

# The Bargaining Myth

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## **Foreword**

Bargaining is a challenging job! It remains to be an integral part of our lives. Although deals involving huge amounts may require the services of a deft negotiator our daily lives should be free from such quibbles. It just adds to our stress levels and this article focuses on these aspects of price negotiation struggles we have to face in our daily lives.

Haggling is normally found in markets like Pakistan where purchasing a small consumable item like tomato becomes a daunting task affecting our mental and physical health. This is an attempt to create awareness amongst my readers regarding the ill effects of daily haggling.

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Bargain your way to the bottom! This is the motto of buyers when they go out shopping. Whether you are purchasing expensive items like automobiles, land, lavish resorts, hotels, or relatively inexpensive items like clothes, shoes, furniture, decorative items or television sets you will be expected to exercise your best bargaining skills in order to get the right price. Bargaining is not only found and practiced in Pakistan but also in some developed countries. Some governmental deals, involving huge amounts, contain bargaining as an integral part. On a much smaller scale, bargaining is mostly practiced in countries like Pakistan where a fixed price system is prevalent but limited to certain products and companies. Consumer items like milk, butter, sweets, cosmetic products, medicines etc are exceptions where companies have strictly followed a fixed price system, and where, a company's measured profits are distributed to middlemen.

Bargaining has now become a part of our culture. We take it normally and admire the one squeezing out the maximum. But, what would happen if we stop bargaining? And, why do we bargain at all? Do we really get a bargain? Some questions I have been thinking about and I would like you to join in.

### **Getting the right Bargain**

Bargaining is different from discounts. In a discount, the seller explicitly cuts down the asking price by a certain margin. This cut may be attributable to a sales promotion strategy or a company's competitive aggression. In bargaining, however, we assume a lot. We assume that the other person is overpricing and that there is room for improvement in price. Here product quality and positioning also plays an important role. Certain items belonging to the priceless category are never subjected to bargaining no matter how overly priced they are.

There are times, when we do get a bargain. This can be true if we exercise some deft manoeuvring or experience a lack of demand for the product. The reason may be psychological or it may be that the seller wishes to get rid of the

unmoving stock. The buyer may find himself lucky if he strikes at the right moment and place and with the right tools and techniques. In reality, true bargains are seldom found. What we get is an amicable settlement of price.

## **Bargaining at your service!**

The tangibles and intangibles both contain bargaining as an innate part of the overall package. Whether you are hiring a labour or an architect, a mechanic or a consultant, whether you are renting a house or buying a leather jacket, hiring a plumber or purchasing a fleet of air crafts our friend (bargaining) will be there. It may change its form and colour but not its structure and composition.

In one of my earlier job interviews I found myself amazed when my prospective boss, after listening to my salary demand, started bargaining. Bargaining has intermingled in our personalities to the extent that it has now become a part of us. For me, however, Bargaining is a mind-boggling process. Simple transactions are becoming extremely tiring. The time wasted in these manipulative arguments can be applied to some other creative areas. It all depends on our way of thinking and perception. Do we need to be truthful and make things easier for ourselves or do we need to be misleading and make them difficult and complex? Think about it!!!

## **Seller vs. the Buyer**

Two parties, two different view points and two different sides of a coin. The seller and the buyer both have a different strategy and a different approach towards a transaction. When these approaches, strategies and views streamline into one, we get the right mix. At this point both parties are at par in determining and perceiving value. The value that the seller offers is the value that the buyer perceives. This value incorporates a complete package; core product, service, warranty etc. And yes! Price too.... Normally, the seller, after analyzing the

natural instincts of a buyer sets a price higher than the actual price. Buyer on the other hand, either goes for the perceived value estimation or indulges in a bargaining process. In the end both parties reach to an amicable settlement. The seller and the buyer both get what they had opted for. Transaction complete!

## **The Hidden Agenda**

The process defined above is too simple to be true. Let's give it a thorough analysis. The seller after analysis adopts a bargaining price strategy. He then puts a margin in his price called "The bargaining margin". This is the margin which, the seller, quite willingly forgoes during the bargaining process. Suppose the seller wishes to sell a certain product at Rs.300 he then puts a bargaining margin of Rs.100. and the price goes up to Rs.400. Now, the seller wants Rs.300 for the product and anything above it will just be a bonus. On the buyer side, we have those who will either start a bargaining process and those who won't (It is all a matter of product positioning and monetary backing). Some might buy the product at Rs.400 and some may drop the idea of buying it altogether. The bargainers, similarly, are divided into two main categories:

- Soft bargainers
- Hard bargainers

Soft bargainers, after giving their best shot will be happy to get the price down to Rs.350, which is the maximum they can extract. On the other hand hard bargainers are quite a persistent bunch of negotiators. They will try and squeeze out every Rupee they can from the seller. These fireballs can even go beyond the Rs.300 figure benchmark depending upon the seller and the product. If the seller is weak, the profit margin has room available and the product requires a rolling then there is a good chance of getting below the Rs. 300 mark. Another reason for going below this figure can be attributable to the seller's selling strategy. He might adopt this strategy for a very special customer, one who is

lucrative enough to milk out more dividends through repeat purchases. But in normal circumstances even the hard bargainers would only manage to get the price down to Rs.300 which is really what the seller had wanted.

### **Read between the lines**

The above discussion reveals some interesting facts about the whole transaction. One very important point mentioned above is the "Bargaining margin". Secondly, more often, the seller "gets what he wants". If we are careful enough in our analysis we would conclude that bargaining is untruthful and misleading. In 90% cases the seller wins. He-knows his limits and beyond which he will not go, while the buyer doesn't. The poor buyer has to base his estimation on market research or perceived value. To achieve a good bargain a buyer must spend hours researching for the right price. Imagine buying an iron and passing through all this commotion just to avoid a rip-off.

As soon as the Bargaining margin is infused in pricing the base for distrust is laid. The buyer may think that he has won a terribly good deal and the seller may pose to be loosing or conforming. In reality, the seller conforms only to his predefined conforming price. The buyer on the other hand may have his own cut-off limit defined by his budgetary constraints.

Whenever my customers try to bargain I give them the following: I know my cut-off point and you will not be able to bring me below that point. If you want I can put a bargaining margin in my pricing and anything beyond my cut-off limit would just be a bonus. Now! shall we start this brain teasing process? Most of them don't. An old professor of mine says, "In Bargaining both parties should forgo something". This in fact, is a good idea. If both parties genuinely offer some sacrifice then things can resolve in a friendly manner. However, if you consider a bargaining process in which an item is priced at Rs. 200 and where I have managed to get the price down to Rs175. Although I would have loved to bring

the price down a bit more, trusting the seller and his sworn declaration of cost I decide to buy the product. Now I have done my bit. As I go to another shop I find the same product displayed at Rs.150. I would definitely curse myself for not doing more and I would definitely curse the seller for being a cheat. Do we make a one time sale? Aren't we supposed to keep our customers for life? The problem here is that sacrifice can be very difficult to adjudicate. May be, for that seller getting to Rs.175 was enough. People are bound by limits. Some may be more sacrificing than others. This can create problems.

### **If you know what I mean**

Time is money and one has to spend a lot to get a bargain. Amazing! Small transactions should be tireless and simple. This reminds me of my uncle who lives in the U.S. Whenever he visits Pakistan he has to take my mum to accompany him shopping. The poor chap lacks in the deft bargaining skills required to purchase simple items in Pakistan.

Long-term customers require Long-term relationships and bargaining margins destroy the very concept of relationships. It destroys trust, honesty and friendship, traits necessary for the cultivation of divine relationships with your lifelong customers. For a purchase involving millions of dollars or Rupees negotiations are meaningful but for small commodities it is a sheer waste of time and energy.