An Accordence White Paper

Is your sales team negotiating value? How do you know?

By Scott Roberts

The good news is there are indicators to help you decide. I often meet with prospective clients who think their sales teams need help building their negotiation skills but cannot articulate why. That makes it hard to decide where to spend time during our sessions to get the most benefit from a client's investment. At Accordence, our experience tells us that most sales people possess some level of intuitive negotiating skills, but many lack the discipline necessary to simultaneously sell and negotiate. The result can be less value for the company and bonus dollars for them.

So how do you know if your sales process or compensation plans are working or could be improved? Accordence consultants assess nine factors to see where we can assist in making improvements to your sales teams' selling and negotiation approaches. If you cannot respond about your team to at least six or seven of the factors with "we do this very well," then there are likely additional gross margin dollars to be captured through better selling and negotiating. In today's market, those dollars are very important; it's just a matter of a little better blocking and tackling.

The 9 Factors for Assessing Negotiation Weak Spots:

1. *The sales teams responsible for driving 70% of your gross profit cannot articulate how you fit into their customers' long-term strategies and are not seen as an important part of their execution.*

When preparing for selling and negotiating with a customer, I always want to know not only who are the interested parties but more importantly, who are the parties I need to get interested in us. Most customers are more likely to use your products and services if they understand how it supports their strategies. That means getting beyond the purchasing buyer to those charged with developing and executing strategy within the customer's organization. Once your customer understands that you are helping them achieve their strategic goals, price becomes less of a relative factor (although it will always be important). Many times it will not be your product or service, but rather what it will accomplish for them that create value.

For instance, Accordence consultants were working with a company that sold operating room equipment. We had the doctors and technicians on board but we were blocked by the Director of Operations. She was a staunch supporter of our competitor, which offered a less expensive solution, although it was not the best for the hospital. So how did we get them to see this and maintain our relationship with the Director of Operations? We decided to hold a meeting between their senior executives and ours to discuss each other's visions of the operating room of the future. We found they wanted more flexibility to perform procedures in multiple areas not just in one operating room. Therefore, in the future, equipment had to be mobile and easily transported up and down hospital halls. (The competitor's equipment was not easily moved and too tall to get down hospital halls.). Once the administration saw us as helping them implement their strategy, price and our competitor became less of an issue. The focus became solving the customer's problem of the future not of the present. We won that deal.

2. *Customers rarely try to renegotiate their contract before its expiration or fail to live up to its terms.*

This is an indicator that you either did not understand everyone's interests or did not have all of the relevant parties at the table when concluding the negotiation. As a lawyer I used to say that all the work began after the contract was signed. This was because rarely had the parties vetted out what they really needed from each other ahead of time. Usually they found out too late and the conflict began; non-compliance with the contract and a poor customer relationship. World class sales forces spend time, almost four times that of their less effective counterparts, listening and not talking, then crafting agreements that match what each other needs. The extra time spent up front results in fewer agreements not being complied with or needing amendment.

3. *There is little pricing and terms integrity in your market place.*

This is an indication that a sales force may not have objective standards on how to make offers, counteroffers, or concessions. In addition, it shows that we are not using objective criteria to distinguish pricing of one sale to another. We were working with a company selling laboratory testing equipment and consumables on a deal in the Northeast, which was proceeding as well as we could have expected. On one of our last visits to finalize some timing details we were surprised when the potential customer showed us a sale that had been consummated on the West Coast on almost the exact products and terms and conditions for 17% less than we had in our proposal. Eventually they went with our competitor even though the product was not as superior as ours. They lost trust in us.

4. *Negotiation strategies do not exist for 70% of your business and are not integrated into your sales training and marketing programs.*

Without these strategies and their integration, your sales team may not have the negotiation tools and approach to capture and hold on to value in their selling and negotiating processes. There are many companies which are great at training Sales on its products and services, and sometimes there is even good training on the sales process. But we see things fall down when the sales team is trying to negotiate and sell at the same time. Marketing tools are usually very good at describing features and benefits, but not at addressing deal timing or concession strategies, which are left to the sales team. So Sales then gets "creative" and doesn't stick to the pricing, terms and configurations prescribed in the marketing materials. We may have hired Sales to be creative, but they may have been given little to no leeway in creating good offers, concession strategies and counter-offers. In addition, sales development usually focuses on teaching the marketing approach and features and benefits, yet not enough time spent understanding negotiable trade-offs or what they could even negotiate. Instead they are taught to overcome resistance, a necessary skill but not sufficient alone.

5. *Sales people do not have clear guidelines and authority to culminate agreements without management assistance, including walking away.*

In all of our years of teaching negotiation and negotiating we find this to be the one area that hurts companies the most. Usually I hear from the sales team that they cannot walk away from a sale. So I ask, "Does that mean you will take any deal?" Of course the answer is "No, not any deal." But what happens if they counter or show a competitor's deal that seems to be better than yours? That is when the sales manager comes in. Usually the negotiation then becomes all about price rather than value, a very inefficient resolution and more loss of revenue.

What we find is usually the sales team wants to negotiate and walk away from bad deals. But the team lacks the guidelines and walk away points. They should learn to control the tempo of the negotiation and walk away when the sale makes no economic sense or destroys pricing integrity in the market. Without these guidelines and authority, all sales make sense until someone says no. The most efficient and effective person to negotiate is usually the sales person.

6. *Sales management is usually the dominant negotiator, rather than a coach.*

This simple and straightforward factor is closely aligned with factor 5 above. The sales manager adds the most value to the sale in the beginning and when coaching at the end. In the beginning, they have the best chance of assessing the situation, adding their experience and understanding of what may be needed to conclude the sale. Research shows that the later the sales manager is brought into a sale, the more likely they will destroy value. Not that they want to, but when they have not been a part of the process up front, the customer usually sees them as there to win the deal or as the final negotiating authority. This usually means lowering price below what the sales person has negotiated already. The more the manager can stay out of the direct negotiation and leave it to the sales person the more the sales person stays in control. The manager can be the coach in the background, but only if they are in the sales process early and understand the situation.

7. *The sales team regularly culminates their negotiations for less than 30% above their bottom line.*

This is an indication that there is no concession strategy. More importantly, it is an indication that sales people are not setting both "top line" and "bottom line" goals for the negotiation. What really hurts is that many times a sales person's first offer is already a concession. In essence they have negotiated with themselves before ever presenting the offer to the buyer. We find the sales person has a keen sense of their bottom line but has not set their top line goal. So their bottom line becomes their top line resulting in lost margin for the company and less compensation for the sale person. We find when sales people regularly set both top line and bottom line goals they usually close the sale at an average of 30% above their bottom line. Those that only focus on the bottom line close the sale at less than 10% above their bottom line.

8. *Sales people cannot consistently demonstrate to customers why the value of their offer is objective and fair; concessions do not have rationale.*

This one is very straightforward but hard to follow. All offers, concessions and counteroffers must have objective and rational reasons for being presented. If not, it opens you up to haggling because there is no basis for the offer, concession or counteroffer. So, in effect, the customer believes that any offer, concession or counteroffer is "fair". Some indications that may have given the customer this perception are a history of conceding by an even percentage (i.e., 5% increments), or giving the same additional value for free (i.e., same marketing program or software).

9. *Your sales people overreact to negotiation tactics.*

Again, this overreaction is another indication of lack of a strategy regarding offers, concessions and counter-offers. In addition, it indicates that they have not thought through their no-agreement alternatives. More importantly, they have not thought through their customer's no-agreement alternatives and how likely they are to exercise them. Fairly often we see very good sales people lose their credibility with the company and their customer because of an overreaction to customer tactics. We always say that in order to be effective with your customer you must have credibility with your company. And, in order to be effective with your company you must have credibility with your customer. The two run in parallel. How often do your sales people or sales managers come in saying "Look, if you want the business, this is where we have to be" or "If you don't match this price and these terms, they are going to the competition." This is usually an over-reaction to a tactic by the customer. And without a good strategy as discussed here, a good sales person runs the risk of losing credibility with the company and their customer by over-reacting to such a tactic.

From Theory to Practice

We performed this assessment with a large capital medical equipment company a few years ago. Their gross margins were in slow decline and they wanted to stem the tide and actually grow them. After discussing theses 9 factors as well as looking at their selling process and compensation plan, the company decided to focus on making negotiation a core competency for their sales, finance and contracting teams. Everyone went through a two-day negotiation session and goals were established. Their senior management team agreed that they were underperforming on factors 1, 3, 4, 6, 7, 8 and 9. We reworked their sales process and compensation plan to create more leverage earlier in the process. The team implemented the strategy for a year and announced at their national sales meeting that they had increased their gross margin percentage by four points in the past year, which added over a million dollars of margin. They achieved these goals by focusing on how they sold and negotiated and showed an impressive result in today's marketplace.

Accordence believes that these factors are accurate indicators of how well you are doing at negotiating value in the marketplace. Once you know your soft spots, creating strategies and targets to improve revenue or margin becomes clearer.