

# **A COMPARATIVE STUDY OF VIETNAMESE AND AMERICAN CUSTOMERS' BEHAVIOR IN NEGOTIATION STYLE AND IMPLICATIONS FOR GLOBAL PRICING STRATEGY**

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## **ABSTRACT**

Many researches have sought to explain how different customers' behavior might be different across cultures. One way that customer always exercise to maximize the benefits in an offer is by negotiation. Understanding how customers would negotiate will help organizations having appropriate pricing strategies to retain profit businesses in the context of globalization. This research using my own primary data examines negotiation skills of American and Vietnamese customers. Two samples, taken separately from the U.S. and Vietnam, were used to test several hypotheses. The results confirmed that cultural differences lead to different negotiation styles and perception. Consequently, theoretical and practical implications of the finding about global pricing strategies as well as directions for future research are discussed.

**Key Words:** customers' behavior, cultures, negotiation, pricing strategies

**EL Codes:** GO, M, M3, M20

## **I. INTRODUCTION**

With the tremendous growth in international market during the last few decades, managers are gradually trying to enter to foreign markets. Theory

suggests that price sensitivity and shopping practices differ substantially between cultures (Ackerman & Tellis, 2001). Negotiation is one shopping practice that people normally use to create and maximize opportunities in business, at the market, and with others (Levison, Smith & Wilson, 2000). Global pricing as one in marketing mix still has to take into account how customers in different cultures evaluate high and low prices (Johansson, 2006). Understanding a foreign customer's own style, characteristics, prejudices, and how he or she could negotiate for the best deal is the key factor for a successful global manager when setting up the appropriate prices.

Studies about negotiation skills across cultures have been done for years to help managers effectively respond in foreign markets (Graham & Sano, 1984). However, few studies have been conducted in the Vietnamese market. Vietnam is a developing country in the Southeast Asian region which attracts masses of foreign direct investments (FDI). US-related FDI actually increased significantly in 2003, two years after implementing the Bilateral Trade Agreement in year 2001 (Prasso, 2005). Especially, since Vietnam became a member of the World Trade Organization in 2007, FDI has increased steadily. In 2008, the amount of actually disbursed capital soared to US\$11.5 billion; up 43.2 percent compared with 2007 (The China Post, 2008). This shows the importance of understanding how difference in cultures, sexes, experience, and characteristics could affect Vietnamese customers negotiating behavior. This study, therefore, attempts to explore and compare the differences between Vietnamese and American customers' negotiation style and to find out how they are reflected within both cultures. This paper provides some understandings and implications for American managers in cross-culture marketing.

The paper is divided into five sections. The first section discusses types of customers, conceptual framework of cross-culture customers' negotiating behavior, and how culture differences influence a customer's negotiation style. The second section develops the study's hypotheses. The study's method is discussed in the third section and the results are analyzed in section four. The last part of the paper discusses theoretical and practical implications for global pricing strategies as well as directions for future research.

## **II. LITERATURE REVIEW**

### **Customer types**

Effective managers in pricing decision must understand the buying behaviors associated with different types of customers. One way of segmenting customers in general is based on price sensitivity. Some customers will choose different alternatives for better prices. Some customers pick sellers based on their differentiate brand value. Some customers prefer to establish the long term trusted relationship with the sellers. Nagle and Holden (2002) specified four types of customers: price, relationship, value, and convenience.

### *Price buyer*

They believe in their experience in a deal. They make the purchasing decision with the seller providing the lowest price. They accept the lowest level of quality as well. Price buyers always start the buying process with the bottom line in mind. The suppliers can not negotiate to offer trade-off between price and other specs. There are several strategies should be used such as: raising the value of the product, and effective communication to increase their willingness to buy. However, researches suggest that most price buyer will never change, so managers should not try to participate with them in a price resolution without gaining any profit. Because price buyers are usually a large market segment, negotiation takes an important role in order not to loose those tough customers.

### *Relationship buyers*

They already have a strong preference of one particular brand. They have good experience with it and don't want to try a new alternative. They value consistent product with high quality and performances. A loss in trust might lead to switching the seller. For these buyers, maintaining the existing relationship by reminding the past performance is critical. Trying to understand their source of value will help companies to server and satisfy them in the future time. Not only focusing on past experience, managers should also stress on future commitment.

### *Value buyers*

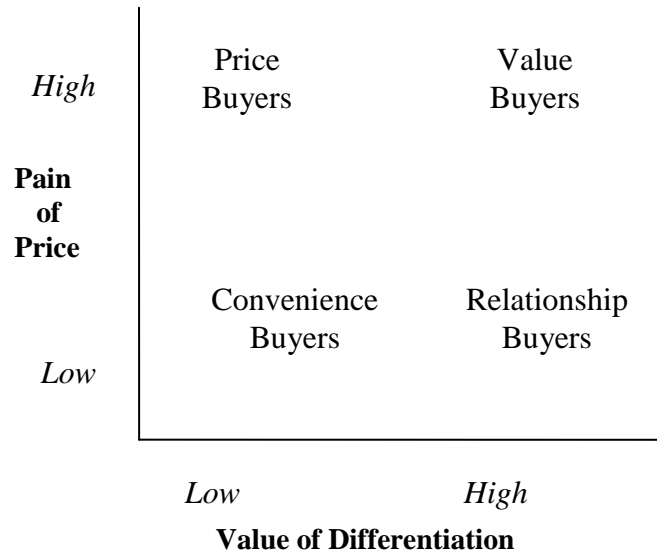
They seek for both value and quality of the products. They might try different alternative to get the best trade-offs between price and other aspects. They often are the largest market of any business. Unlike price buyers who focus on only price, value buyers are aware of quality of each option for each price. They understand and carefully analyze the economic value that will be given. Value buyers are also willing to try new products and services if they feel the value is acceptable. This brings more opportunity for sellers. When negotiating with value buyers, the differentiate value of each sale should be pointed out. It is always hard to inquire these customers become loyal. However, negotiation skills of salesperson among situations will be critical. By recognizing customers needs either lower price or commitment with sellers; salesperson will reduce much selling effort when price negotiations occur.

***Convenience buyers:*** They do not try to distinguish the differences between brands. They minimize the effort of evaluation price or negotiation when time is critical.

However, in order to be profitable, a company should have price differences for different types of customers (Nagle & Holden, 2002).

### Figure 1: Customer Segmentation by Value Perception

(Adapted from *The Strategy and Tactics of Pricing*, Thomas T. Nagle and Reed K. Holden. 3rd edition, page 106)



### Culture differences influence customers' negotiation style

Negotiation is a joint decision-making process in which two or more parties have the conflict interests (Bazerman & Lewicki, 1984). Research has shown that having different culture background will distinguish an individual negotiation style from another's. Culture affects the range of strategies that negotiators develop as well as the tactics implement (Salacuse, 1995). Culture is defined as a group-level phenomenon in which beliefs, values, and behavioral expectation are shared and learned among members. Faure (1999) and Sebenius (2002) agreed that identifying central values and norms help understanding how these norms and values influence negotiation within that culture (Ready, 2005). Cross-culture comparisons in customers' behavior differentiate the particular values and norms among cultures, and then identify how these differences influence buying organizations in making purchase decisions.

According to McGinnis (2005), a widely accepted framework for assessing cultures was developed, beginning in the 1980s, by the work of Geert Hofstede, a Netherlands native who did his research within large, multinational corporations. There are four dimensions of culture which distinguish an individual's negotiation style from other's:

## **Individualism/ Collectivism**

Each society will emphasize on individual or group value. Individualistic societies encourage its members to be independent and look out for themselves. Collectivistic societies emphasize the group's responsibility for each individual. Hofstede suggested that relationship in collectivism will play critical role. Negotiation is also about building a long-term relationship for future negotiation. In individualistic societies, negotiators are considered interchangeable; and yet competency is the focus in negotiation. Collectivist society values price consciousness and sophistication in money-handling differ from Americans in an individualistic society that traditionally does not have the same values. "As a result pricing tactics may differ in response to or to attract consumers of different cultural orientation" Price conscious shoppers would take more time and search alternatives for the best trade of that they receive (Ackerman & Tellis, 2001). Vietnamese customers are more likely to be value customers. Since most of stores in Vietnam are allowed bargaining, when setting the price for this market, the set prices should be realistic. American, on the other hand, value time and more likely become convenience customers.

Power Distance describes the degree in which society accepts unequally distributed power. In lower power distance culture, the equality among people will be higher. Decision making are more likely to spread throughout the organization. In culture with high power distance, there is little consultation between superiors and subordinates. Hofstede suggested that leaders in high power distance will be finalized the important decisions (McGinnis, 2005). People in different status will have different styles of negotiation and purchasing. For instance, in a higher power distance culture like Vietnam, consumer's fear of embarrassment or "losing face" when using coupons to buy goods (Huff et al, 1998). This is the very important indication for American managers when having some pricing strategy in sale promotion and in negotiation with different customers.

Masculinity/Femininity refers to the values more likely to be held in a society. Masculine societies are characterized as emphasizing the importance of things and money. Feminine cultures are characterized by concerns for relationships, nurturing, and quality of life. The motives for luxury consumption in different level of power distance societies are different. In femininity society, the meaning of the good is more important than the price itself (Ackerman & Tellis, 2001). So when negotiating with them, businesses should emphasis on the symbolic meaning of the good rather than trying to reduce the price. Furthermore, Hofstede (1989) said that this dimension influences negotiation by having more competitiveness between masculinity negotiators, and more empathy from femininity negotiators (McGinnis, 2005).

### **Uncertainty avoidance**

This dimension concerns with individual level of tolerance with unstructured situations. In societies with high uncertainty avoidance, negotiators prefer stability, structure, and precise managerial direction. They will implement and follow stable rules in negotiation. In contrast, negotiators in low uncertainty avoidance societies are comfortable to adapt with ambiguity, unstructured situations (McGinnis, 2005; Ready, 2005). Researches have shown that the saving rate of Asian people is higher than most Western and American (Ackerman & Tellis, 2001). They are at low level of risk taking scale. As a result, they tend to search and negotiate for a better trade off between price and value more than American do.

In addition, researches always view negotiation in business-business context (Graham et al., 1994; Graham et al., 1988; Schurr & Ozanne, 1985; Clopton, 1984). In their research, Ackerman and Tellis (2001) also found that consumer shopping practices across culture are very different in retail stores. Since collectivism and low level of power distance customers are willing to bargain and negotiate for small items, retailers normally come up with very small margin and daily change in prices (Ackerman & Tellis, 2001). This also shows how an American business should consider when setting the price in the Vietnamese market. Vietnamese seems more naturally price customers due to their cultural characteristics.

### **III. THE STUDY'S HYPOTHESES**

Vietnam is one of Asia's most diverse travel locations. The signing of the U.S.-Vietnam Trade Agreement in July 2000 after three years of negotiations has opened new page in Vietnam-US trade relation history. The agreement has created opportunities for US investors in Vietnam. The agreement also gave Vietnamese businesses access to the U.S. market on the same terms as other nations (Prasso, 2005). In the global economy, the negotiations between Vietnamese and U.S. partners grow to be a norm. In order to target the new Vietnamese market, American managers should recognize counterparts' negotiation styles. The study examines whether research findings about factors influence across cultures are applied to Vietnamese and American students' negotiation styles. Based on the theoretical analysis of factors that influence one's personal negotiation style in above section, this study tries to explore and confirm the extent to which Vietnamese and American students have differences in their negotiation skill. Specifically, the hypotheses of this study are as followings:

*Hypothesis 1a:* Both Vietnamese and American students have the same assessment about winner, loser in negotiation.

*Hypothesis 1b:* Both Vietnamese and American students feel that they are effective negotiators.

*Hypothesis 1c:* Both Vietnamese and American students think their cultures encourage negotiation.

*Hypothesis 1d:* Both Vietnamese and American students think men are better negotiators than women.

*Hypothesis 2a:* Both Vietnamese and American students feel negotiating when they feel there is a high probability of winning.

*Hypothesis 2b:* Both Vietnamese and American students set bottom line before they begin negotiating.

*Hypothesis 2c:* Both Vietnamese and American students continually consider the other party's limitations during the negotiation.

*Hypothesis 3a:* Both Vietnamese and American students feel comfortable negotiating with women than with men.

*Hypothesis 3b:* Both Vietnamese and American students are more successful in negotiations with women than with men.

## **Method**

### *Sample*

Two samples were used to test the hypotheses in this study. The first sample consisted of 456 responses from students at a Midwestern university in the U.S. The second sample consisted of 390 responses from students at the national university in Vietnam. All students who participated in this study are either juniors or seniors. The percentages of males and females are equal in the U.S. sample, whereas 34% are males and 66% are females in the Vietnamese sample. The students report their most negotiating items in Table II at the end.

Students who participated in the study were voluntary. The questionnaires in both samples contained no identifiers and were therefore completely confidential. American students filled out on line survey at the web server of University of Wisconsin, Eau Claire. The English version was respectively translated into Vietnamese, and then being back- translated to firmly remain the relevant content and items. Vietnamese students filled out paper surveys in Vietnam. The Vietnamese paper surveys were being converted into electronic version to match with the American online surveys.

### *Measures*

All items in the questionnaires were assessed on a 1 to 7 Likert scales where 1= strongly disagree and 7= strongly agree. A single item was used to measure students' negotiation skills and their perceptions toward negotiation. Survey items are designed based on negotiation perception of a student customer. For example,

sample items are “In negotiation, there is usually winner and losers” or “I feel that I am an effective negotiator”.

#### IV. ANALYSIS

To test the hypotheses, this study used independent-sample t-test for the difference between means in the SPSS software. To do this, however, the study first tested for the assumption of equal variances by using Levene’s F-test. All results revealed that there were unequal variances between two samples. Thus, the study reports here all the results under the assumption of unequal variances.

#### Results

**Table I: Negotiation Perception and Skills**

Items testing	Country surveys conducted	N	Mean	Std. Deviation	Mean Difference	t-test	Sig. (2-tailed)
In negotiation, there is usually a winner and a loser	US	457	3.66	1.497	.57	-5.74	.000
	Vietnam	388	4.35	1.966			
I feel that I am an effective negotiator	US	455	5.08	1.258	.05	4.33	.000
	Vietnam	378	4.67	1.438			
I grew up in a family culture that encouraged negotiation	US	457	4.53	1.522	.63	2.29	.022
	Vietnam	378	4.28	1.645			
In general, men are better negotiators than women	US	456	3.01	1.551	.59	-5.29	.000
	Vietnam	380	3.64	1.881			
I will only negotiate when I feel there is a high probability of winning	US	454	3.94	1.413	.93	-4.65	.000
	Vietnam	374	4.44	1.713			
I determine my bottom line position before I begin negotiating.	US	454	5.05	1.327	.57	-5.25	.000
	Vietnam	382	5.57	1.575			
I continually consider the other party’s limitations during the negotiation	US	455	4.57	1.207	.61	-3.66	.000
	Vietnam	380	4.91	1.452			
I am more comfortable negotiating with women than I am negotiating with men.	US	454	3.80	1.487	-.13	-5.44	.000
	Vietnam	381	4.39	1.654			
I am more successful in negotiations with women than I am in negotiations with men	US	456	3.75	1.373	.43	-2.74	.006
	Vietnam	372	4.03	1.553			



Table I reported the means, standard deviations, and mean differences of the Vietnamese and U.S. samples. Table I also reported the t-tests and the significant levels for the mean differences between two samples. All the means for each factor in both U.S. and Vietnamese samples varies from 3 to 6, indicating that there are differences in negotiation styles. In addition, the level of difference of each item varies between U.S. and Vietnamese students. The specific results for hypothesis testing are as the followings.

### **Negotiation Perception**

There is difference between Vietnamese and American students in the perception about negotiation before they negotiate or buying an item. Hypothesis 1a ( $t=-5.741, p<.001$ ) suggests that Vietnamese students agree that there are winner and loser in negotiation, while American counterparts think more about win-win outcomes. Hypothesis 1b ( $t= 4.335, p<.001$ ) suggests that both American and Vietnamese students think they are effective negotiators and purchasers maybe. However, American students are more confident with mean = 5.08. Hypothesis 1c ( $t= 2.29, p<.05$ ) suggests both American and Vietnamese students believe their cultures support negotiation. Hypothesis 1d ( $t= -5.294, p<.001$ ) also point out both Vietnamese and American students disagree that men are better negotiators.

### **Negotiation Skills in General Context**

Hypothesis 2a ( $t=-4.65, p<.001$ ) suggests that there is significant difference in the perception between Vietnamese and American students. Vietnamese students with mean = 4.44 agree that they only negotiate when they feel there is a high probability of winning, while American counterparts will negotiate in any circumstance. Hypothesis 2b ( $t=-5.25, p<.001$ ) suggests that both Vietnamese and American students set bottom line before they begin negotiating. Hypothesis 2c ( $p=-3.66, t<.001$ ): Both Vietnamese and American students continually consider the other parties' limitations during the negotiation.

### **Gender difference**

Hypothesis 3a ( $p=-5.44, p<.001$ ) shows that Vietnamese and American students have different feeling when negotiating with women and men. Vietnamese students agree that negotiating with women is more comfortable than with men, while American students feel comfortable negotiating with both. Hypothesis 3b ( $t=-2.7, p<.05$ ) suggests that there is significant different between Vietnamese and American students in negotiation experience with women than with men. U.S. students with mean = 3.75 disagree that they are more successful in negotiation with women than with men, while Vietnamese students feel they have more successful experiences in negotiating with women.

Overall, all hypotheses are supported. This indicates that differences in culture lead to different negotiation skills in purchasing decision.

## Discussion and Implication

Emerging as one of Asia's newly industrializing countries, Vietnam represents a fascinating prospect for Western businesses interested in investing in a country rich in economic opportunity, as well as political and cultural history (Engholm, 1995; Naisbitt, 1996). A fast growing population (85.7 million in mid 2007) and a more than 90% literacy rate among those under 30 of age strengthen Vietnam's move toward a market economy. The market liberalization process, begun in 1986, was further enhanced by the entrance to the Association of Southeast Asian Nations (ASEAN), the trade agreement signed by the U.S. and Vietnam, and the most likely mentioned event of WTO access in year 2007. For Western investors in general and American investors in particular, Vietnam has become a potential marketplace. Differences in values, beliefs create some challenges for American managers in entering the market. This study explored and compared the differences between Vietnamese and American perceptions about customers' negotiation styles. It also examines factors hidden behind the two cultures that influence the purchasing decision. Specifically, the study, by using samples from the U.S. and Vietnam, tested several hypotheses about Vietnamese and American levels of perception and factors influencing negotiation styles.

The findings in this study show the importance of cultural context in the problem-solving approach. Because in high culture context and collectivist cultures such as Vietnam, it is suggested that negotiation is relationship-oriented, and concentrates on a long-term single source arrangement. The implication is that it is collaborative and will lead to some mutual satisfaction. In a low culture context and highly individualistic American society, on the other hand, focuses more on results (Anonymous, Lecture 3, 2005). The American culture values openness, objectivity, fairness, cooperation, reason, and mutual trust. The results show that American and Vietnamese students have the certain perceptions before they go on a negotiation. American student are very open to win-win solution approach and Vietnamese student seems to accept different approach from their culture. It might suggest the merger in global culture between the East and the West. Both parties are trying to understand and open to other' solving-problem approach.

Pricing globally is much more challenging than pricing in domestic market. Many factors needed to be considered to determine the actual price of the product. This final price might be quite different from intended price since in global marketing it is not easy to control the final price due to regulations, exchange rates, number of agents, and especially local customers' behavior (Johansson, 2006). Again, the finding in this study indicates some important practical implications for both Vietnamese and American managers, who are doing or will implement business transaction in the Vietnam market. There are general tactics and strategies to set the right price that could improve the sales based on different types of customers. However, when entering new foreign market, managers need to be

aware of culture factors that could influence their pricing strategies. While it is helpful to use the culture dimensions as guidelines in decision making, they should not be considered as absolute measure to prejudice individuals from a specific culture.

Getting into Vietnam market, American managers will interact not only with local customers, but also with prospect employees and foreign businesses. Because the findings suggest that negotiation style is primarily driven by differences in cultures, this information is critical in hiring and training prospective cross-cultural salespersons, marketers. Companies in Vietnam and US should provide the assistance to improve the negotiation skills and experiences for their employees. They might hold cross-culture training sessions for its marketing staffs, the sale managers and the like before entering a foreign market.

### **Limitations and Conclusion**

Some limitations were existed in this study. First, the study used student samples in both Vietnam and the U.S. Although students in this study were those who reported having some work experiences and negotiation participation, it is not really accurate to generalize those students' negotiation styles to the whole population. Of all students answered the question about the most negotiating item, there is only 17.6% of American students said that they negotiated in pricing and purchasing issues, while this number of Vietnamese students is 13.9%. Second, because the measurement of perceptions and negotiation skills was based on single items which were created by culture experiences, it may not capture the concepts and thus not yield precise results. Future research can therefore progress from these limitations to have a more complete study.

Despite of these limitations, in summary, this paper still provides some understandings about the Vietnamese and American customers' perceptions and their negotiation behavior. In addition, the study shows how culture differences impact those perceptions and the negotiation skills. This is important for both Vietnamese and American managers who are and will be doing business in Vietnam.

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## APPENDIX

*Table 2: Most Often Negotiated Items*

Negotiated Items	Country surveys conducted			
	<i>US</i>		<i>Vietnam</i>	
Work related issues	41	10.1%	67	27.3%
Pricing/Purchasing issues	71	17.6%	34	13.9%
Domestic issues	52	12.9%	13	5.3%
Not specific issues	59	14.6%	46	18.8%
Social issue	97	24.0%	14	5.7%
Study related issues	14	3.5%	30	12.2%
Relationship issues	3	0.7%	12	4.9%
Money/Financial issues	67	16.6%	29	11.8%
Total	404	100.0%	245	100.0%