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Negotiation Research in the Markets of Beijing

By Norman M. Goldfarb

The author and his capable research assistant (teenage daughter) recently conducted negotiation field research in the markets of Beijing, China. Beijing hosts several large marketplaces for clothing, cosmetics, luggage, electronics, housewares and other consumer goods. These markets contain dozens of aisles with hundreds of small, open-fronted, apparently independent stores with various assortments of similar merchandise. Stores are grouped by type of merchandise, which amplifies the free-market atmosphere.

Although many items were available in multiple stores, others appeared to be unique to a single store. However, even the unique items were comparable to equivalent items available elsewhere, e.g., the same sweater in a different color. Merchants seldom appeared to operate on the basis that their merchandise was anything other than a commodity; unless they surveyed the markets regularly, they would have no way of knowing otherwise. Negotiations were entirely about price. Merchandise was presented as is, with no posted return policies or other considerations, such as delivery.

The negotiation protocol was as follows:

1. Buyer pauses at a store to survey merchandise. (Research is suspended if the seller physically seizes a researcher to attract attention.)
2. Buyer expresses interest in an item and inquires as to price.
3. Seller indicates a price that is invariably inflated.
4. Buyer expresses amusement at the price and prepares to walk on.
5. Seller indicates that a lower price may be available if the buyer stays in the store.
6. Buyer indicates a willingness to listen.
7. Seller asks buyer to name a price.
8. Buyer may state a lower price, or refuse and ask seller to state a lower price.
9. If either party states a price, the negotiation proceeds.
10. Negotiation continues, generally with declining increments.
11. Once the increments reach a low enough level, no further compromises by the buyer are necessary.
12. The parties proceed with the negotiation until a mutually agreeable price is reached or not.
13. If a deadlock emerges, the buyer thanks the seller and leaves the store. However, in some cases, the seller physically restrains the buyer.
14. To renew the negotiation, the seller reduces the price.
15. To indicate continuing interest, the buyer returns to the store or at least does not proceed further down the aisle.
16. The parties complete the transaction, with the buyer complimenting the seller on the quality of the merchandise and the seller complimenting the buyer on the low price.
17. Sellers occasionally attempt to increase the price by, for example, pretending that a higher price was agreed or not returning correct change.

This negotiation protocol appeared to be both effective and time-efficient. However, control experiments were not conducted. The principal dynamic appeared to be a quid pro quo of obtaining lower price offers in exchange for not terminating the negotiation.

Initial seller prices varied for the same merchandise and often had little relation to the eventual transaction price. In one extreme example, the initial price of 150 Yuan (about US$21.30) was reduced 93% in approximately four minutes to 10 Yuan (about US$1.40):

> “How much?” “150 Yuan” “10 Yuan” “120 Yuan” “10 Yuan” “60 Yuan” “10 Yuan” “30 Yuan” “10 Yuan”, “15 Yuan” “10 Yuan” “12 Yuan” “10 Yuan” “OK.”

The seller’s initial price and subsequent negotiations may have been contingent, in part, on his/her evaluation of the buyer’s characteristics, e.g., gullibility. Negotiations proceeded more quickly once the seller evidenced knowledge that the buyer had price expertise. Some sellers stated that non-financial considerations, such as making the first sale of the day, affected their negotiation flexibility. Our friendly and even jocular attitude may have produced lower prices; in any case, it certainly made the experience more entertaining. However, no sellers stated that their fondness for us affected their prices.

Buyer negotiation tactics that were not tested included:

- Criticizing the quality of the merchandise
- Expressing anger or hostility
- Indicating that our funds were exhausted except for the amount offered
- Suggesting that we had to leave for the airport

Sellers sometimes started the negotiation with closing techniques such as:

- Assumptive close: “How many do you want to buy?”
- Close on the alternative: “Do you want the blue one or the green one?”

However, because these closing techniques were introduced prematurely, they probably had little effect on store revenues. No sellers attempted the “puppy dog” close: “If you don’t like it you can return it.”

Once the ground rules were established in a transaction, the seller perceived any “unfair” deviation with dismay. For example, once the buyer stated an acceptable price, restarting the negotiation at a lower price displeased the seller, although they may have adjusted to it over time.

Application to Clinical Research Sponsor and Site Negotiations

Negotiation in a Beijing marketplace is more accurately termed “bargaining” because of the one-shot transactional nature of the event. There is essentially only one parameter – price – with no consideration of future performance, such as delivery or customer service. As a result, the transactions can be studied in simple form without confounding variables, such as risk of nonpayment or quality of the parties’ websites.

Nevertheless, our findings apply to negotiations between sponsors and research sites:

- Buyers and sellers have limited resources to negotiate; they should invest those resources in negotiations that are likely to bear fruit.
- Both parties benefit by having options – other buyers or other sellers. However, there is no guarantee that the next one will offer better terms.
- Sellers and buyers often price comparable merchandise at different levels. The price may be better with the next seller or buyer.
- It is impossible to know the other party’s bottom line from their initial position. The only way to determine flexibility is by negotiating.
- Counteroffers are appreciated by the other party, but there is no law that both parties must compromise.
- The first compromise offer may not be the last.
- The buyer generally has the upper hand prior to the purchase when it holds the money, while the seller generally has the upper hand after the purchase when it holds the money.

- If price is the only topic of negotiation, tactical options are limited. Advantageous features, such as minimal bureaucracy or superior enrollment performance can support compromises on price.
- Sellers and buyers should not just “negotiate the contract;” they should also “negotiate the negotiator,” i.e., consider the characteristics of the other party.
- Participating in a negotiation is a quid pro quo for good faith negotiations. “Unfair” tactics are poorly received by the other party. Manipulative techniques, once recognized, are not effective.
- Negotiations can proceed indefinitely without resolution as long as both parties are willing.
- Once the parties are almost in agreement, they should be able to close the last small gap without difficulty.
- Execution copies of the clinical trial agreement should be checked for “clerical” errors. Anecdotal evidence suggests that 15-20% of execution copies do not include all negotiated points.
- Friendly interactions improve the negotiation experience. In a long-term transaction, such as study conduct, their continuation has value. If there are difficult moments during the negotiation, it is best to clear the air. Ask the other party, “Are you satisfied with our agreement?” If the answer is “not entirely,” choppy waters may lie ahead.
- Some Beijing merchants held proffered currency up to the light. Both buyer and seller beware.

Author

Norman M. Goldfarb is Managing Director of First Clinical Research LLC, a provider of clinical research best practices information, consulting and training services. Contact him at 1.650.465.0119 or ngoldfarb@firstclinical.com.

