Foundation Diploma in Purchasing and Supply

Effective Negotiation in Purchasing and Supply

L4-01

Senior Assessor’s Examination Report

Series

March 2010
SECTION A

Q1 Discuss why it is important for Candidate 2 to develop each of the FIVE areas identified during the assessment. (25 marks)

Analysis of the Question

The aim of this question was to test the candidate’s knowledge of a skilled negotiator’s characteristics and to test the candidate’s application of the theory in relation to the case study.

Analysis of the Answer

The candidate should have been able to explain the terminology used in the capability assessment as follows:

- Listening skills helps the negotiator understand how the other person is feeling, their perspective, what is important to them and so on. It helps the skilled negotiator assess their opponent’s position. Candidates may describe effective listening skills such as nodding.

- Questioning skills helps the negotiator to pursue his objectives through assessing the other parties’ position. Candidates should provide examples of the types of questions that could elicit important information such as open/window/clarifying etc.

- Use of analysis tools prior to a negotiation helps the negotiator to appropriately prepare and therefore understand their bargaining position, leverage and which negotiation strategy to use (distributive or integrative). Candidates may cite relevant examples of analysis tools such as SWOT, PESTLE and PPCA together with explanations as to how they might support preparation activity. Other analysis tools may also be suggested provided they are correctly contextualised.

- BATNA – best alternative to a negotiated agreement helps the negotiator to establish a fall back position and hence understand when to walk away if necessary. Better candidates may provide an overview of the general principles.

- Recognition of tactics helps the negotiator to understand when it is being deployed during a negotiation and therefore how to counteract it. Candidates may provide examples of various tactics such as the Nibble, Russian Front and so on.

Exam Question Summary

In general this question was answered quite well. Candidates who went into more detail attracted higher marks. This is, after all, a 25 mark question and therefore requires some depth of detail and some discussion. It is important that candidates take this point on board and tailor their answers accordingly. Answers that lacked detail or did not discuss the question failed to gain as many marks as those that did.
Q2 (a) Discuss the **FOUR** different persuasion methods adopted by Candidate 1 during the negotiation simulation.  

Q2 (b) Describe **ONE** tactic used by Candidate 1 during the negotiation simulation.  

Analysis of the Question

**Part (a)** The aim of this question was to test the candidate’s knowledge of persuasion methods and to test the candidate’s application of the theory in relation to the case study.  

**Part (b)** The aim of this question was to test the candidate’s knowledge of tactics and to test the candidate’s application of the theory in relation to the case study.

Analysis of the Answer

**Part (a)** Candidates should explain that Candidate 1 uses the following four persuasion methods:

- Emotion (I feel that you’re being a little unreasonable. We’ve been negotiating for over 20 minutes………..etc)
- Logic (Look Reg, the facts are these, nationally there are severe shortages in supply………..etc)
- Threat (We need to agree the price today; otherwise I won’t have the cleaning staff available to service your business…etc)
- Compromise (Reg, you are such a tough negotiator, let’s find the middle ground and compromise at 2.5%)

Candidates should also discuss each method; this might include advantages and disadvantages together with counteraction.

**Part (b)** Candidates should realise that Candidate 1 uses the ‘Add-on’ tactic which is where suppliers state their price which is thought to be all-inclusive, and then add-on ‘extras’ later on in the negotiation. Sometimes this can be confused with the ‘nibble’ which is where the deal is almost concluded and then the supplier asks for one more (small) concession, not previously discussed. Some candidates may alternatively have explained that Candidate 1 resorts to using time pressure as a tactic i.e. “we needed to agree the price today”, this was also acceptable.

Exam Question Summary

**Part (a)** of this question was answered well by the vast majority of candidates. Again as with question one those who went into depth of detail achieved higher marks than those whose answers were more superficial. Some candidates however confused persuasion methods with tactics and consequently did not attract many marks. Candidates need to ensure that they know the difference between persuasion methods and tactics.

**Part (b)** was not as well answered with many candidates not spotting the correct tactic of ‘add-on’ or even ‘nibble’ and some candidates described persuasion methods, e.g. ‘emotion’, instead of a tactic. Some candidates described a tactic but got the name incorrect, where it was evident that they were describing add-on or nibble marks were gained. There is a range of names to describe tactics but candidates need to ensure that they know the difference between persuasion methods and tactics.
SECTION B

Q3 (a) Explain, using examples, THREE types of questions that could be used during a negotiation. (10 marks)

Q3 (b) Discuss how each of the following can relate to a negotiation: (15 marks)

(i) Rapport
(ii) Non-verbal communication
(iii) Culture.

Analysis of the Question

Part (a) The aim of this question was to test the candidate’s knowledge of effective questioning during a negotiation and to test the candidate’s understanding of the impact of questions upon negotiation.

Part (b) The aim of this question was to test the candidate’s knowledge of negotiation terminology and their impact upon negotiation.

Analysis of the Answer

Part (a) There are many questions that could be used during a negotiation and the candidates may choose from the following:

- Open ended
- Leading
- Cool
- Planned
- Treat
- Window
- Directive
- Gauging
- Close out.

Other question types were accepted if their use in negotiation was clearly explained. Candidates needed to give examples of each type of question and when in a negotiation the type of question would be used.

Part (b) The second part of this question was designed to test the candidate’s knowledge of negotiation terminology and the impact of the concepts:

- Rapport – the ability to build and develop rapport (a good working relationship/personal dynamics/chemistry) with another individual. Creates the right dynamics for a negotiation (as per the Influencing perception matrix)
- Non-verbal communication – body language signals. Understanding what they mean can help the negotiator interpret his opponents bargaining position
- Culture – candidates can discuss organisational or international culture (although theoretically the syllabus only tests international – but both are acceptable.

Exam Question Summary

This was quite a popular question.
Part (a) was generally answered well and most candidates scored quite well. The better answers gave an example of the types of question and stated when that particular question could be used. Part (b) was also generally answered well. Again, answers that consisted of more detail and depth gained higher marks. Some candidates clearly did not understand ‘rapport’ but most understood ‘non-verbal communication’ and ‘culture’. However, candidates need to understand that there is more to culture than language and time differences.

Q4 Discuss FIVE stages of a negotiation and suggest the activity that might take place at each stage. (25 marks)

Analysis of the Question

The aim of this question was to test the candidate’s knowledge of the stages and importance of negotiation.

Analysis of the Answer

This question could be answered by using a variety of well known negotiation cycles i.e. Farrington, Oliver, Lewicki etc. Answers may bring out FIVE of the following stages:

- Identification of need – working closely with stakeholders
- Initial discussions – could be about agreeing the specifications
- Preparation
- Explore proposal – exploring the facts and data contained with the proposal – evaluating statements, looking at assumptions
- Negotiation/Trade/Move – could discuss different types of negotiation strategies i.e. Integrative vs distributive
- Agree/summarise – good summarising and its impact on the outcome, buyer’s dissonance etc
- Finalise/implementation – putting the contract in place, embedding the decision/agreeing next meeting.

Alternatively, some candidates could use the Greenhalgh cycle:

- Preparation
- Relationship Building
- Information Gathering
- Information Using
- Bidding
- Closing the deal
- Implement Agreement.

Greenhalgh is cited in the course guide and therefore, candidates may be more familiar with that one.

This is a discussion question and candidates should recognise that simply drawing out/bullet pointing the main stages is insufficient. Good answers will be able to explain what activity takes place at each stage.
**Exam Question Summary**

This was probably the most popular question on the paper, as it should be in a module entitled ‘Effective Negotiation’. Most candidates answered quite well, however some did not. Again this is a 25 mark question and requires some depth of detail and the trigger word is ‘discuss’. Candidates who did this achieved high marks. Some candidates wrote at length on preparation and then dashed off the remaining four stages in a couple of short paragraphs. In a question that has a total of 25 marks available and asks for five points to be discussed, it should be evident that each point carries five marks, i.e. all points will be marked equally.

**Q5 (a)** Explain the difference between fixed and variable costs and discuss how understanding these costs can help during a negotiation.  
**Q5 (b)** Calculate the variable cost of each unit of production and then the fixed and variable cost components for the following:  
Production costs:  
at 4,000 units = $20,000  
at 11,000 units = $30,500  

**Analysis of the Question**

**Part (a)** The aim of this question was to test the candidate’s knowledge of financial analysis.

**Part (b)** The aim of this question was to test the candidate’s knowledge of financial analysis tools that could affect a negotiation.

**Analysis of the Answer**

**Part (a)** The first part of this question is designed to test the candidate’s knowledge in relation to theory surrounding fixed and variable costs. The candidate in his/her explanation could include the following:

- Fixed costs are those that do not vary with output
- Variable costs are those that do vary with output
- Examples of fixed costs could be rent, rates or security. Typically, costs are paid periodically (any changes will usually only be due to inflation)
- Examples of variable costs could include materials used in production, which will increase with the number of units made.

From a negotiation perspective, understanding these costs could help as follows:

- Answers might also mention that some costs have both a fixed and variable component
- Calculating fixed and variable costs can assist in determining the parameters for reaching negotiation agreement
- Helps to identify costs per units which can then be used as the basis for comparison with other suppliers
- Can reveal the supplier’s resistance points
- Helps the buyer understand walk away position
- Helps to identify economies of scale and minimum order units
- Helps you to understand level of profit a supplier is making.
Good answers might also mention open book costing as a way of understanding these costs.

**Part (b)**
Variable cost of each unit:
- 4000 units = $20,000
- 11000 units = $30,500
Variable cost = \((30,500-20,000)/(11,000-4,000)\) = \(10,500/7,000\) = $1.5 per unit

Fixed costs:
Total costs less total variable cost =
- 4000 units, total costs are $20,000
- 4000 units, total variable cost is $4,000 x 1.5 = $6,000
Therefore fixed cost = $20,000 - $6,000 = $14,000

At 11,000 units costs are:
- Variable cost (11,000 x 1.5) $16,500
- Add fixed costs $14,000
- Total costs $30,500

This calculation follows p55 of the CIPS course book.

**Exam Question Summary**

This was also quite a popular question.

**Part (a)** was answered reasonably well but many of the answers concentrated on stating the difference between fixed and variable costs and paid little attention to the second part of the question ‘and discuss how understanding these costs can help during a negotiation’. In many cases candidates attempted to answer this part of this question in a short paragraph. It is vital to read the questions properly.

**Part (b)** was answered very well in the vast majority of cases and it was obvious that cohorts are now beginning to pay attention to calculations. Many, many candidates picked up a relatively easy ten marks on this question. Well done.

**Q6** Discuss FIVE areas of risk that might be included in a risk assessment in preparation for a negotiation. **(25 marks)**

**Analysis of the Question**

The aim of this question was to test the candidate’s knowledge of risks that might be included in a risk assessment that could support a negotiation
Analysis of the Answer

Candidates should be able to discuss FIVE from the following:

- Supplier risk
- Operational risk
- Currency risk
- Shortages of supply risk
- Supply chain risk
- CSR and ethical trading risks
- Economic stability risks
- IPR and development risks
- Downtime risks
- Capacity risks.

This is not an exhaustive list and candidates may bring in other areas not identified above. Provided they are correctly contextualised they are acceptable.

This question requires content and discussion. Examples are welcomed.

Exam Question Summary

This was the least popular question on the paper with only seven candidates attempting it. Of those seven only one achieved high marks. In the majority of cases the question was either misread or misunderstood. The question asked candidates to ‘discuss five areas of risk that might be included in a risk assessment in preparation for a negotiation’. It did not ask for which analysis tool to use to carry out a risk assessment such as an analysis of PESTLE or how to use Porters Five Forces or Kraljic.

Again this is a 25 mark question and requires depth of detail and discussion.

APPENDIX:

Syllabus matrix indicating the learning objectives of the syllabus unit content that each question is testing
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<thead>
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