Open Negotiation: The Backend Benefits of Salespeople’s Transparency in The Frontend

Abstract

The internet has enabled buyers to much more easily gather information prior to negotiating with sellers. As a result, negotiations in many settings are less likely to be characterized by information asymmetry, or that sellers hold private information that buyers don’t have. A number of negotiation-based industries have reacted to this change by shifting their attention to earning profits in aftermarkets: products and services that augment the main purchase (e.g. add-on items, insurance, financing, service and maintenance, etc.). In these aftermarkets firms often retain an information advantage, even if information asymmetries are eliminated for the main purchase. We use this setting of information symmetry in the ‘frontend’ (main purchase) and information asymmetry in the ‘backend’ (aftermarket) to conduct research that has not been considered in the literature so far. We argue that the symmetry in the frontend provides an opportunity to build trust, since the knowledgeable customer can verify the accuracy of information disclosed by the seller. Across one observational study and two experiments, we show that disclosing sellers’ cost at the beginning of the negotiation, by revealing the manufacturer’s invoice of the product, builds trust in the frontend, which pays off in the backend. In an observational study in the automotive industry, we found that customers to whom the salesperson revealed the invoice price at the beginning of the negotiation spent significantly more in the backend and were more likely to come back for service a year after, compared to those to whom the invoice was either revealed later through the negotiation or not disclosed at all. We replicated these findings in a simulated negotiation experiment (study 2) and a scenario-based experiment (study 3), which allowed us to test moderators and the mediating role of trust.
Short Bio

Michael Ahearne is Professor of Marketing and C.T. Bauer Chair in Marketing at the University of Houston. He is also Research Director of the Sales Excellence Institute.

Mike's research has primarily focused on improving the performance of salespeople and sales organizations. He has published over 50 articles in leading journals such as Journal of Marketing, Journal of Marketing Research, Management Science, Strategic Management Journal, Journal of Applied Psychology, and Organizational Behavior and Human Decision Processes. Mike was recently recognized by the American Marketing Association as one of the 10 most research productive scholars in the field of marketing. His research has been profiled in the Wall Street Journal, Business 2.0, Business Investors Daily, Forbes, Fortune, INC Magazine and many other news outlets.

Mike's book Selling Today: Partnering to Create Customer Value is the highest grossing professional selling textbook in the world, with copies being distributed in over forty countries. Paired with the many teaching awards he has won at the MBA and undergraduate levels in Sales, Sales Management, and Key Account Management, Mike has a proven track record of excellence when it comes to disseminating knowledge in his field. He has consulted with over 200 companies in industries such as insurance, health care, consumer packaged goods, technology and transportation. Mike was recently honored as the inaugural winner of the Sales Education Foundation Research Dissemination Award for the impact of his research on business practice.

Before entering academia, Mike played professional baseball for the Montreal Expos and worked in marketing research and sales operations for Eli Lilly and PCS Healthcare. He actively consults in many industries including insurance, health care, consumer packaged goods, technology and transportation.