

Competitive Negotiation Tactics and Kraljic Portfolio Category in SCM

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ABSTRACT

Negotiation outcomes are broadly classified as Distributive/Competitive and Integrative/Collaborative. Substantial academic and research negotiation literature of the past two decades commend adoption of a collaborative style for almost all real-life conflict situations. Business negotiation materials and relational self-construal psychology studies present a picture of contrast. Negotiations being at the heart of buyer-supplier interactions drive value sharing and value co-creation aspects of modern Supply Chains. Pricing, product selection, delivery terms, shipment schedules, carrier selection, volume discounts, product training, and quality standards are all more often than not subject to negotiation between supply chain members. Negotiation interactions ensuing preparation and determination of BATNA, entail use of Competitive or Collaborative Tactics. Buyers are the protagonists in procurement organizations. And procurement often accounts for the lion's share of an organization's budget. Small wonder, they drive cost competitiveness together with the firm's partners. Indeed this is true of the overall Supply Chain. An Indian pharmaceutical company was chosen for the qualitative research in the form of a case study. The most popular competitive negotiation tactics were chosen for this study and buyers were asked to spell out the negotiation techniques that they deployed, material-wise (with the corresponding suppliers). This data when plotted material-wise and grouped Kraljic category-wise circumstantiates the use of competitive tactics in all Kraljic categories, marked by a refreshing nuanced approach for different categories, with intensity varying for different categories. Interviews with buyers and the key informant to discern the rationale behind use of those negotiation tactics, however, brought out a pattern despite the refreshing tendency not to straightjacket.

Keywords: Negotiation Tactic, SCM, Kraljic Purchasing Portfolio, Qualitative Research Paper Type Case Study

SUPPLY CHAIN MANAGEMENT (SCM)–A CONCEPT IN EVOLUTION

SCM is a discipline in the early stages of evolution (Gibson, Mentzer, & Cook, 2005). The term SCM owes its origins to its usage by consultants and works to integrate key business processes there to operating under different enterprise functional groups. The idea of SCM has since been embraced by the academia and it has successfully helped to unite procurement, operations and distribution (Carter, Rogers, & Choi, 2015). The concept of SCM has been studied from two perspectives, namely purchasing (supply management), and logistics (transportation, distribution, warehousing, and inventory management) (Tan, Handfield, & Krause, 1998). Interestingly, SCM started as a unifying concept of common enterprise processes within the organisation that

concerned itself with “management and integration of the entire set of business processes that provides products, services and information that add value for customers and other stakeholders”(Cooper & Ellram, 1993). In time, this objective was expanded to include management of a “network of organisations that are involved, through upstream and downstream products and services in the hands of the ultimate customer”(Christopher, 1998). Insofar as the relationship aspect (of SCM) goes, and at a conceptual level, recent research has moved on to buyer-supplier-supplier relationships and archetypes and behaviour of coalitions such as buyer-supplier-supplier and buyer-buyer-supplier triads (Wu & Choi, 2005) from the dyadic units. Today, it can be said that SCM epitomizes a vast network of companies i.e., “supplier-manufacturer-distributor triad or as a complex vast network of companies” (Carter et al., 2015) and has “moved from

beyond the buyer-supplier dyad to consider the triad as the ‘smallest unit of a network’”(Mena, Humphries, & Choi, 2013). Such a transformation from dyads to triads has been necessitated by ‘companies looking beyond managing immediate suppliers to managing the overall supply chain network as a competitive resource’ (Choi & Wu, 2009) and due to the fact that ‘the supply chain is a social network where relationships unfold among buyers and suppliers’ (Choi, Dooley, & Rungtusanatham, 2001).

With supply chains competing against each other (Christopher, 2000), the purpose of a supply chain of organisations concerns with ‘improving the performance of an individual organisation as well as the entire Supply Chain’(Li & Lin, 2006) and ‘a systemic, strategic coordination of business functions within an organisation’. (Mentzer, DeWitt, Keebler, Min, Nix, Smith, & Zacharia, 2001). The broad metrics for SCM are succinctly summarised by Bowersox and Closs (1996) as “SCM concerns ... with the aim of producing value for the end customer, by both improving customer service and lowering cost (Bowersox & Closs, 1996) (Giannoccaro & Pontrandolfo, 2004).

In a business environment, negotiation is at the heart of those processes that drive the achievement of two predominant objectives of SCM – adding customer value and minimising cost. ‘Negotiations are an essential element of buyer-supplier relationships that form the foundation of modern supply chains’ (Thomas, Thomas, Manrodt, & Rutner, 2013). ‘Procurement teams of organisations besides being their primary spenders, spend an estimated twenty percent of their time in negotiations’(Mestdagh & Buelens, 2003). As part of their efforts to coordinate key supply chain activities and achieve business objectives, interdependent buyers and suppliers often negotiate items such as pricing, product selection, delivery terms, shipment schedules, carrier selection, volume discounts, product training, and quality standards.

LITERATURE ON NEGOTIATION

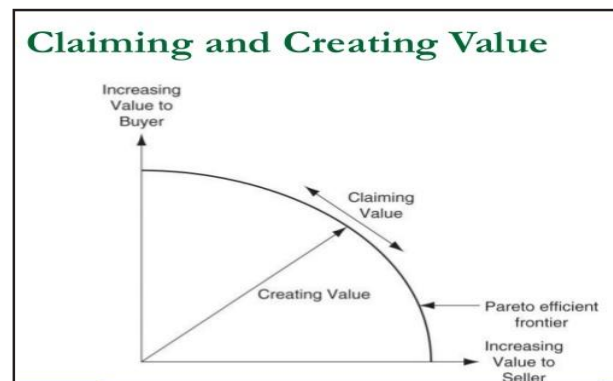
Negotiation is an interpersonal decision-making process necessary whenever we cannot achieve our objectives single-handedly (Thompson, 2000). Negotiations include one-on-one business meetings on the one end and multiparty, multi-company, and multinational relationships on the other. Whether simple or complex, negotiations boil down to people, communication, and influence. Negotiators seek to advance their full set of demands or conditions by persuading the other side to say yes to some or all of such demands or at best, arrive at a common understanding or agreement.

Bargaining Characteristic	Distributive	Integrative
Goal	Get all the pie you can	Grow the pie
Motivation	Win-Lose	Win-Win
Focus	Positions	Interests
Info Sharing	Low	High
Duration	Short-term	Long-Term

(Lewicki & Litterer, 1985)

Fig. 1. Bargaining Styles – Distributive vs. Integrative

Much of the literature classifies negotiation process as distributive and integrative (Fig. 1). Distributive/competitive process ensues when negotiators treat the “negotiating pie” as fixed and primarily make concessions in an attempt to arrive at a negotiated settlement (zero-sum approach as shown in Fig. 2).



(Lewicki, Barry, & Saunders, 2011)

Fig. 2. Fixed Pie vs. Growing Pie

Integrative/Cooperative process involves the negotiators that treat the negotiating pie as something that is “growable” and hence engage in both making concessions and search for mutually profitable alternatives (Bartos, 1995). Negotiators adopt differing negotiation styles and tactics based on their approach viz., Distributive or Integrative. A whole lot of literature has developed around the negotiator styles. *Cooperative/problem-solving* negotiators try to maximise the *joint returns* obtained by the bargaining parties, are *reasonable* in expectation, *realistic* in opening offers, *polite and sincere* in approach, seldom use threats, are *transparent* and *trusting*, explore underlying interests of themselves and their opponents, are ready to make unilateral concessions. *Competitive/adversarial negotiators* move psychologically against their opponents, move to *maximise* their own returns, push for *extremes*, try *outrageous opening offers*, are *adversarial* in approach, emphasize their own *positions*, do not hesitate to use *threats*, *minimise* their *disclosures*, are

closed and untrusting, try to make minimal concessions, and manipulate opponents (Lax & Sebenius, 1986).

While these are two farthest combinations, in professional negotiations, these styles are clearly visible (Craver, 2011). For example, in a study conducted in 1976 by Gerald Williams duplicated by Andrea Kupfer Schneider in the late 1990s (Schneider, 2002), respondents (attorneys) were asked to indicate among persons they interacted professionally, as to their negotiating styles. Schneider classified the (settlement) Effectiveness of the attorneys when time came for negotiation as Effective, Ineffective and Average. The responses indicated that only 9% of those lawyers seen as adversarial were rated as effective by their peers and only 9% of all effective lawyers were described as adversarial. Furthermore 90% of lawyers perceived as ineffective were also of the adversarial type. In contrast 91% of lawyers seen as effective took a problem solving approach to negotiation. Cooperative negotiators are twice as effective as competitive negotiators (Fig. 3).

Category	Effective	Average	Ineffective
Cooperative/Problem Solving	213	166	14
Competitive/Adversarial	21	84	120

(Schneider, 2002)

Fig. 3. Negotiation Styles and Composition

Pruitt's Dual Model (Pruitt, 1983) breaks down the negotiation approaches into four distinct ones. Overall, the integrative approach seeks to reconcile the parties' divergent interests and provide both parties with joint benefits as an outcome of the specific negotiation (Fig. 4). According to Pruitt, *Problem Solving* strategy is the pick of them all and tends to explore all options and arrive at an outcome benefiting both the parties. *Contention* attempts to prevail upon the other party to accede to one's own interests. *Yielding* results in outcomes detrimental to one's interests, and hence, is recommended when issues are inconsiderable. *Inaction* is a strategy aimed primarily at putting time pressure on the other party.

Negotiation strategy	Concern about the other side's outcome	Concern about one's own outcome
Problem Solving	High	High
Contending	Low	High
Yielding	High	Low
Inaction	Low	Low

(Pruitt, 1983)

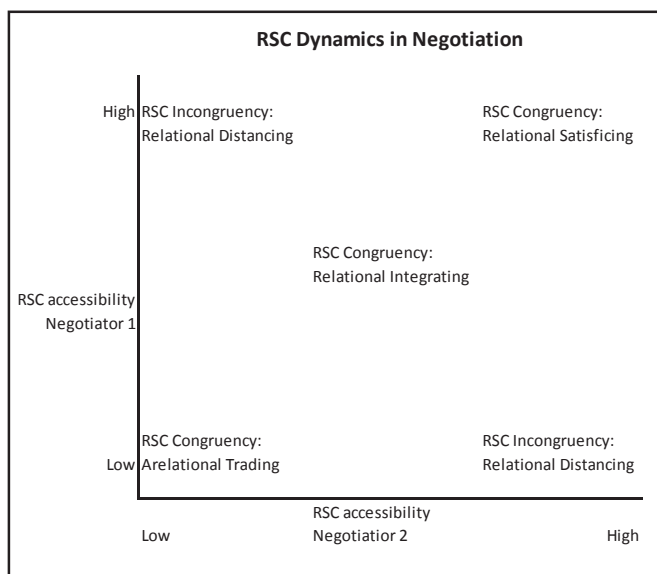
Fig. 4. Pruitt's Dual Model

Alternate views that follow hereafter emphasize on the dynamic nature of negotiation. As Michael Wheeler states about a typical negotiation setting, 'the basic framework of win-win rests on static assumptions about interests, options, circumstances, and relationships, (while in reality) these factors tend to be fluid and ambiguous (Wheeler, 2013). Social psychologists for example, emphasize on the intensely dyadic nature of negotiation. Cheng writes, '[A] basic fact about negotiation, which could well be easily forgotten, is that [one is] dealing not with abstract representatives of the "other side", but with human beings.' It is therefore unsurprising that human phenomena like power and trust should have a significant influence in the process (Cheng, 2009). Numerous scholars have bemoaned that the field (including a majority of the literature) offers a largely arelational view of an inherently relational situation (Gelfand, Major, Raver, Nishii, & O'Brien, 2006). In the introduction to his book 'Getting Past No', William Ury alludes to the significant influence of the dyadic nature of negotiations when he writes, 'but there are questions that every reader ends up asking, "What if the other side hasn't read your book? What if they won't dance that way? What if their answer is No?"' (Ury, 2007).

Cross, Bacon, and Morris (2000) emphasize on connectedness and its considerable impact on dyads as, 'rather than emphasizing individual autonomy and promotion of one's own goals, in this self-construal, the priority is to emphasize "connectedness to others and [to] behave in ways that promote and strengthen existing relationships"'. The other important aspect of an existing and continuing relationship between business partners' pre- and post-negotiation is not to be ignored. The successful outcome in the form of a negotiated agreement presupposes its implementation needing a tango post factum too. "Whether findings, largely drawn from simulated negotiations between unacquainted participants, correspond to the dynamics of real-world negotiations in which prior relationships figure so prominently" (Barley, 1991).

Gelfand, Major, Raver, Nishii, and O'Brien (2006) elucidated the significant influence of Relational Self-Construal (RSC) on outcome of individuals involved in negotiation (Fig. 5). "At the core of our model is the construct of the relational self-construal. In contrast to a view of the self as largely independent, RSC reflects a cognitive representation of the self as fundamentally connected to other individuals. It has a strong influence on the outcome of the negotiation" and "we note that dyads may not achieve very high individual or joint economic capital, at least in the short run". Further, negotiators

with very high RSC accessibility will likely be intensely focused on the relationship, and, thus, relational issues will loom much larger than economic returns (Gilkey & Greenhalgh, 1986). Gelfand *et al.* (2006) further write, “Although highly concessionary and cooperative behaviours are useful for the development of relational capital, they are not necessarily effective at creating value—or expanding the pie of resources! Negotiators with very high RSC accessibility will also be averse to appear selfish and focusing on their own interests and, thus, will unlikely to claim value. For these reasons, we argue that these dyads may not achieve very high individual or joint economic capital”. In other words, a disproportionate focus on relationship can be deleterious to achieving business objectives.



(Gelfand *et al.*, 2006)

Fig. 5. Relative Self-Construal Dynamics in Negotiation

Jim Camp (2002) articulates on the fallacy of an extreme focus on relationship, “Based on my nearly twenty years as a negotiation coach, I believe that win-win is hopelessly misguided as basis for good negotiating, in business or in your personal life or anywhere else. Of the various ideas in my system that I could have chosen as my title, I selected ‘Start with No’ expressly to emphasize my profound disagreement, which implicitly urges you to get to yes as quickly as possible, by almost any means

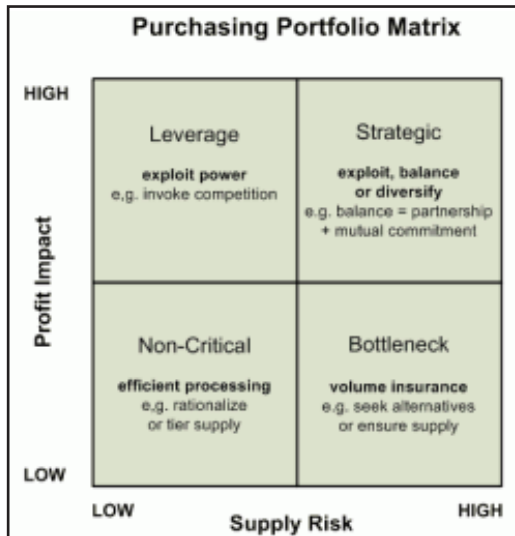
necessary. Such negotiation is the worst possible way to get the best possible deal. In fact it will get you killed”.

Finally, a negotiating style that mixes cooperative and combative styles finds support from Walton *et al.*, “Negotiation involves a mix of both collaborative and more competitive or persuasive activities, which may be identifiable as phases or stages in the negotiation. These phases of cooperation and competitiveness can occur because the negotiators develop a strategy to create value before claiming their share of it” (Walton & McKersie, 1965). In a recent research involving 294 respondents involved in business negotiation, Fells, Rogers, Prowse, and Ott (2015) write, ‘although negotiations are a core business activity, there is a lack of information about what actually occurs during a business negotiation. The study looks at what actions they took as they sought to achieve an agreement, including how information was exchanged and how they looked for new solutions and managed concession making. The analysis suggests a pragmatic approach to negotiation, whereby information is not withheld, but neither is it freely given’ and more importantly, ‘the underlying script of negotiation appears to draw more on competitive than overtly collaborative tactics, suggesting that business negotiators are cautious co-operators’.

NEGOTIATION TACTICS

The interaction with the suppliers determines or has a significant influence on the outcome of the exercise. With specific reference to procurement-sales interactions, ‘great emphasis is laid on the tactics that are used by negotiators and ways of understanding, assimilating and responding to the tactic’ (Dawson, n.d.). ‘Tactics are used to change the other person’s perception of where the power lies and it is important for negotiators to become aware of the various tactics used. In an effort to define and achieve a resolution to their conflict and to achieve the best possible outcome for their side, each party must make a best possible case for his or her preferred solution and move the opponent away from his/her preferred solution. These requirements may motivate an individual to ... employ influencing tactics in order to gain the others’ compliance (Lewicki & Robinson, 1998).

PURCHASING PORTFOLIO MODELS – KRALJIC AND OTHERS



(Kraljic, 1983)

Fig. 6. Kraljic

Peter Kraljic, in a seminal paper in HBR, advocated a path-breaking model that classifies materials based on two dimensions (Fig. 6) for determining the purchasing/supply strategy towards the firm's purchased materials or components (Kraljic, 1983).

- (1) "The strategic importance of purchasing in terms of the value added by product line, the percentage of raw materials in total costs and their impact on profitability"
- (2) "The complexity of the supply market gauged by supply scarcity, pace of technology and/or materials substitution, entry barriers, logistics cost or complexity, and monopoly or oligopoly conditions."

Among others, a key idea behind this classification was that there was a need for a more thorough segmentation of suppliers and that there should be different strategies for different categories. Due to the fact that Kraljic (1983) introduced the thought of purchasing as a more strategic practice in a company, the article he wrote has made a great impression on researchers' views on purchasing (Dubois & Pedersen, 2002). The portfolio perspective is based on the widened perception of relationship management where focus has shifted from individual relationships to

the management of suppliers as a set in order to develop an optimised supplier base (Wagner & Johnson, 2004).

In the top left corner of the matrix is the leverage items category. A supply market where the supply exceeds the demand characterises these items and they have a significant impact on profitability, they are low-risk items; they are freely available on a competitive market. Generally the price is of greatest concern. Towards its right are the strategic items, wherein in addition to price; there are a lot of other factors that are of great matter. These items, specific and scarce and high-value items have high impact on a business and hence are to be categorised as high-risk that are tough to source. In these complex markets there might be other factors that decide the order-winners like for example quality or long-term availability.

At the bottom and left are the non-critical or routine items described as day-to-day purchases or low-risk items that have low impact on business. These items are generally routine ones that are easy to source. Typical non-critical items are standard equipment like stationery, IT consumables and so on and need much lesser managerial attention compared to the other three categories. The last category is bottleneck items and these items are often characterised by the low level of spend but have high impact on business. They are often problematic to source due to market shortages, poor quality or market distortions. A good example of something that could be classified, as bottleneck items are professional services, items where the supplier is a market leader and a monopoly etc.,

Kraljic showed with his purchasing portfolio that he thought there was a need to change the view on purchasing and it is evident that his purchasing portfolio model is widely recognised and used by a lot of purchasing organisations (Boodie, 1997). After Kraljic's purchasing portfolio model's popularity, several different models including modifications to Kraljic's own model have been proposed. Bensaou's portfolio (Bensaou, 1999) based on extensive research done primarily in the Japanese Automobile industry, focused on the buyer-supplier relationships and describes the power dependence between the involved actors. Some authors have introduced similar models, although there are more similarities than differences in comparison to the original Kraljic matrix and summarised in Fig. 7 (Elliott-Shircore & Steele, 1985; Olsen & Ellram, 1997; Lilliecreutz & Ydreskog, 2001)

OVERVIEW AND COMPARISON OF PURCHASING PORTFOLIO MODELS					
	Elliott-Shircore and Steele (1985)	Hadeler and Evans (1994)	Lilliecreutz and Ydreskog (1999)	Olsen and Ellram (1997)	Van Weele (2002)
Name of the Model	Procurement positioning overview	Supply strategy square	Classification mode	Portfolio model	Purchasing portfolio
Matrix Dimensions	Profit/value potential	Product's value potential	Economic profile	Strategic importance	Profit impact
	Supply vulnerability	Complexity	Complexity and risk profile	Difficulty of managing	Supply risk
Categories	Strategic critical	(Not specified)	Strategic	Strategic	Strategic
	Tactical profit		Leverage	Leverage	Leverage
	Strategic security		Bottleneck	Bottleneck	Bottleneck
	Tactical acquisition		Routine	Routine	Routine
Recommendations for					
Strategic Items	Manage suppliers	Strategic partnerships	(Not specified, depending on	Close relationship	Partnership
Leverage Items	Drive profit	Global trading	the desired cooperation with the supplier)	Leverage volume	Exploitation of power
Bottleneck Items	Ensure supply	Close relationship		Standardize and find substitutes	Assurance of supply
Routine Items	Minimize attention	Simple contracts		Standardize and consolidate	Systems contracting

(Cees J Gelderman & Van Weele, 2005)

Fig. 7. Overview and Comparison of Purchasing Portfolio Models

The purchasing portfolio is often considered a valuable tool for developing differentiated purchasing and supplier strategies. Over time, portfolio models have entered many textbooks on purchasing and supply management (Burt, Dobler, & Starling, 2003; Handfield, Monczka, & Trent, 2005). The Kraljic matrix inspired many practitioners and researchers to gain a deeper understanding of the possibilities of a portfolio approach for purchasing purposes (Wagner & Johnson, 2004; Gelderman & Van Weele, 2003). Other scholars have introduced variations of the original Kraljic matrix (Elliott-Shircore & Steele, 1985; Hadeler & Evans, 1994). However, the proposed matrices are very similar to the Kraljic matrix in that they use practically the same dimensions and categories, and suggest some of the same recommendations. Thus, it is fair to conclude that the Kraljic matrix has become the standard in the field of purchasing portfolio models (Lamming & Harrison, 2001; Gelderman, 2003). It appears that arguments supporting portfolio models are derived from qualitative case studies, while counter-arguments are based on theoretical and conceptual studies. Based on a survey of purchasing professionals, this study provides evidence that purchasing portfolio usage is associated with purchasing sophistication. Users contrast in a positive way with nonusers of the portfolio, especially

on their professionalism (skills) and their position within their companies (Gelderman & Van Weele, 2005). Therefore it can be said that the Kraljic matrix has become the standard in the field of purchasing portfolio models (Lamming & Harrison, 2001; Gelderman, 2003). Kraljic is widely viewed as a driving force behind the concepts of supply management and purchasing portfolios (Pagell, Wu, & Wasserman, 2010).

NEGOTIATION TACTICS AND RESEARCH QUESTIONS

Tactics are behaviors – actions used by the negotiator to serve a purpose or to pursue an objective. Tactics can be verbal and/or non-verbal. One of the first things that negotiators or anyone skilled in communication learns is that every piece of behaviour communicates (McCormick & Training, n.d.). While the majority of literature in the area of negotiation recommends the use of cooperative negotiation techniques and tactics, *few other experts and most of the practitioners seem to accept and recognize the use of competitive tactics as a normal practice in business negotiations*. For example, ‘within these overall patterns, the language of negotiators suggests both competitiveness

and cooperativeness appear to feed off each other as the parties search for a way forward' (Putnam, 2010; Putnam & Fuller, 2014).

In the book "Getting Past No: Negotiating with Difficult People", William Ury lists three different categories of competitive tactics frequently used by trained negotiators (Ury, 2007). While there are many different tactics, 13 tactics (a minimum of 4 each from each category) frequently used by the buyers in this case were chosen for this case study (Fig. 8).

Category	Stonewalls	Attacks	Tricks
Tactic	Budget (or Bogey)	Divide-and-Conquer	Cherry Picking
	Company Policy	Intentional Delay	Good Guy, Bad Guy
	Deadline Pressure*	Threats*	Nibbling
	Take It Or Leave It (or Last and Final Offer)	Outrageous Initial Demand or Lowballing	Phoney Facts
		Killer Phrase*	

(McCormick & Training, n.d.)

Fig. 8. Negotiation Tactics – Category and Tactic

Popular views on negotiation as an exercise to 'get to yes' seem to ignore to a large extent, the intense, dyadic nature of negotiation interactions. There is a need therefore to specifically study the business negotiation environment and understand whether competitive tactics are used in the negotiation process and if yes, the extent of its usage in different Kraljic category suppliers. This leads to the following questions. They are:

- In business negotiation scenarios, are competitive negotiations tactics employed by buyers?
- How do these competitive negotiation tactics differ for different Kraljic category suppliers?
- Why are such competitive tactics used in the given circumstances?

The key informant method in case study research has been used. A key informant is an expert source of information. The head of the supply chain management department is an expert with close to 3 decades of professional experience in this field and hence has been used as an expert source of information. The team of 7 buyers in his team use these tactics directly with suppliers and hence are used as the first source of information. Case study method is recommended when research focuses on "how" and "why" type questions.

METHODOLOGY

A qualitative approach was opted for, so as to follow recommendations of Ramsay (2004) and that of Zachariassen (2008) of investigating buyer-supplier negotiation from a qualitative angle in different buyer-supplier relationship settings; in this case, different Kraljic categories and the implied buyer-supplier relationship (Fig. 6). This was done by carrying out an in-depth, subjectivist case study. Holme and Solvang (1997) stress that case study is a good way to perform a qualitative research. A case study is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2009), where the investigator has little control over events (unlike in an experiment) and where the focus furthermore is on a contemporary phenomenon within some real-life context (Eisenhardt, 1989). A case study can capture many different situations and contexts and it does not show any static traits; instead it can give an understanding of how people and their actions are connected in different situations. It is well suited when examining contemporary phenomena within their real-life contexts and when the boundaries between the phenomena and the contexts are not clearly evident.

NEGOTIATION TACTICS AND KRALJIC CLASS

This case study was done at the premises of an Indian pharmaceutical manufacturer from Hyderabad. The manufacturer has multiple factory locations and manufactures over 50 products for supply worldwide. The manufacturer uses contemporary Supply Chain practices such as Benchmarking of key raw material prices to establish purchase cost relative to industry, Theory of Constraints (TOC), Kraljic Portfolio based purchase focus and vendor base de-risking. The manufacturer has achieved best in class status on Raw Material Costs as a % of Revenue, attributable to a healthy product mix and efficient raw material purchasing. All Raw Materials (around 250 in number) were classified afresh as per Kraljic class based on ABC analysis and supply risk rating for the purpose of this study (availability of multiple sources, process criticality, ready availability of substitutes and standard item or tailor made for the product). Out of these raw materials, top 100 by descending order of value were shortlisted for the study. 252 different suppliers are supplying these 100 raw materials. Sufficient number of such shortlisted raw materials was verified to be representing different Kraljic

categories. Individual buyers handling these raw materials then identified those techniques (among the 13 shortlisted techniques) that they use during their negotiation sessions. The Kraljic category and the negotiation tactic used for negotiation with the individual supplier were listed alongside. In-depth interviews were held with the buyers and the head of the department to understand the number of meetings held for each category before finalizing the deal, the progress of individual negotiation sessions, the

circumstances wherein different tactics were used and the process of concluding the negotiation.

COMPETITIVE NEGOTIATION TACTICS USED FOR STRATEGIC ITEMS

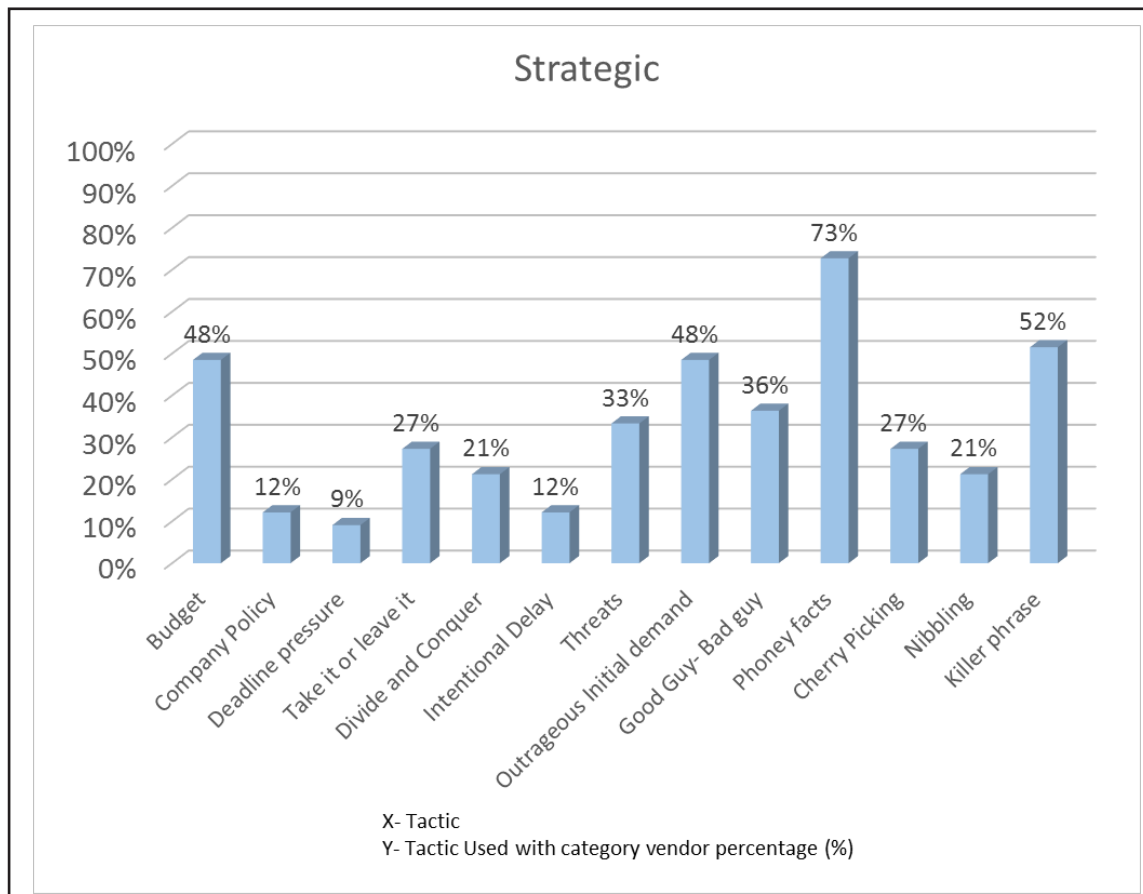


Fig. 9. Strategy Items – Competitive Negotiation Tactics

Predominantly used techniques are Phoney Facts (73%), Budget (48%), Low balling or Outrageous Initial Demand (48%) and Killer Phrase (52%)(Fig. 9). Buyers possess fairly accurate market data, long-term demand-supply and capacity situation of the supply market, competitive intelligence and industry cost information. The buyer described the rough sequence of negotiation session. Due to the high revenue impact of the contract being negotiated, buyers commence with a lowball offer. While the supplier may see this as outrageous, he is well prepared for this given the magnitude of the contract on offer. As the negotiation progresses both discuss cost data and intelligence and as offers and counter offers are exchanged, the buyer uses a Killer Phrase to

set an expectation from the counterparty. Phoney Facts are used more as a euphemistic way of putting across expectation in lieu of a hard or unrelenting stand on what are predominantly secondary terms. Owing to the substantial impact that the strategic items have on the raw materials budget and the resultant impact on the cost of the finished product, budget is used as a tactic to contain/ anchor the supplier expectations. In order to handle the tougher suppliers and especially who are more powerful, buyers used threats to indicate the negative consequence of, for example, the supplier's stated position. The use of 'Good Guy Bad Guy' tactic points to the involvement of senior management in the procurement decisions of these items. Interestingly, annual or semi-annual rate contracts

were written out‘ in order to negotiate/leverage on a large contract with staggered deliveries for these items’.

When queried about the use of a competitive approach to negotiation with long-term partners versus adopting a problem-solving approach to reaching a common understanding, it was clarified that sharing process critical cost, yield and other critical market information with the external entity puts the company at a significant disadvantage vis-à-vis competition. Moreover and specific to the industry, the suppliers are common to the industry segment supplying to the competition, which accentuates the risk of disclosure of strategic information. The buyers’ contention was that with such a large business consideration on the table, the use of a moderately competitive approach does not take away from the deep

understanding and empathy gained by the relationship. In the absence of such an approach, it was time-consuming and laborious to bring the negotiation to fruition.

COMPETITIVE NEGOTIATION TACTICS APPLIED FOR BOTTLENECK ITEMS

The study shows that the predominantly used techniques are Phoney Facts (40%), Budget (50%), Killer Phrase (33%), and Nibbling (37%) (Fig. 10). Bottleneck items are the most challenging to manage. Bottleneck category is characterized by low value share of the purchases coupled with low off take from supplier’s capacity thereby implying supplier’s possible disinterest and potential risk of non-supply.

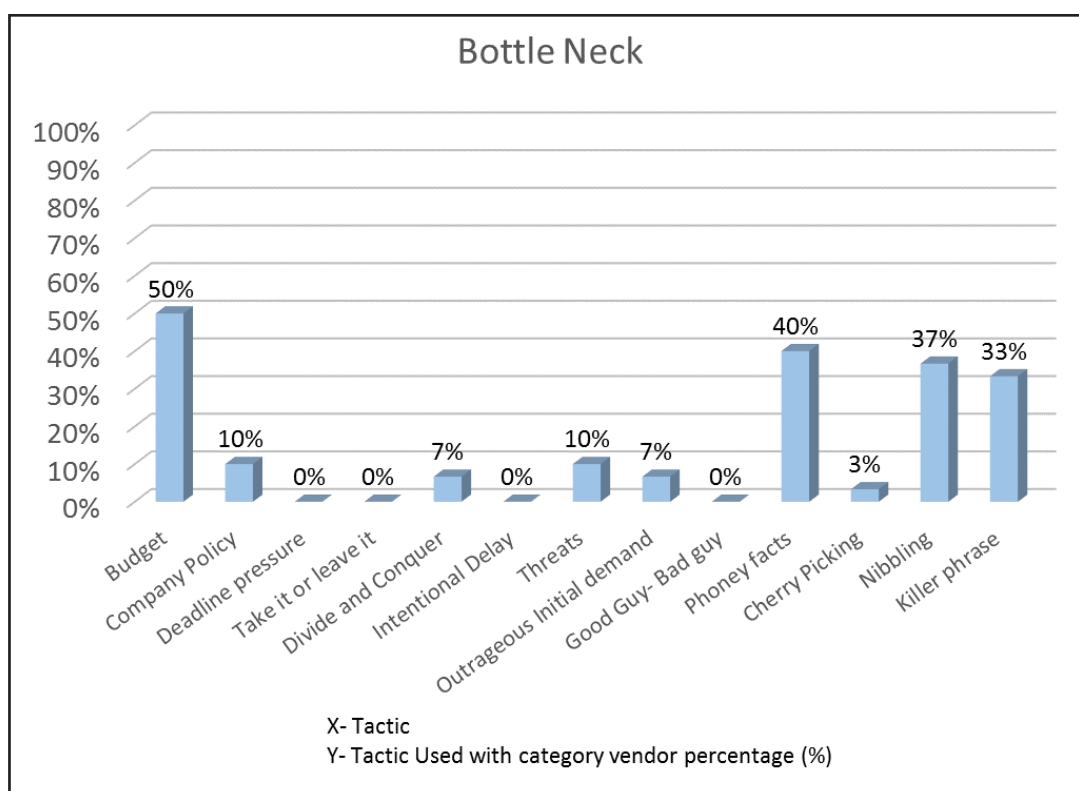


Fig. 10. Bottleneck Items – Competitive Negotiation Tactics

The critical nature of the input into the product being manufactured further aggravates risk of non-supply with few options to fall back on. Dependence on such a supplier is absolute. The supplier negotiations for this category call for careful handling till alternative suppliers are developed. Buyers possess medium term demand forecasts, very good supply market data, cost of inventory and the maintenance plans of the suppliers to understand the windows of non-availability. Very low usage of

different competitive tactics was observed. Milder tactics such as budget and nibbling are used. According to the buyers, Budget tactic is used to set delivery expectations and establish the link between company performance and supplier performance on different parameters. Nibbling is used to negotiate the price, since the emphasis on ensuring supplies seems to be much higher than reducing price in the case of bottleneck items. As regards killer phrase tactic, when enquired, the buyers mentioned these were in

response to supplier's seeming exploitative positions and were targeted to curtail expectations.

Regarding the careful handling of bottleneck category suppliers and a more cooperative approach to negotiation, the buyers indicated that in the industry, suppliers had knowledge either of their monopoly or their predominant position in the local supply market and the absence of ready alternatives. Also in the case of some of their suppliers, it is a buyer-captive situation (Bensaou, 1999) and this is well known to the supplier. Hence in less than half of the cases, buyers indicated use milder tactics such as stonewalling and tricks. These were helpful in shifting the power in the relationship. Bottleneck negotiations focus less on price and more about delivery, quality and capacity allocation. Moreover, annual or semi-annual contracts were rolled out to make the contracts attractive. Terms needed to be carefully negotiated since the opening offer of the suppliers was invariably aggressive with one-sided terms. Hence while selective and milder competitive tactics were only used, these became necessary to achieve the objectives at hand.

COMPETITIVE NEGOTIATION TACTICS APPLIED FOR LEVERAGE ITEMS

Peter Kraljic¹ notes, "Leverage items are of a high profit impact in combination with a low supply risk, allowing

purchasers to pursue an aggressive approach to the supply market: exploitation of buying power".

Since leverage items can be obtained from various suppliers, competitive bidding is a possibility for getting better deals with interchangeable suppliers (Gelderman, 2003). Commoditised or standardised nature of inputs and abundance of suppliers for the inputs characterise leverage category. With an easy supply market purchasers can afford to take risks, using competition between potential suppliers (Steele, 1996; Forker & Stannack, 2000). The value share of items is relatively large and hence high level of supplier interest is a result. Supply risks are substantially lower compared to the other three categories. Given the high impact on the company's total costs, however, these inputs hold influence on the company's strategic vulnerability. Examples of leverage products are bulk chemicals such as petroleum based solvents and standard semi-finished products viz., Fine Chemicals. As can be expected, these negotiations were characterised by use of most of the tactics (11 out of 13) (Fig. 11). Techniques such as intentional delay, divide and conquer, take it or leave it find a large representation apart from those already discussed earlier. Short to medium term demand planning in the form of annual volume contracts or volume agreements were agreed upon with prices discussed on a periodic basis owing to the fluctuating nature of the commoditised input prices.

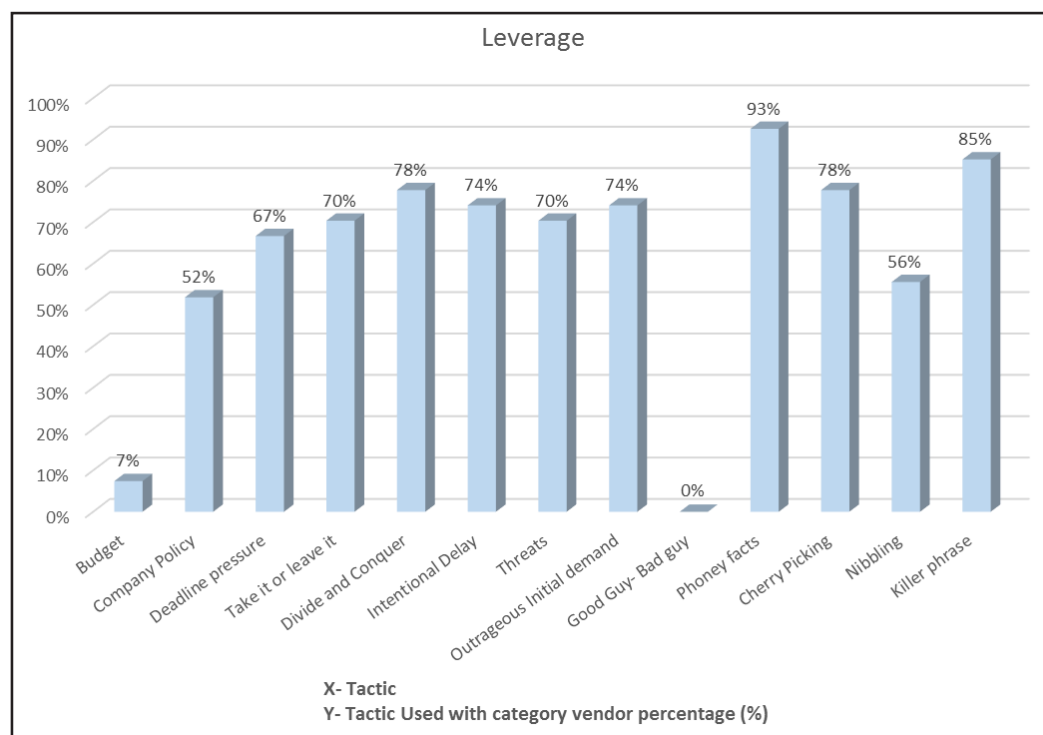


Fig. 11. Leverage Items – Competitive Negotiation Tactics

According to the buyers, many of the leverage suppliers were large manufacturers and their distributors who deal with commodities. These sellers were seasoned negotiators and often employed different competitive negotiation tactics freely. Buyers observed that these suppliers were fully aware of the stiff competition they were facing and the low switching costs for the company and some of them alluded to it during the negotiation. Also owing to the high profit impact of the items, buyers expressed the need to explore constantly in the supply market for determining price levels and trends and any shortage situations that may come up.

COMPETITIVE NEGOTIATION TACTICS APPLIED FOR ROUTINE ITEMS

Routine items are characterised by presence of a lot of smaller suppliers and commoditised or standardised nature of the items. The unit value of the items is also small as is the share of procurement value. It was observed that buyers use 8 out of 13 tactics including intentional delay, divide and conquer, take it or leave it which more or less tells the whole story (Fig. 12).

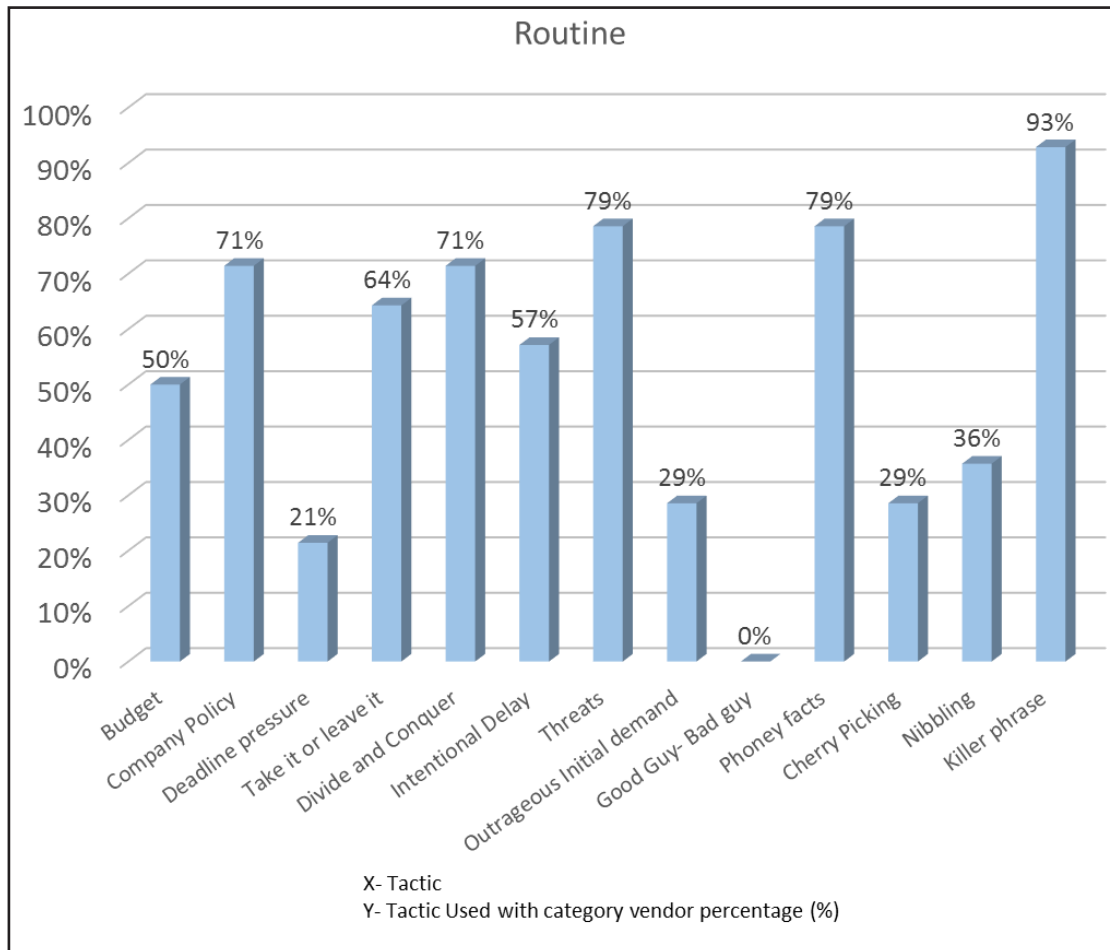


Fig. 12. Routine Items – Competitive Negotiation Tactics

Apparently the buyers work to exploit these materials. For some of the higher value items, medium term volume projections, and requirements were bulked up for getting a chunky contract and are discussed during negotiation and

contracts written out for shorter terms. Buyers observed that they spent relatively lesser time on negotiations, looked for price and delivery strength, and more time on structuring the contract to ensure smooth supplies to the factories.

SUMMARY AND DISCUSSION

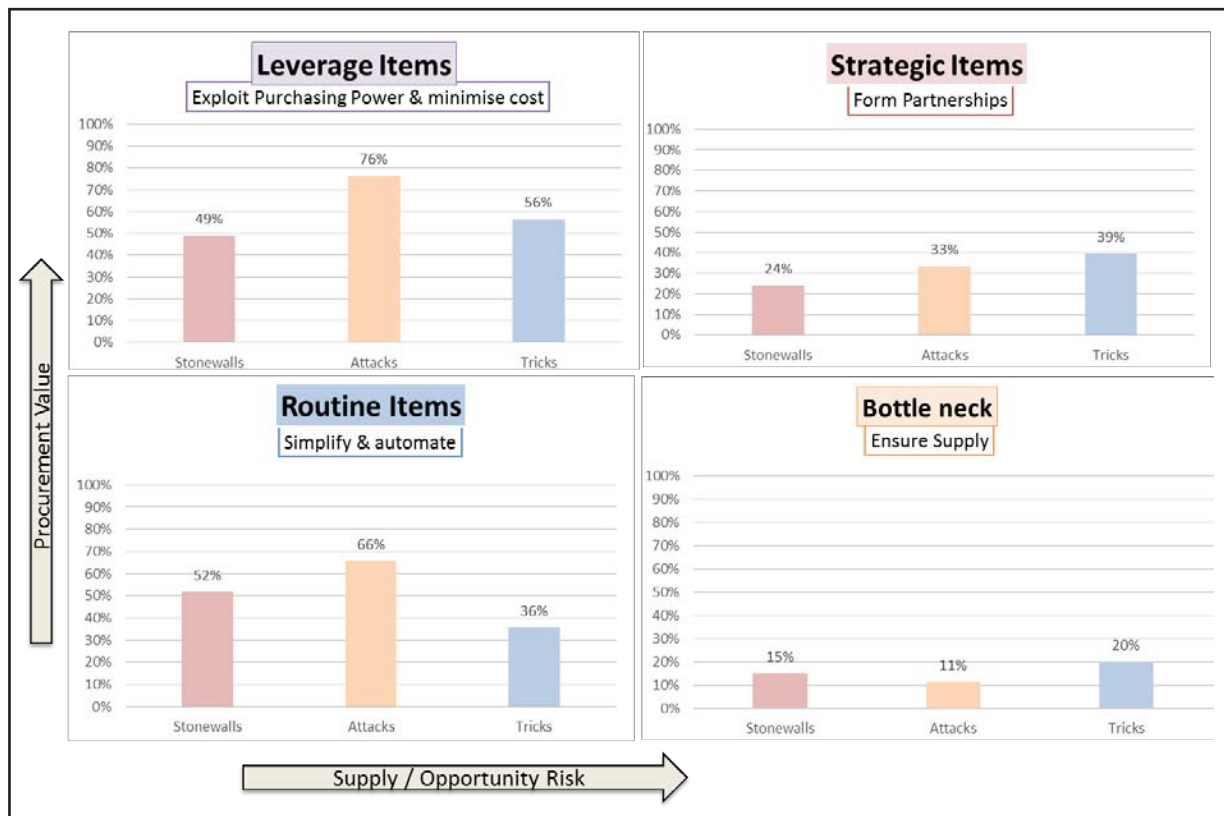


Fig. 13: Competitive Business Negotiation Tactic and Kraljic Category Summary

The results of the competitive negotiation tactic groups used in the case of four Kraljic categories have been combined and presented in Fig. 13. It can be observed that when moving from left to right on the X axis, connoting increasing risk of non-supply, the level and intensity of “competitiveness” of the tactics tapers down. Speaking of the level of usage of competitive tactics, there is a smaller percentage of suppliers with whom the buyer adopts a competitive stance reflecting as the percentages of suppliers against whom the tactics are used. Looking at the intensity of competitiveness, the type of tactics especially attacks and stonewalls have given way to tricks. Such a clear pattern can be construed to indicate that the buyers have switched from an *essentially competitive approach* to a *mildly competitive one* as they are faced with suppliers from a *lower risk category* to a *higher risk category*. It was observed that the way the work is organized, one buyer handles suppliers belonging to more than one category and another handled suppliers belonging to 3 different categories. Do they use different tactics for different suppliers? When enquired the senior buyers said, “Before a negotiation session commences,

we prepare sufficiently with data and also know or work out our BATNA. We open the meeting with pleasantries and then the issues take over comprising of offers and counteroffers, statements and replies and so on. However, we have twin objectives to achieve – to get to the best deal and also to come to a workable agreement. We constantly keep this in the back of our mind”. Such dynamic and intense encounters! Doubtless, there are well-defined commercial goals in the negotiation exercise and significant stakes for both sides. Gelfand *et al.* (2006) description seems to be fit quite closely to this situation viz., “Applicability involves an unconscious assessment of the relevance of an accessible construct to the context; if the knowledge structure is not relevant, it will not be used. For example, an individual for whom the construct of aggressiveness is accessible will not actually use that construct to guide thoughts, feelings, or behaviour unless the stimulus has aggressive cues (i.e., it is applicable to the knowledge structure)”.

These results reflect a significant level of competitive element in negotiations across categories. It is recorded

by buyers that in some of the cases, the buyer is merely reacting to the counterparty's tactics or actions and that this is inducing the element of competitiveness. Furthermore, the process is dynamic, necessitating a degree of pragmatism at the negotiation table. At the practical level, negotiators (buyers) seem to prefer a more cautious and pragmatic approach. They don't disclose vital information, and they look to generating solutions in private, rather than in a meeting like this. Negotiation activities are so dynamic and intensely dyadic that they seem to lead the buyer with a purpose, which is to reach an acceptable rather than ideal agreement that is possible only in a monopsony situation.

This pragmatic, result-oriented, and a seemingly competitive approach is perhaps a commentary on the context within which business negotiations happen, and in this regard, the analysis of practitioners' negotiations add to our knowledge and appreciation of negotiation dynamics. Time pressures can be simulated in isolated experiments, but in business negotiations it is far more complex. Business negotiations do tend to take place in situations where time is important and where priorities of revenue, cost control, or risk minimization form a generally competitive environment within which the negotiations take place. Organisational goals such as growth and profitability and its deployment can create an environment wherein buyers will tend to be driven by time targets apart from cost. Time pressures drive buyer's behavior such as using deadlines, starting with low offers, using Killer Phrases and so on. It can be said that businesses operate in a complex and competitive environment and this nudges the buyers away from pursuing an idealistic or fully collaborative style that involves sharing vital information, joint problem solving, discussing common solutions etc. and towards an essentially conscious, down-to-earth, goal-oriented and somewhat aggressive position.

Finally, reference is made to the Ramsay's (Ramsay, 2004) inference about buyers choosing an essentially competitive or distributive approach in business or commercial negotiations viz. "Even from this abbreviated analysis it should be apparent that the professional buyer experiences a range of powerful incentives to adopt the distributive bargaining approach, and a variety of risks should they choose the integrative alternative or a mixture of the two. Hence the conclusion that the professional buyer's choice of a competitive adversarial attitude towards suppliers in negotiations, as illustrated in the buyer's responses offered near the beginning of this paper, is entirely rational". If this was true, then the question arises as to why the buyers exhibit a rather muted or reduced level or competitive behavior in the

form of tactics in the Strategic and Bottleneck categories if there are clear incentives driving them to a competitive or a distributive bargaining approach? In this regard, the pattern evident on the Kraljic matrix point to the fact that the buyer's *carefully choose the competitive negotiation tactics* and these seem to correspond well to the Kraljic category of the materials that the supplier supplies. This pattern of use of differing level and intensity of tactics based on the risk category of the suppliers clearly indicates that buyers are seen to make a careful and *considered choice of tactics vis-à-vis the supplier's Kraljic category status and choices at hand*. Based on the data presented in this case study and with specific reference to the Indian Pharmaceutical industry to which the manufacturer belongs to, this particular hypothesis of Ramsay is to be rejected. It is recommended to conduct a case study that considers a popular set of both competitive and collaborative negotiation tactics in a business negotiation environment. Such a study will reveal whether buyers while adopting negotiation tactics with their suppliers, are able to make a conscious shift in their tactic combinations comprising of both competitive and collaborative tactics, from supplier to supplier especially when correlated to the Kraljic category of the supplier.

CONCLUSION

This paper focuses on the usage of competitive business negotiation tactics in SCM in the case of different Kraljic category suppliers connoting different relationship settings in the form of a case study. The scope of the study was limited to gain an understanding about the usage of those specific tactics and the possible rationale behind adoption of such an approach in the case of a pharmaceutical manufacturer in Hyderabad. The literature review threw up a limited and dispersed collection of negotiation literature in the discipline of SCM, in which very few studies have focused on the competitive tactics negotiators adopt in their negotiation setting and even fewer that related them to their Kraljic categories. Negotiation literature is limited insofar as the discussions on business setting and is focused abundantly on political situations and scenarios. Therefore, it was found appropriate to take up suggestion of some of the previous studies that rooted for an investigation of how buyers and suppliers approach negotiations between companies. A case study approach was chosen, involving buyer side of the story, focusing on fully representative set of materials and the suppliers that supplied the company. The most popular supply categorization used for determining supplier relationships by classifying materials on the lines of procurement value and supply risk viz., Kraljic purchasing portfolio

was chosen to arrive at the relationship buckets. Further interactions with buyers were held to understand their rationale for use of relevant tactics in their interactions with the corresponding suppliers.

Through a tabulation of different predetermined competitive tactics against the individual materials, it was shown, how each competitive negotiation tactic applied by the buyers impacted the particular Kraljic category supplier group which when put together, revealed a pattern across different Kraljic categories. It is evident that an essentially distributive strategy was applied expediently in the case of leverage and routine category suppliers or in other words, arm's length relationship categories. When it came to the high-risk categories, which call for a partnership type of relationship, it was observed that competitive negotiation tactics were used, *albeit to a much reduced level and intensity*. The most challenging category viz., the bottleneck item suppliers, witnessed the minimum use of competitive tactics by buyers. Furthermore, insights into the approach of negotiators and its impact on buyer-supplier relationships and their supply chain were provided that should be statistically tested for the purposes of future research.

Overall, the case study establishes that in the case of business negotiations in the area of SCM, competitive negotiation tactics were used across all supplier relationship categories. It also reveals a discernable pattern when plotted into a Kraljic purchasing portfolio matrix revealing deeper insights, which were discussed. This case study research done in a single organization reflects the realities that to some extent symbolize Indian pharmaceutical manufacturers as a whole. However, as regards applicability of the conclusions to all business negotiations, the authors desire that the above conclusions/results may be confirmed using further qualitative and empirical research in pharmaceutical and other industries across other geographies.

Conflict of Interest Declaration

The authors declare that they have no conflict of interest.

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