

Variables

Session Requirements:

- Variables PowerPoint
- Variables Facilitator Guide
- Variables Participant Guides (participants should have as part of workbook for class)
- MaxMart Private Label Case
- Projector
- Network Connection
- Audio Connection to play videos

Total Facilitation Time:

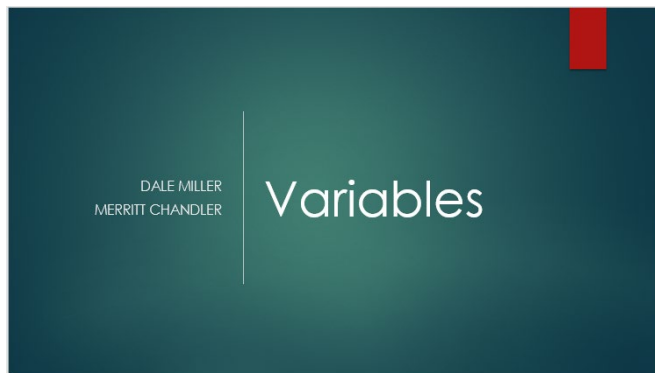
1 hour

Introduction and Objectives

5 minutes

PRESENT SLIDE

2 min



SAY

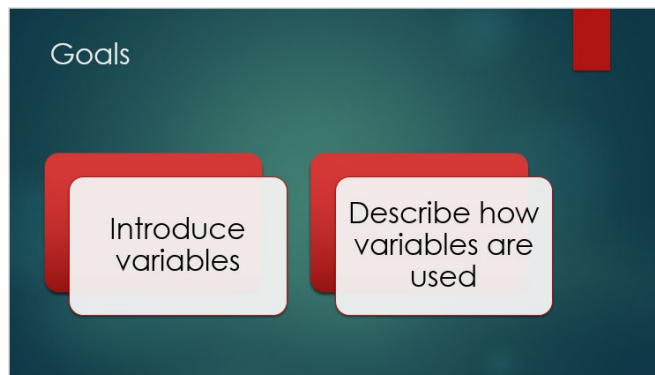
Variables are the big key of negotiations. It is easy for us to get used to thinking about price as the only important issue in a negotiation. Very rarely is price the only issue. When it is, negotiations take place early on in the clock face.

Remember our Zira case at the start of the class? That is a hard bargaining case at 4 o'clock on the clock face, but there were still many issues other than price! Let us explore more about those variables, and how to determine what they are.

What is a variable? Turn to page X in your Participant Guide and write your own definition.

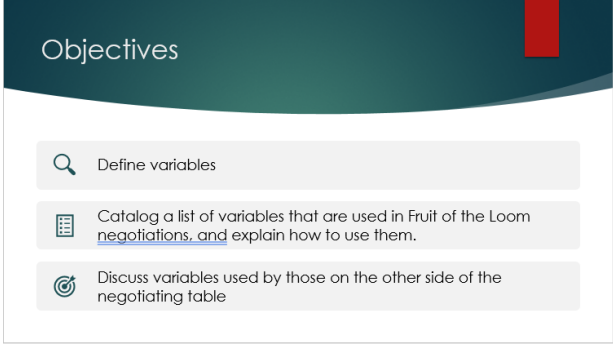

PRESENT SLIDE

0.5 min



SAY

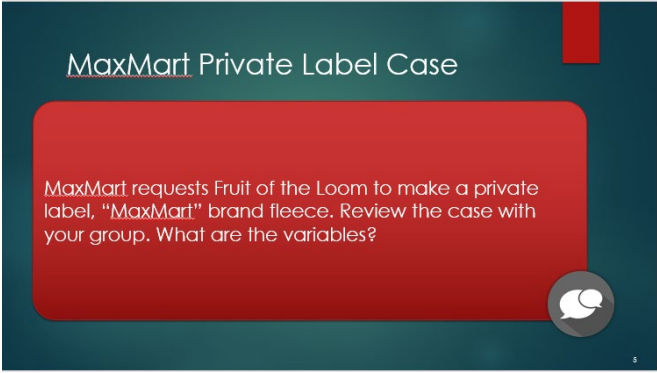
The goals for this session are to introduce variables and describe how they are used.

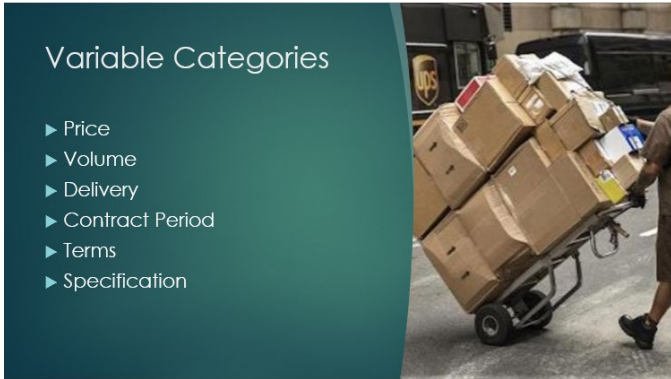
<p>PRESENT SLIDE</p> <p>1 min</p>	
<p>SAY</p>	<p>The objectives for this session are:</p> <ul style="list-style-type: none"> • To define variables • Catalog a list of typical variables that are used in Fruit of the Loom negotiations and how to use them. • Discuss variables used by those on the other side of the negotiating table in common negotiations experienced at the Company.
<p>PRESENT SLIDE</p> <p>2 min</p>	
<p>SAY</p>	<p>A variable is any term or condition that needs to be agreed upon.</p> <p>Variables include price, but there are so many other things to negotiate on as well!</p> <p>Basically, thinking about and preparing to negotiate on variables breaks you out of the price box, allowing you to focus on the getting the best deal overall, rather than simply focusing on price.</p> <p>For example, you could extend payment terms or negotiate a volume discount for certain retailers, allowing them to preserve their margins and you can still meet the Company's needs.</p>

	Make any changes you want to your definition of a variable in your Participant Guide.
DO	Transition to Understanding Variables Section.

Understanding Variables

45 minutes

<p>PRESENT SLIDE</p> <p>20 min</p>	 <p>The slide is titled "MaxMart Private Label Case". It features a dark teal background with a large red rounded rectangle in the center. Inside the red rectangle, the text reads: "MaxMart requests Fruit of the Loom to make a private label, 'MaxMart' brand fleece. Review the case with your group. What are the variables?". There is a small white speech bubble icon in the bottom right corner of the red rectangle. A small red square is visible in the top right corner of the slide.</p>
<p>DO</p>	<p>Assign participants to two groups. Give one group the "Buyer" case and one group the "Seller" case. Ask each group to determine the variables in their case.</p>
<p>SAY</p>	<p>We are handing out a case. One group will provide the perspective of "buyer" and the other will provide the perspective of "seller." For now, each group should work to determine the variables in their case. What could be considered or traded? We are going to look at negotiating the case later, but for now, let us look at the variables.</p>
<p>DO</p>	<p>Allow participants 10 minutes to discuss and come up with a list of variables.</p>
<p>ASK</p>	<p>Let us start with the buyer's side. What variables did you determine were in the case?</p>
<p>DO</p>	<p>Write down the variables the buyer's group names.</p>
<p>ASK</p>	<p>Now let's move to the seller's side. What variables did you determine were in the case?</p>
<p>DO</p>	<p>Write down the variables the seller's group names.</p>

ASK	Does anyone have any other ideas for either side?
DO	Write down any additional suggestions.
SAY	We're going to talk a little more about variables and how they're useful, and then come back to this case.
PRESENT SLIDE 1 min	
SAY	<p>Variables can be classified into categories. Price is the most obvious, and we also just mentioned volume. When working complex deals, such as selling both men's and boy's underwear, price can also involve multiple factors, like the price of each unit or the packaging.</p> <p>Volume can involve purchasing terms or volume discounts.</p> <p>Delivery can include delivery times, distribution method, and things like exclusivity.</p> <p>Contract period can be an important factor for both sides – we may wish to lock in the business for an extended contract, and they may wish to lock in a good price.</p> <p>Terms make up many variables, such as risk, chargebacks, test markets, packaging, and customer requirements, such as distribution center inspections.</p> <p>Specifications can be on specific products, shipment, unique colors or styles, and packaging.</p>

PRESENT SLIDE

2 min

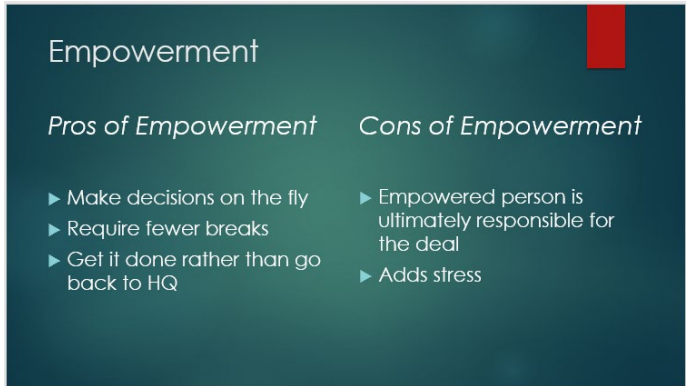



SAY

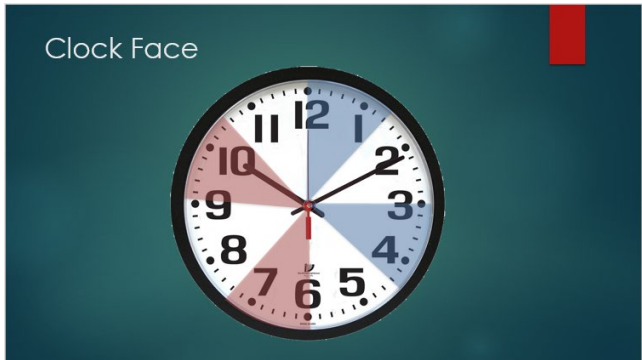
Variables are the points of interest in any negotiation. Again, price is the most often one discussed, and on the right side of the clock face, it is usually the most important issue. However, any or all other issues or concerns can be considered as variables to create a package deal that is interesting to your counterpart, and high value to you.

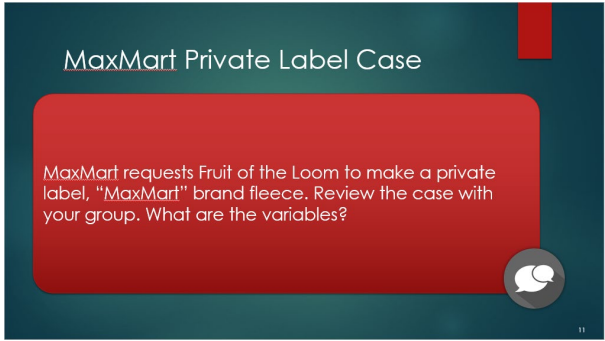
Jack is buying a car. He wants the technology package, but not the sunroof. He knows that the vehicle is available, but it is a rare configuration and not at any of the dealer's lots in town. The dealership will have to order it from out of state. The vehicle configuration is a variable other than price. Price is important to Jack, but it's not the only important thing. He may be willing to pay a higher price to get the configuration he wants. Other concerns, like interest rates for financing, are also valid variables for Jack's negotiation. If Jack has a 2% interest rate from his bank and the dealership is willing to offer him a 1% or 0% rate, Jack may be more willing to work with the dealership, or even pay more. Jack may be willing to adjust his configuration requirements if other variables peak his interest. However, since Jack has the 2% interest rate from his bank, offering lower price and a 3% interest rate from the dealership may be less interesting, and exceed Jack's breaking point. In this way, interest rate becomes a pressure point as much as price and configuration.

We will talk about preparation shortly, but before the negotiation takes place, prepare. Determine all the possible variables you can. Think outside the box. What is useful to you? What is useful to the other side? Add these issues to a hidden agenda. These may become part of a formal agenda, but by brainstorming now, you know what you can possibly


	<p>consider, or even trade to get what you want. Each variable could potentially be traded as a concession. Each variable likely has its own break point. Items that are less important or critical to you may be critical to the other party. Come up with a list of potential concessions to trade as part of your prep work. You can discuss these possible trades with your team now.</p> <p>You are also likely able to negotiate only a specific amount on most variables. You may have full freedom on some but have a restricted range on others. Conversations about variables and planning prior to negotiation may give you the power to negotiate in additional ways.</p>				
<p>PRESENT SLIDE</p> <p>2 min</p>	 <p>Empowerment</p> <table border="0"> <tr> <td><i>Pros of Empowerment</i></td> <td><i>Cons of Empowerment</i></td> </tr> <tr> <td> <ul style="list-style-type: none"> ▶ Make decisions on the fly ▶ Require fewer breaks ▶ Get it done rather than go back to HQ </td> <td> <ul style="list-style-type: none"> ▶ Empowered person is ultimately responsible for the deal ▶ Adds stress </td> </tr> </table>	<i>Pros of Empowerment</i>	<i>Cons of Empowerment</i>	<ul style="list-style-type: none"> ▶ Make decisions on the fly ▶ Require fewer breaks ▶ Get it done rather than go back to HQ 	<ul style="list-style-type: none"> ▶ Empowered person is ultimately responsible for the deal ▶ Adds stress
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SAY	<p>What can you negotiate on? You can be empowered to negotiate in a certain range for every variable on the table. Let us say you have been asked to get the vendor to \$1 a t-shirt. You know that in reality we would probably accept 70 cents a shirt, but we would have to have appropriate incentives to get there. The vendor keeps pushing for a price below \$1. An unempowered negotiator can appeal to a higher authority: "I really do not think we can do that, but such a move requires additional decisions from someone in charge." This tables the negotiation on price, and allows the opportunity to explore other variables. In other words, empowerment can make the negotiator more flexible. If you are empowered to negotiate on certain variables, you have the ability to make decisions on the fly. You may need to call for a break in the negotiations less often. However, if you are empowered, you are ultimately responsible for the deal. If, instead, you are required to negotiate to a \$1, and then you find other variables that might allow us a better overall deal if</p>				


	<p>we are willing to accept 90 cents, you will need to go back and request a high authority. That authority is ultimately responsible for achieving the best deal. With great power, comes great responsibility. This can add stress. It is important that the empowered person be objective when reviewing issues, so that agreed terms can be met by the organization. To that end, empowered individuals must often be objective observers for the negotiation process, involved in preparation and the conclusion of the deal.</p>
<p>PRESENT SLIDE</p> <p>2 min</p>	 <p>The slide features a dark teal background. On the left is a whole, bright orange. On the right is a cross-section of an orange, revealing its internal segments and white pith. Below the oranges, the text 'Juggling an Orange?' is written in a white, sans-serif font.</p>
<p>DO</p>	<p>Some of this will have to be on the fly depending on how the orange session goes. If participants did not consider any options other than price, discuss how other variables would have made a difference in this activity. For example, if one team needs the juice for medicine, the other side could acknowledge their need for the orange first, then offer to dispose of the orange waste to get the peel. Or, they could have offered delivery services if they had the opportunity to use the peel first.</p> <p>If they manage to split the orange properly in the case, then talk about other solutions.</p>

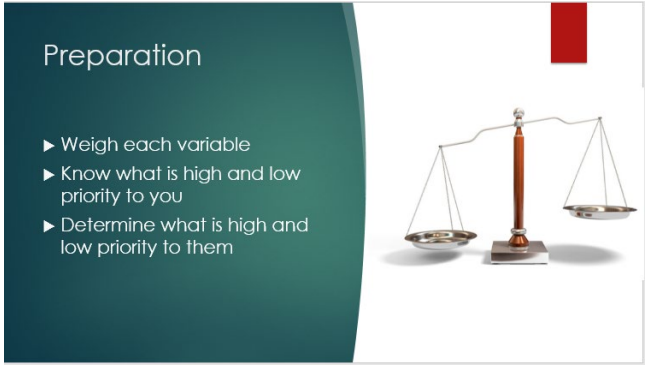
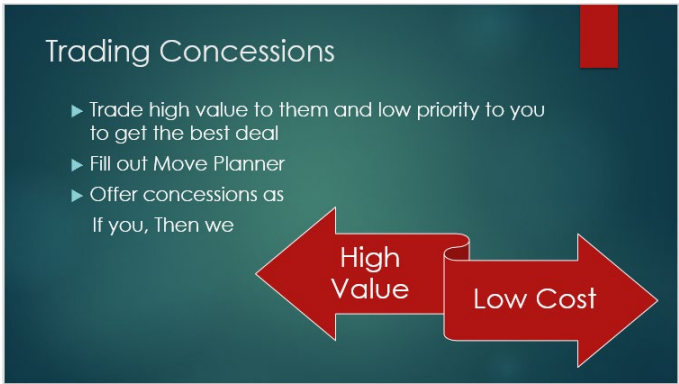
<p>PRESENT SLIDE</p> <p>4 mn</p>	
SAY	The clock face can effect variables as well. When you buy gas, you pay, because there are things limiting your options and they have all the power (other gas stations, amount of gas left in your tank).
DO	Click to reveal the 1:00 highlight
SAY	This is a 1:00 item and there are no variables to negotiate on, except maybe whether or not to accept a loyalty card. The Costco in Nashville may have cheaper gas, but you are unable to drive 60 miles to get it.
DO	Click to reveal the 10:00 highlight
SAY	10:00 negotiations require discussion and some openness to share info on variables For example, we need the item in 30 days, but you need us to order a certain volume. This creates buy-in on solutions.
ASK	What about a 4:00 negotiation?
DO	Allow participants the opportunity to respond.

SAY	There may be few variables to negotiate on, but not all of them.
ASK	What about a 6:00 negotiation?
DO	Allow participants the opportunity to respond
SAY	More variables come into play, but there is less openness due to the relationship.
PRESENT SLIDE 5 min	 <p>The slide is titled "MaxMart Private Label Case" in white text on a dark teal background. Below the title is a large red rounded rectangle containing white text that reads: "MaxMart requests Fruit of the Loom to make a private label, 'MaxMart' brand fleece. Review the case with your group. What are the variables?". In the bottom right corner of the red rectangle is a small white speech bubble icon. The slide number "11" is visible in the bottom right corner of the dark teal background.</p>
SAY	<p>Back to our MaxMart private label case. In this case, many of the variables we covered are included, but there are likely some we did not. For example, both sides are concerned with price, but there is a price of each item in the line. For example, the price zippered hoodies can be considered separately from pants or even pullover hoodies.</p> <p>This is what happened in the real life version of this scenario. Ordinarily, Fruit of the Loom would ask for a 3% price increase across the board. And in fact, that was our original offer. Instead, MaxMart countered with a 0% price increase on hoodies and a 2.3% increase on other garment types.</p> <p>Additionally, the dual defense coating is another item. It can be negotiated for the entire line, or for each garment type separately. This could also be the case for negotiating specific sizes and colors.</p>

	The RFID technology is another item on the table. Again, this could be discussed for the entire line, or each garment type separately.
ASK	Are there costs we can push back on and lower internally? RFID in this case is coming from a third party, but what about fabric costs or dye costs? Is there any way to negotiate with the third party?
DO	Allow participants the opportunity to respond.
ASK	Consider time. Is speed an issue? When can we get the product created? How quickly can we go from creation to distribution? What about testing in store?
DO	Allow participants the opportunity to respond.
ASK	There are additional “price” factors as well. How might discounts work with private label?
DO	Allow participants the opportunity to respond.
ASK	Risk is another issue. If the Private Label does poorly, do we want to buy it back?
DO	Allow participants the opportunity to respond.
ASK	We could also debate Fruit of the Loom product availability in the same product categories. Private label will have its own shelf space, but what about our continued placement of Fruit of the Loom merchandise? Will we have a prominent location?

SAY	Finally, shipping and display are other variables laid out in the case.
ASK	Are there variables that are not included in the case, but can be included in any similar situation?
DO	Allow participants the opportunity to respond. Write down additional variables on a whiteboard or flip chart.
PRESENT SLIDE 4s min	
SAY	In a perfect world, we can negotiate on anything.
ASK	Which variables do you use most often in negotiations with vendors? What vendors?
DO	<p>Allow participants the opportunity to respond. Write responses on a flip chart or whiteboard.</p> <p>Then, click to reveal the variable word cloud.</p>
SAY	Turn to page X in your participant guide. List the ones we came up with, and any others that you use from the word cloud.
DO	Allow participants an opportunity to write these down.

ASK	Which variables are most appropriate for your negotiations? What might you never negotiate on?
DO	Allow participants an opportunity to respond. Star any already covered on the flipchart or whiteboard.
PRESENT SLIDE 4 min	 <p>What Variables Do They Use?</p> <ul style="list-style-type: none"> ▶ Margin ▶ Facility Inspections ▶ Competition's Price ▶ Scale ▶ Terms ▶ Incentive/ Deals ▶ Decision Timing ▶ Volume
ASK	Which variables do our partners use most often in negotiations? What partners?
DO	<p>Allow participants the opportunity to respond. Write responses on a flip chart or whiteboard.</p> <p>Then, click to reveal the list of “their” variables on the PowerPoint.</p>
SAY	Turn to page X in your participant guide. List the ones we came up with, and any others that you use from the word cloud.
DO	Allow participants an opportunity to write these down.
ASK	Which variables are most appropriate for your negotiations? What might you never negotiate on?

<p>DO</p>	<p>Allow participants an opportunity to respond. Star any already covered on the flipchart or whiteboard.</p>
<p>PRESENT SLIDE</p> <p>0.5 min</p>	<div data-bbox="621 373 1261 737">  <p>Preparation</p> <ul style="list-style-type: none"> ▶ Weigh each variable ▶ Know what is high and low priority to you ▶ Determine what is high and low priority to them </div>
<p>SAY</p>	<p>Preparation is critical when understanding your variables, the other side's variables, and how they can impact each other. Take time to brainstorm well before your negotiation. Ask questions and determine all the possibilities. Write them down. Determine which variables are most valuable to you, and which variables are most valuable to them. We will talk about some tools to help you do this in the next few sessions.</p> <p>This prep work gives you the opportunity to discuss options with your team, and with members of your team that will not be at the negotiating table.</p>
<p>PRESENT SLIDE</p> <p>0.5 min</p>	<div data-bbox="617 1341 1291 1722">  <p>Trading Concessions</p> <ul style="list-style-type: none"> ▶ Trade high value to them and low priority to you to get the best deal ▶ Fill out Move Planner ▶ Offer concessions as If you, Then we </div>

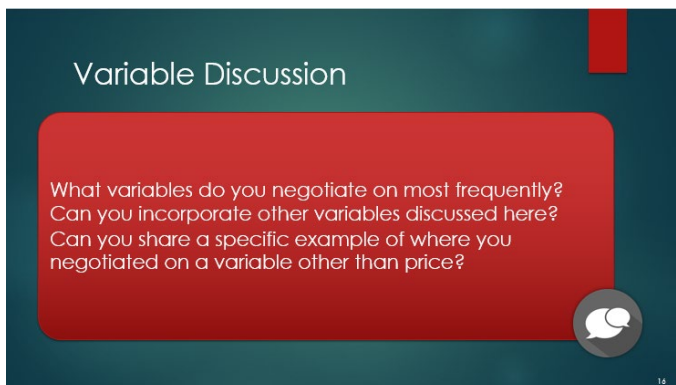
SAY	<p>Know what is high and low priority for your side before discussions begin.</p> <p>Determine what is high and low priority to them (more on this in the prep section)</p> <p>A table known as a Move Planner helps you determine which variables are under consideration, and what their value is to you and the other party. A move planner can help you determine your opening proposals, as well as determine moves to make in the future. We will discuss this more as we get to tools later this afternoon.</p> <p>Trade high value to them and low priority to you to get the best deal. Offer concessions as If you, then we. For example, “If you include the price of the RFID tag, that allows us to sort inventory more inexpensively. Then, we can reduce the specialized requirements for our display packaging and will accept simple pallet delivery.</p>
DO	Transition to Wrap-Up

Wrap-Up

6 minutes

PRESENT SLIDE

5 min



ASK

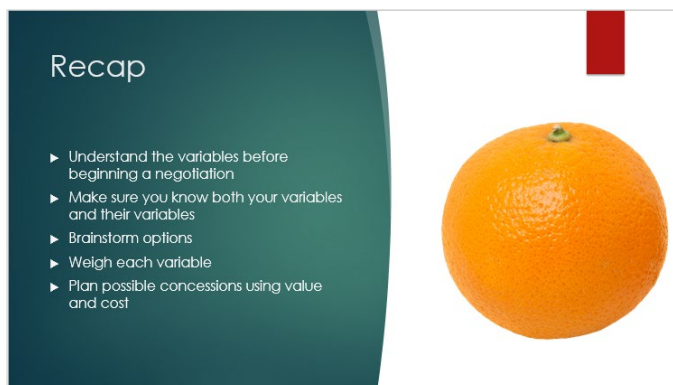
What variables do you negotiate on most frequently?
Can you incorporate other variables discussed here?
Can you share a specific example of where you negotiated on a variable other than price?

DO

Allow five minutes for discussion and then move to Recap

PRESENT SLIDE

1 min



SAY

Understanding the variables in a case is a fundamental first step before any negotiation. It is important to understand the variables both for your side and the other party. Brainstorm all options, and use common categories to further develop issues. Weigh the importance of each variable for your side and the other party. Finally, plan possible concessions using a value and cost.

DO	Transition to Power & Influencing Factors. Hand PowerPoint over to the Power & Influencing Factors section facilitator.
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