTIATION FOLLOW-UP

Negotiated agreements must be implemented. As a result of the meeting, both parties should know who will do what and when. What occurs after the negotiation will impact the relationship between the buyer and the vendor.

Final steps in negotiation follow-up include these actions:

- Ensure that persons in the purchaser's organization will act according to the negotiated agreement. A negotiation is not successful until this occurs.
- Prepare the written contracts, if any, which address the agreement.
- Evaluate the buyer's effectiveness in the negotiation process: preparation, participation, and follow-up. This evaluation process is important because lessons from one negotiation can be helpful in future sessions.

Manager's Memo

Vendors routinely negotiate with purchasers, so the best vendors are effective negotiators. They know and practice the same basic negotiation principles used by effective purchasers.

Many vendors would likely make two important suggestions to buyers to help maintain a long-term mutually beneficial relationship:

- Do not use one vendor's price quotation against another vendor. This occurs when a purchaser tells a vendor the price quoted by a competitor so the second vendor might sell the product at a lower price. Ethical vendors like a "best price first" policy in which all vendors are evaluated on the first price they submit.
- Ensure that all vendors know quality requirements, and confirm that the desired quality is received. Some vendors may submit a lower price based on a lower quality product. Vendors may also ship lower quality products if quality is not confirmed at time of delivery.

PRICING DISCOUNTS

This chapter has discussed many factors that impact vendors' selling prices and what buyers might do to reduce prices without sacrificing quality. However, wise buyers also know that many vendors offer **discounts**, which are deductions from the normal price that is paid for something.

Buyers must understand the difference between a lowered price and a discount. To qualify as a discount, the price reduction must be offered only to select buyers based on some definable characteristic or action. If the reduction is offered to all potential buyers, it is not a discount; it is a simple price reduction.

The technique of discounting should be very familiar to managers and customers of the restaurant and foodservice industry. To clarify the difference between a discount and a reduced price, consider the manager who offers this promotion: "Buy one meal and receive 50 percent off the second meal." A customer pays the regular menu price for the first meal, but he or she must only pay 50 percent of the menu selling price for a dining companion. Notice that to qualify for the 50 percent discount, there is a required action: paying full price for the first meal.

Successful vendors are very creative, and there can be any number of reasons for which they might offer discounts. As a result, experienced buyers ask about all discounts offered by those with whom they do business. Doing so allows the buyer the potential of paying the very lowest possible net price. A **net price** is the total or per-unit amount paid for something after all discounts have been applied to the original purchase price. While an exhaustive list of all possible types of discounts would not be practical, buyers should routinely inquire about discounts in several broad categories, such as those discussed next.

Prompt Payment Discount

A buyer's payment history is a factor in establishing the price that vendors will charge the buyer. Discounts for prompt payment are granted because vendors want to reward customers who do not keep them waiting for their money. Buyers typically qualify for this type of discount for one of two reasons.

First, they may pay the entire amount they owe within a predetermined number of days. Second, they may pay COD for the entire cost of the products they buy at the time they are delivered.

While sometimes difficult to qualify for, typical vendor discounts related to prompt payment can range from 1 to 5 percent of the normal price. For professional buyers, they are very much worth pursuing.

Quantity Discount

Many vendors use quantity discounts as incentives to encourage customers to buy more of their products. This type of discount is popular with both vendors and buyers. Vendors benefit from them because the cost of producing or delivering additional products is generally marginal after the initial costs of production and delivery have been recovered. Buyers like quantity discounts because they yield lower net prices.

In some cases, quantity discounts are offered for just the additional quantity. Other vendors consider the total amount ordered at one time and apply the quantity discount to all products ordered. In still other cases, vendors offer quantity discounts for a large volume of products purchased over several order periods.

While quantity discounts can be significant, buyers must be cautious about them. Purchasing more product than needed can be risky and result in waste. This is especially true with products whose quality deteriorates rapidly in storage. In addition, there may be short-term additional costs incurred to finance and store excess products.

Customer Status Count

Preferred customer status is another reason vendors may offer discounts to certain buyers. Establishments typically maintain selling prices between menu reprints and generally charge the same nondiscounted price to all customers. In comparison, vendors may offer a variety of customer status–based discounts depending on their business objectives.

Reasons for customer status discounts include length of relationship, annual purchase volume, and membership in a specific company, brand, or chain. Location discounts may also be offered when, for example, a vendor desires to expand into a new sales area. Some vendors offer discounts based on an operation's nonprofit status.

Special and Promotional Discounts

There are many types of special discounts that are offered by many vendors. For example, they may be associated with holidays, seasons, or special local, state, or even national events. A desire to increase brand or product awareness is a motivating factor behind these types of discounts.

In some cases, significant discounts may be offered when a vendor is interested in clearing inventories of older or discontinued products. Savvy buyers should inquire about the reasons for any special discounts that are offered. If the vendor's reasoning is sound, the discount may be of real value. However, buyers should never accept defective, poor-quality, or beyond-expiration-date products just because they are heavily discounted.

Rebates

Rebates are similar to discounts, and they are also often promotional in nature. While discounts are deductions from normal selling prices, rebates are deductions offered *after* a purchase has been made at the normal selling price. Rebates are sometimes referred to as "cash back" offers. Manufacturers that sell products to others in the distribution chain often use rebate offers to introduce new products or to enhance awareness and sales volumes of existing products.

Effect of Price Reductions

Exhibit 5.11 shows how discounts and rebates can reduce net price. This example uses one case of sliced peaches containing six #10 cans.

Exhibit 5.11

EXAMPLE OF EFFECTS OF DISCOUNTS AND REBATES

		Case Price (6 #10 cans)
Normal price		$42.00
Less vendor's 2% "prompt payment" discount	$ 0.84	
Less manufacturer's rebate	$ 3.00	
Less total discounts and rebates	$ 3.84	$ 3.84
	Net price	**$38.16**

If six cans are purchased for $38.16, the cost of each can is $6.36:

$38.16	**÷**	**6**	**=**	**$6.36**
Case price		**Cans per case**		**Price per can**

This is a savings of $0.64 per can:

$42.00	**÷**	**6**	**=**	**$7.00**
Per case		**Cans**		**Per can**

$7.00	**–**	**$6.36**	**=**	**$0.64**
Original price		**Discount price**		**Discount**

The final price per can, $6.36, can be compared among different vendors when a buyer evaluates the cost of canned peaches. When making this evaluation, buyers must always ensure that the quality offered by different vendors is the same and meets the operation's purchase specifications.

SUMMARY

1. **Explain the factors that affect product pricing.**

   There are four primary factors that influence the prices vendors charge: costs, demand, service features, and quality.

   Traditional views of pricing assume that vendors determine their costs and set selling prices at a level to attract customers and generate a profit. This view may involve three assumptions: increased prices equal increased quality, increased prices equal scarcity and value, and increased prices equal increased image.

   Less traditional pricing views include the ideas that price and costs are unrelated, cost plus value equals price, and different prices are normal.

   Other factors that can influence prices include governmental controls, contract terms, number of vendors selling the products, and the buyer's payment history.

2. **Summarize the importance of and the steps useful in effective negotiation.**

   Negotiation is a process by which parties with mutual interests try to reach an agreement about something. The most effective negotiation is win–win, which involves compromise to reach a mutually acceptable agreement. This is the best approach if long-term vendor relationships are desired.

   The negotiation process must focus on more than just selling price. Other features that add value, such as services received, are also an important concern. Effective communication is an important negotiation skill, as is the ability to make compromises, solve problems, and make decisions.

   There are three steps to the negotiation process, beginning with preparation by considering objectives and strategies and obtaining needed information. Participation involves beginning the meeting, conducting the discussion, and concluding with a summary of important agreements. The third step relates to follow-up activities such as preparing contracts.

3. **Describe several types of pricing discounts and explain rebates.**

   Discounts are deductions from the normal price that a buyer pays to a vendor. There are several types of discounts. These include discounts for prompt payment, for increased quantities purchased, for customer status such as membership in a specific company, and special and promotional discounts. The latter may be offered when a seller is interested in reducing inventories of older or discontinued products.

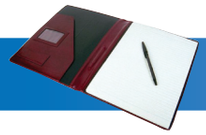
   Rebates are reductions to price after a purchase has been made at the normal selling price. The results of discounts and rebates should be considered in the price used as a basis for comparison with other vendors.

APPLICATION EXERCISE

You are the buyer for a small seafood restaurant chain that purchases several thousand pounds of shrimp each month. This item is by far the most expensive item purchased by your chain, and the price has been going up for the last three months.

You have scheduled meetings with each of the three approved vendors, and they know your primary concern is price. They also know you will not accept a product of lower quality.

1. What is your negotiation objective?
2. What steps should you use as you prepare for the negotiation session?
3. What will be your going-in position for the desired outcomes from the negotiation session?
4. What are your possible fall-back positions during the negotiation?
5. Review *Exhibit 5.7* and explain how you might turn several of these factors into a negotiating advantage.
6. What are three strategies that you will use during the actual negotiating session?
7. What are some factors you will consider as you decide which vendor should supply the shrimp?



REVIEW YOUR LEARNING

Select the best answer for each question.

1. **Which is true about the prices charged by the most reputable vendors?**
   A. They normally charge lower prices than less reputable vendors.
   B. They normally charge higher prices than less reputable vendors.
   C. They normally allow payment according to the buyer's schedules.
   D. They normally require payment upon delivery to keep prices low.
2. **Buyers who focus primarily on a product's per-purchase-unit selling price**
   A. do not normally receive either quality or value.
   B. are best assured of receiving quality products.
   C. do not normally worry about their food costs.
   D. are best assured of receiving purchase value.
3. **Which concept is a traditional view of pricing?**
   A. Buyers cannot influence purchase price.
   B. Cost plus value equals selling price.
   C. Higher prices equal better image.
   D. Price and cost may be unrelated.
4. **What happens in a win–win negotiation?**
   A. The parties change their negotiation objectives.
   B. One party takes advantage of his or her position.
   C. The parties reach an agreement that benefits all concerned.
   D. Neither party is required to make concessions or change position.
5. **Which is an important characteristic for an effective negotiator?**
   A. Avoiding disagreements
   B. Sticking to one issue
   C. Listening carefully
   D. Being aggressive

6. **What type of negotiation position reflects when negotiation on a specific point should be concluded?**
   A. Fall-back
   B. End-of-line
   C. Termination
   D. Compromise
7. **What type of negotiation position reflects a buyer's ideal outcome?**
   A. Going-in
   B. Fall-back
   C. Bottom-line
   D. Common-ground
8. **What can buyers do to establish a better negotiation position?**
   A. Purchase specialty products
   B. Be tolerant of delivery defects
   C. Emphasize product cost as primary
   D. Establish reasonable quality standards
9. **A vendor's price reduction is a discount when it is**
   A. offered to all buyers.
   B. applied to the net price.
   C. given to selected buyers.
   D. taken after payment is made.
10. **Which amount would be typical for a prompt payment discount?**
   A. 4%
   B. 8%
   C. 12%
   D. 16%