



HOW NEGOTIATIONS ESCALATE TO THE POINT OF NO RETURN

THE SUCCESS OF NEGOTIATIONS IS NOT JUST ABOUT THE FINAL OUTCOME, BUT ALSO THE PROCESS

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Executives and dealmakers typically understand the advantages of creating a collaborative atmosphere that favors value creation in negotiations. However, difficult negotiation processes, characterized by a high level of tension and confrontation, often emerge. Negotiators get angry, frustrated and offended, egos are threatened and objectivity disappears, with tremendous losses for the parties involved. What could potentially be a win-win situation ends up being a lose-lose outcome.

Consider, for example, the following negotiation between a manufacturer and a retailer, which took place some years ago. The process started with a request from the supplier that the retailer should guarantee shelf space for all of its new products and accept its product assortment without contesting it. This demand was unacceptable for the retailer, as it would restrict its ability to adjust the product mix to customer preferences and the retailer was facing a significant increase in the demand for its own brand. Parties took extreme positions on the issue. The manufacturer argued that, given its market share and the strength of its brands, any new product would be a success. The supplier mentioned their long-term partnership and the fantastic achievements that were only possible due to their mutual cooperation.

The retailer had a very different view. Since shelf space was limited and many other important manufacturers were asking for more, it was simply impossible to accommodate the supplier's request. It would have been totally unfair to discriminate against other important suppliers. Furthermore, demand for the retailer's own brand was increasing and it had to adapt to changing consumer preferences. Facing the refusal of the retailer regarding shelf-space, the supplier decided to move to another issue: the retailer should accept a price increase of 2.5% to adjust for inflation. Since other retailers had already accepted this price increase, the retailer could not refuse to do the same. The retailer immediately refused the price increase. In a context of decreasing purchasing power of customers, it was simply unrealistic to increase prices.

At that point, the supplier representatives were getting really upset. They considered this second refusal by the retailer totally unacceptable. As one of the largest FMCG companies in the world, which had grown almost 8% in its market over the previous year, they felt they should be treated with respect. Irritated with the retailer's lack of flexibility, the supplier decided not to give quantity discounts to the retailer any longer. In retaliation, the retailer de-listed 70 of the supplier's products. The supplier then threatened a 30% price increase of all the products the retailer was selling if the retailer did not reconsider its position. The retailer reacted by de-listing around 300 of the supplier's products. The conflict continued to escalate. The supplier launched a huge advertising campaign stating that its products were available elsewhere, trying to deviate traffic from the retailer's stores to competitors' stores. The retailer responded by launching promotional campaigns for other brands, in particular their own. As a result of this negative spiral of conflict, both parties faced significant losses.

This example illustrates an extreme situation of an escalation of conflict in a business relationship. However, even experienced negotiators often get frustrated by problematic relationships, deadlock and value destruction. Thus, understanding the circumstances that may lead to such difficult negotiation processes is a matter of acute importance. It is well understood that negative spirals of conflict may result from psychological factors that induce parties to persist with a given course of action beyond what would rationally make sense. When the relationship deteriorates, parties get angry, egos are threatened, and objectivity disappears. In such cases, the unwillingness to accept a defeat may lead to a battle of wills and, as a result, a lose-lose outcome. However, escalation of conflict may also be triggered by mistakes in how the negotiation is structured and in the management of the negotiation process.

Negotiations are often structured around a single-issue, "the" problem that concerns the parties involved (e.g., "shelf space" in the example above). When a negotiation involves a single issue, it is merely distributive – one party gains at the expense of the other. Thus, a single-issue bargaining logic contributes to a higher level of tension, and sometimes even confrontation, in the negotiation.

In contrast, multiple-issue negotiations have an integrative dimension – parties may identify value creating opportunities that benefit both parties. As parties enlarge the agenda, they may be able to identify non-controversial issues, where the preferences of the two parties point in the same direction. Furthermore, since parties typically value controversial issues differently, it is possible to identify profitable tradeoffs: each can give up something less valuable to them in return for something more valuable. The opportunity to identify win-win situations contributes to creating a constructive and collaborative negotiation environment.

However, when parties are too focused on solving "the" problem, they are typically not able to put things in perspective and identify other issues that could significantly change the structure of the negotiation. And even when other variables are introduced in the negotiation (e.g., "price" in the example above) the different issues are discussed in isolation and the negotiation is approached as a collection of single-issue bargaining problems.

Difficult negotiation processes often emerge because executives and dealmakers underestimate the importance of building constructive relationships in a negotiation. Many negotiators still believe that the best way to achieve their objectives is to exercise maximum pressure, to insist on their position, to use aggressive and disrespectful language, and to mislead the other side. They seem to ignore that the level of satisfaction of a negotiator is determined not only by the final outcome, but also by the negotiation process. A relationship based on trust, respect and mutual understanding can make negotiations easier and more effective.

Negotiators should use soft and appropriate language, be courteous and show appreciation of the other side. They should improve communication by listening actively, acknowledging what the other side says, and doing everything they can to avoid misunderstandings. Furthermore, they should not put their credibility at risk. Negotiators may lose credibility by making commitments that they are not able to honor, by being caught in a lie, by opening the negotiation with an outrageous offer, by withdrawing a firm offer without having a strong reason to do so, etc. Once credibility is lost, trust is gone and working constructively to identify win-win opportunities becomes virtually impossible.

Luís Almeida Costa is Co-Director of the [Negotiating for Value Creation \(NVC\)](#) Program.

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