

# Success Factors in Decision Making and Negotiation Processes for Raw Material Supply Transactions

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**Abstract:** Scientific Study on the economic and especially the psychosocial factors of success in negotiation processes between buyers (procurers) and suppliers (producers) in the food trade. In particular it examines the economic and mental satisfaction in the decision-making and in the negotiation processes for efficient food supply. It is examined primarily as transparency in addition to Harvard concept at annual meetings (or between the year) favoring a satisfactory result for both negotiators. In a structural equation model, the Harvard negotiating points are brought with transparency in communication and this in terms of economic success experiences and the sociomental satisfaction.

**Key words:** decision theory; negotiation theory; negotiation optimization; satisfaction

**JEL codes:** D30, D47, F12, F14, F18, F40, L11, Q00

## 1. Introduction

### Every day new horror stories let us scare up...

The number of people on this earth is increasing, but on the other hand raw materials, especially food, are distributed unequally.

A lot of people don't get any of them, or the prices where you still can get them are growing and growing and growing... (Sarris, Conforti, & Prakash, 2011).

### So we all believe...

If humans do not have enough to eat or drink, they would become "uncontrollable". It can not be that many countries are not available to global goods.

With the delivery of food and beverage people will face survival. It may not be that the levy of a few controls and is impeded from profiteering (Cotula et al., 2009).

### So some people and organisations go a further step with their allowances...

A uniform and controlled release must be created; otherwise we face a growing problem. A shortage of plans for other developments, people can do in the back. If the people do not eat or drink enough, they also do not need further plans and lose ambitions and their ideals and standards (World Food Programme 2009).

The UN Food and Agriculture Organization (FAO) in early June 2010 in their semi-annual "Food Outlook" recognizes that the cost of food imports are rising, particularly in the poorest countries. This now threatens a

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famine in Africa, because the poorest countries pay more and more for imports. More particularly, the financial burden on food imports as calculated by the UN organization in the world this year to amount to about \$100 billion (81.8 billion Euros) (Fao, 2011).

In return, however, new debts are created to import the daily needs for the people. In particular, the ten million people in the eastern Sahel in West Africa, according to the UN World Food Programme (WFP), are facing a period of starvation. Already, more than one billion people suffer from hunger and malnutrition. Therefore, on a three-day “Conference on Nutrition”, FAO, with representatives from the 192 member states in November 2009 set to a five-point plan against hunger (Fao, 2011).

But there are not only reasons of force majeure, such as crop failures and weather conditions, but also political miscalculations and bad decisions, as well as illegal price fixing for ever higher prices (McMichael, 2001).

But the increase in biofuels demand raises prices for cereals and rice. More and more people can afford less and less food. A food crisis is imminent, thus expanding the common social life more and more threatened.

In countries like Egypt the meat prices have risen by 50% and threatens riot. And an end to price increases is not clear, as the Food and Agriculture Organisation (FAO) points out. But the fault lies not only in the interests of environmental conditions, but increasingly in the wrong policy.

#### **Price of rice doubled!**

Other countries in Africa are worse affected by the rising prices. Thus, the price of a kilogram of rice in Mauritania, West Africa, doubled in the last three months. At the same time in Zimbabwe, the price of corn increased by 59 percent and in neighbouring Mozambique by 57 percent. In the Democratic Republic of Congo, a portion of fish a year ago cost 10 dollars (8.3 Euros), today it is 25 dollars (20.8 Euros). For a 25-kilogram bag of rice, people must now pay 30 dollars — not for many financially viable. The policy is completely overwhelmed with the demand increase in the consumer society and the related allocation problems (Fao, 2011).

#### **But what is the truth...**

Famous critics, such as Bjorn Lomborg, criticize these negative attitudes and campaigns.

In addition to individual Traders there are many other winners by rising commodity prices. Therefore, many welcome this development because the higher commodity prices have also reached to a certain extent of producers. A lot of people (Indians, Chinese,...) can afford more than ever before (Lomborg, 2002).

#### **Many questions are open now...**

Do we lose control over our food supply chain and is there no future for food for all?

Do always get less people something to eat in the future?

Or is that only a horror scene, because with fear its easy to earn money...

True to the motto: “If people have fears, they can be controlled better.”

#### **Main Reasons for Agricultural Scarcity (Hiebl, 2008; Aalst et al., 2014)**

- Micro-economic aspects
  - Climate change and rethinking the ecological issues also leads to changes
  - Storage situation for stackable products, which changes the supply situation (manipulation, storage costs, warehouse conversions and expansions...)
  - Politics — for example export tax, import bans,...
  - NEW: Speculation

- Macro-economic aspects
  - Developing countries and their increasing demand for meat, vegetable oils,...
  - Emerging markets and their increasing demand for milk, meat,...

## 2. Theoretical Foundations and Actuality of the Topic — Literature Review

### 2.1 Problem Statement

The topics raw materials, waste and energy will be the top economic issues of the future, or influence and affect all other subjects (human resources, culture, society,...); all combined with technology, IT and Tech Communication.

The shortage of raw materials is one of the central issues in the future perspective and this fact is already influencing the relationship between buyer, producer and supplier.

#### ➔ Future Business Triangle of today and tomorrow

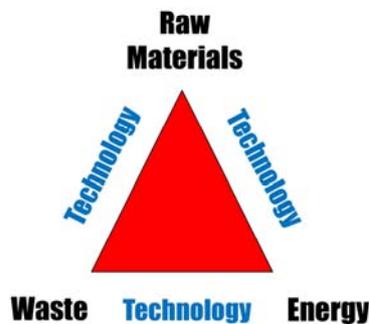


Figure 1 Future Business Triangle of Today and Tomorrow

Source: by the author

### 2.2 Survey of the Current Negotiation Situation between Buyers and Suppliers

This current shortage of agricultural commodities in the market now changes the actions of producers, middlemen, the wholesalers and the stationary and virtual sales. It will nevertheless continue to work according to prescribed conditions of the corporations. The current situation is a completely new, is how those of recent decades not accustomed and trained.

#### ➔ Situation and Problemfield in the Trade Supply Chain

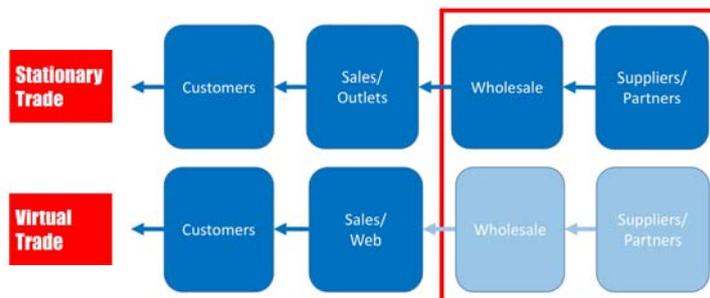


Figure 2 Situation and Problem Field in the Trade Supply Chain

Source: by the author

### 3. Theoretical Framework and Model Development

#### 3.1 Purpose of Study

The interaction between purchasers, suppliers and producers respect to the procurement of raw materials, goods and products is examined specifically in terms of their economic and psychological satisfaction. Is it possible to satisfy all parties not only in an economical way, but also in their mental satisfaction?

The question:

How to run negotiations between purchasers, suppliers and producers, so that both parties are really satisfied (economically and mentally)?

The answer:

The negotiations must be transparent in the relation to prices, quantities, etc., because in the way of approaching the interests, the satisfaction will increase consequently.

There must be created a new relationship, to create common solutions.

**Survey of the current negotiation situation between buyers and suppliers** (Volker, 2013; Volker, 2006):

- The demands of commercial enterprises towards their supply chains are that prices must fall, and the amounts have to increase in the following years.
- The reality in trade is that the production quantities are stagnating and grow only in the range of widths. The prices are rising due to direct and indirect depletion rates.
- A decades working habits comes to falter ...
- Stress among all participants in the negotiations and the annual meetings is the result ...
- The current culture of dialogue and objective needs to change-a common objective must be the result, in order to ensure the supply to the complete satisfaction of all concerned.
- Instruments or tools for a future-oriented negotiation are missing or be only in a developmental stage, and these data are mostly from historical or contemporary issues, but not future orientated.

#### 3.2 Novelty

The Authors research question deals with the topic:

- Analysis of direct and indirect factors influencing the interaction between procurement and suppliers/partners in the food trade and wholesale.
- It is requested on the basis of a structural equation model, such as the negotiations between purchasers and sellers in the optimal case expirehave.
- How to create an optimal negotiation situation and a common result.

Forthis, the Harvard concept is used to query the derived ideal negotiation situation.

Respectively I focus my study on the aspect:

- The interaction between procurers and suppliers is analyzed specifically in terms of the ireconomic and psychological satisfaction/variables. Is it possible to ask all parties not only economically satisfied, but to also provide their “satisfaction” equal?
- In previous negotiations, there is usually a loser and sometimes a winner...

#### 3.3 Hypothesis andPropositions

Creation of a model that investigate empirically the economic and especially the psychosocial factors of success in negotiation processes between buyers (procurers) and suppliers (producers) in the food trade and wholesale.

In particular it examines the economic and mental satisfaction in the decision-making and in the negotiation processes for efficient food supply.

It examines in how transparency favoring at annual meetings (or even in between annual negotiations) a satisfactory result for both negotiators.

3.3.1 Hypothesis

HB1 — The structure of the negotiation process has an impact on the outcome of negotiations.

HB2 — The more transparent the negotiating process, the more efficient the negotiation efficiency from the perspective of both negotiators.

3.3.2 Propositions

The question is therefore: How to run negotiations between procurers and suppliers so that both parties are really satisfied...

Answer: The negotiations regarding prices, quantities, etc. must be transparent, because with it the approach to the interests happens and so consequently the satisfaction increases ...

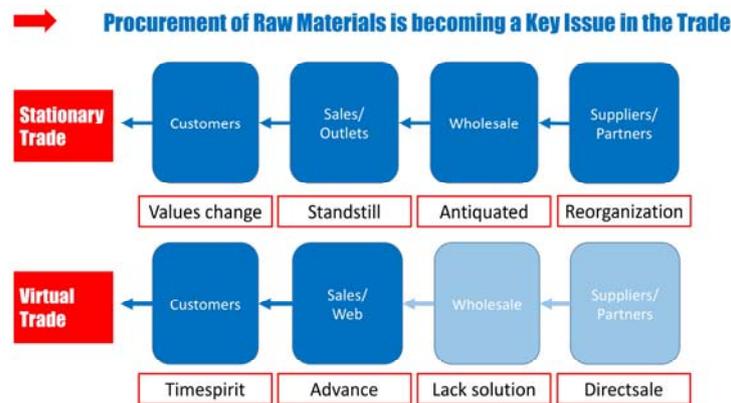


Figure 3 Procurement of Raw Materials Is Becoming A Key Issue in the Trade

Source: by the author

4. Research Design and Model Testing

4.1 Research Design

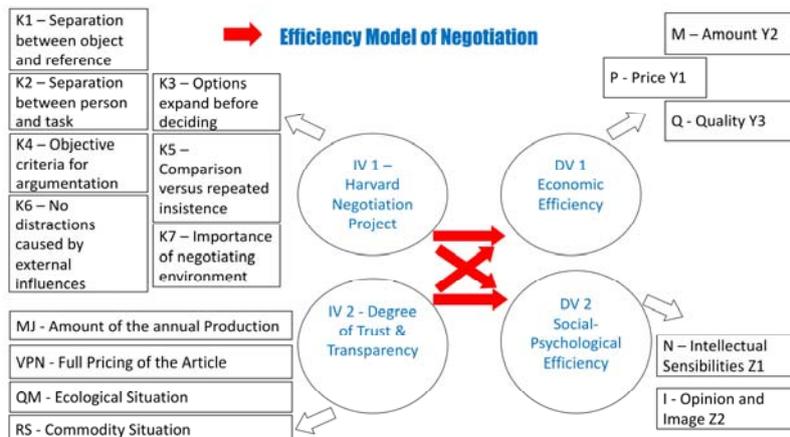


Figure 4 Research Design — Efficiency Model of Negotiation

Source: by the author

#### 4.2 Model Testing

Investigation by interviews in field experiment-cause-effect relationship — game theory with empirical relining, for a discussion about the satisfaction degrees, depending on the transparency in the communication skills in discussions between buyer side and supplier/partners.

Questionnaire to discuss the satisfaction precisely, depending on the transparency in the communication skills, in discussions between buyer side and supplier/partners:

- Investigation by interviews in field experiment-cause-effect relationship-game theory with empirical relining:
  - Survey of round about 40 suppliers and 40 acquirers.
- Which negotiation with respect to the mutual transparency must be applied in the future to optimize the negotiation situation between “donors and takers” due to the increasingly difficult procurement?
- What form of negotiation needs to be created, in order to improve the situation and to achieve the full satisfaction degree in economic and mental respects?
- What changed the level of disclosure and transparency of all proceedings variables and an open discussion (full transparency) the design of negotiations in respect to economic satisfaction as price, quantity, quality or the mental psychic satisfaction regarding fears, nervousness, satisfaction level, the impact and image of the acquirer regarding trade outwards?



Figure 5 The Investigation Model for the Interviews in the Field Experiment

Source: by the author

### 5. Research Results and Interpretation

#### 5.1 Aim of Research

My aim is to look at the reality, draw conclusions in order all parties, to improve the cooperation.

If we could resolve the “fronts” between “procurement” and “donors” to a cooperation in the form of a transparency, it would help the entire cycle.

#### 5.2 Research Object

Examination of annual and negotiation talks in trade between procurement and suppliers.

#### 5.3 Research Subject

How will complete transparency, in the negotiations with regard to their economic and mental satisfaction, appear for all negotiating parties.

#### 5.4 Content Scientific Study

Firstly: More in-depth research on the future structures, systems and procedures of (wholesale) trading

houses. The creation of a future “toolbox” and the analysis of the direct and indirect factors influencing the interaction between procurers and distribution in the (wholesale) trading.

Secondly: Evaluation of the procurement market and sources of supply with the new approach of direct and indirect influences on the transparency and the shortage rate. Procurement as today, will not be possible for tomorrow. A shortage and an associated reduction of purchasing volumes is already entered. In what way can the absolute transparency and total satisfaction related contrast control.

## 6. Conclusions and Recommendations

### 6.1 Conclusions

The procurement market needs more knowledge and tools, in the procurement and allocation issues, for a common and transparent review and also analysis tools in regard to the future procurement situation.

The full transparency of prices, quantities,... must be given, as thus also the approach to the interests happen and thus consequently increases the economic and mental satisfaction of all parties.

### 6.2 Findings and Results

This means an extension of the Harvard concept with the level of transparency and, consequently, in economic and mental satisfaction for all negotiating parties.

How is changing an open discussion (full transparency) the design of negotiations in respect to economic satisfaction, such as price, quantity, quality, or the mental psychic satisfaction regarding fears, nervousness, satisfaction degree, the impact and image of the acquirer?

### 6.3 Main Conclusions

If we could resolve the “fronts” between purchasers, suppliers and producers to a cooperation in the form of a transparency, this would help the entire cycle.

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