

An Accordence White Paper

Take Stock BEFORE that Negotiation Meeting

By Scott Roberts

Preparation, preparation, preparation is the backbone of creating the most value possible for all parties in a negotiation, especially for you. Let's assume that you have spent the required time talking with the right people, gathering information and filling out and refining your understanding of everyone's interests. From that you have created a couple of potential options to satisfy everyone's interests. And you are getting ready to approach your negotiating counterpart for a meeting that will involve you discussing those options for consideration in the negotiation. How do we take stock before we prepare for that meeting?

We suggest thinking about four components of a negotiation: Negotiators, Negotiables, Leverage and Strategies.

Negotiators

Our Negotiators

Start by thinking about the people you want involved in your negotiation, not just this meeting. Many times they are always the apparent people. If you are to achieve your aggressive yet realistic goal, you may need to involve other people to make it happen. For instance, if you are dealing with the C-Suite you may need to have people from your C-Suite involved at the right time. That means you need to take stock of who is involved, what role you want them to play and when.

Next, and very importantly, assess their and your attitude toward this negotiation. If you go into that negotiation with untested assumptions, such as assuming that all the negotiators care about is price or terms, then we risk developing offers all around those assumptions. In addition, if those are the assumptions, the rest of the team will go in with that mindset too. We see this mistake often. In order to avoid making this mistake, you either should validate those assumptions, that is in effect decide they are true interests of the other side, or purge them from your discussion. Lastly, have you set a high enough goal? Research shows that those negotiators that only set a bottom line and no aggressive but realistic goal tend to treat their bottom line as their goal. By having that high goal you set a target to shoot for usually you will find ways to come closer to that goal than your bottom line.

Their Negotiators

We always ask two preliminary questions when preparing to negotiate. First, who are the interested parties? These are the obvious people that have presented themselves to us. Good to know them but great preparation goes further. The second question that must be asked is "If we are going to achieve our aggressive but realistic goal, then who are the parties that we must get interested in this negotiation?" These parties are not always part of the negotiating team or are

higher or in other parts of the organization than the level to which we are talking. Often the person we are talking to has limited authority to negotiate scope and budget. If that's true then you need to try to take better control of the negotiation and involve others in their organization. We do this by a number of methods that maintain the relationship with the person with whom you are working. Some are:

1. You can ask to have others involved if that seems appropriate.
2. You can hold a discussion of a strategy meeting will allow you to see if others can get involved.
3. You can also prepare a proposal that includes things that are beyond the scope of their negotiator to answer.

In one case in which we were involved, we were meeting with a laboratory to discuss a large contract renewal and addition of some new products and equipment. In essence, we were protecting current business (millions of dollars per year) and acquiring millions of new dollars. As we prepared, we learned that the only person at the meeting was going to be the head of purchasing. We discussed her interests and was told that she cared only about driving the price as low as possible. Not the situation we wanted, that is one that tied old revenue to new revenue with someone focused on price. We had to go to the meeting, so we went with multiple proposals to present and discuss. During the meeting it became obvious that she was not qualified to make some of the medical decisions. So we set a follow-up meeting that included the doctors and head of radiology. Now we had the right people to discuss value and pricing, and were able to come to agreement satisfactorily.

As a final tip for taking stock of the negotiators before a meeting, we suggest that you learn your negotiator's negotiating process. When you know their process, and you try to honor that process as much as possible, you will have better outcomes. Otherwise negotiations may get derailed. We recommend trying to learn the process as much as possible and we know it is not always possible. There are times you will have to try to change the process so you get the best outcome for everyone.

Negotiables

What are those things that you have to negotiate? This may sound simple enough but rarely do we see people take this step in their analysis. Let's assume you have the interests of both parties and have created some options to satisfy them. Before you make that first offer, you need to take stock of all of those things you have to negotiate with the other party. These are options that generally are of value to the customer, of some value to us and will induce action by the customer.

Why do you want to do this? After the first offer is made, there is a negotiation process that occurs naturally in most industries and large purchase transactions. What happens all too often is that one of parties makes an offer that is exactly what they think is fair. Then the other party makes a counteroffer or rejects the offer. Now you are in the position of going below what you

think is fair and reasonable, unless before you make that first offer, you take a step back and inventory all of those things you would be willing to negotiate during the transaction. These could be things such as payment terms, volume for price reductions, increasing contract terms, interest rates, liability, insurance, and delivery terms. Remember that each transaction is different so what you have to negotiate may be different. Being able to make an offer knowing you have some room to move and maneuver is a much better feeling than sticking out there your fair and reasonable offer and trying to defend it or, worse yet, lower your offer to get the deal and not feeling it is fair to all.

Leverage

First of all, we should ask, what do we mean by leverage in a negotiation? Leverage is everything that influences the outcome of a negotiation or strengthens our offer. Leverage is perception not fact, dynamic not static, situational not fixed. So where does it come from? First and foremost, you have leverage when you have the most information about the other group in the negotiation. Information is leverage because it allows us to know what the other side is thinking, what is important or not and what problem they are trying to solve. The more time you spend up front preparing, asking good open-ended questions and mapping the situation, the better you will be at proposing options that satisfy your counterpart's interests. The less time spent on gathering this information, the more you have to guess or throw things in the negotiation meeting itself in an attempt to see what they like or dislike.

Great leverage is also about having good criteria when presenting options or offers. Criteria are all of the standards, benchmarks, objective measurements, and ways in which both parties would find the options on the table fair and justifiable, rather than seemingly based on the will of one party. By finding out what things your counterpart is influenced by, listens to, researches or values as validation for buying or selling helps you persuade them that what you are proposing is just and reasonable.

The strongest leverage you can have in a negotiation is a great BATNA. This is your Best Alternative To Negotiated Agreement if you cannot come to an agreement with the party with whom you are currently negotiating. Having a solid BATNA is a critical step in any negotiation planning process. Preparing other alternatives to satisfy your interests, gives you confidence when standing tough on a fair deal. In addition, assessing the other party's BATNA is very important. Not only try to find out if they have one but also to consider what is the likelihood they will exercise it. Many times we find people are bluffing about their alternatives and, if they have one, are not that serious about exercising it or know that it is not an optimal solution and prefer not to go to it.

Lastly, we often find that relationships can be used as strong leverage. If you are involved in selling a new idea, solution or product to a customer, it is critical to think about who should be involved in your negotiation process and, more importantly, when you should involve them in the process. People in the other party's organization that are advocates of your efforts are key stakeholders, and play a strategic role in you getting the best and most fair deal for all parties.

For instance, we were working with a company that was in the process of selling medical equipment to a clinic. We had met with the right doctors and medical technicians. They were brought into our solution as the answer to their problem. We were brought into the process at the stage of approaching purchasing to consummate the sale. We had a meeting scheduled but the only attendee was going to be the purchasing representative. We realized this was a bad idea. Most likely that meeting was going to focus on price only. Because we had entered the process at this stage, and the meeting was set in advance, we had no choice but to attend. The meeting went the way we thought where we discussed price, price and more price. The value of our solution was left out of the conversation. We left making no commitments other than getting agreement that we needed the doctors and one of the medical technicians at the next meeting to discuss configuration. The next meeting turned out to be much more productive by including the doctors and medical technicians. We, in effect, connected the value to the price discussion. We closed the deal well within our pricing parameters and well above the offer the purchasing person advanced in the first meeting. We used our relationship with the doctors and the medical technicians as leverage for getting the purchasing group to see the value of our solution and the cost of that value.

Strategies

Once you have taken stock on the prior three steps, Negotiators, Negotiables and Leverage, it is time to develop strategies for the actual meeting. Many people think this is where you develop tactics that trick people into agreeing with you. That's not the case. Rather it is where you position your offering in its best possible light and organize your negotiating team to present it with the most conviction to create the most value possible for both parties.

We think of it in four steps:

Step One: Relationship Strategy

Who do you want at the table in this negotiating meeting? That means from your side and theirs. We are looking to leverage everyone that will understand the total value that is being brought to the table. The goal is avoiding just price, terms and conditions-based discussions.

Step Two: Information Strategy

What information do you want to get, give and guard at this meeting?

Step Three: Offer Strategy

Who will make the first offer? Who makes it generally is driven by who has the better BATNA, leverage and information. The stronger yours are, the more you should be looking to lead with an offer. Research shows that the person who advances the first offer usually establishes the upper end of the negotiating range. And the negotiating counterpart will generally negotiate from there. For those of you that are compelled to make the first offer, we suggest remembering to go in with the highest offer that you can support with some credible criteria.

Step Four: Concession Strategy

Have you built in the possibility for concessions? We often see people make an offer of what they want to walk away with leaving no room for concessions. This leads to either you accepting less than you think is fair or trying to defend the offer and not concede. Neither are good places to be. In many other circumstances we see people make their first offer that is already a concession. This came up in one negotiation where the owner of the company told our client to come in with the best offer possible as he did not want to negotiate but rather just do business. Our client did just that and unfortunately the owner then started negotiating further. Rarely do we see someone just accept someone's first offer unless the demand for the service or product exceeds supply. Even then most people still try to negotiate what they think is a fair price.

In effect, concession strategies should be built around a "tension." During a negotiation you discover both parties' interests and then discuss what is really important to each other, financially and otherwise. In many negotiations people know what they "need" and "want". Needs are the must-haves, wants are the nice-to-haves. The idea being that by exploring the total value that all parties need and want in a negotiation you can then start ascribing value to them. Once that is done, parties can then decide if the value being exchanged is worth it. If not, then both parties discuss trade-offs until they reach the tension point. The tension point happens when both sides are no longer willing to give something up or pay additional value for an individual item still left. That means the value received (lower price) is not worth the item being traded off on the one side. Or from the other side, the items left in are worth more than the price offered. We now have hit that "tension" point.

The negotiation should be relatively easy to conclude at this point and any further concessions by either side are driven by strength of leverage or desire to maintain or build a long term relationship. But even at this stage of the negotiation process, I do urge you to still take a second step back and ask yourself if you have both thought of the long term possibilities that should be considered now. Often, we negotiate for the short term thing we want now and don't think of the longer ramifications of our short term thinking.

I was working with a company selling to the human laboratory testing market. It sold large capital equipment that processed and read tests and the tests themselves. We were working with a potential prospect that was looking to build their business in our testing area. We met with the prospect and understood their needs to be (1) growing gross profit for the laboratory, (2) making better use of their small facility, (3) not laying off any current employees (one of our selling points) and (4) equipment mobility. We constructed a number of options and proposed them. Our final proposal was a configuration that allowed the prospect to lease our equipment based on certain volume commitments, pricing for the consumable based on those commitments, access to our space planning unit, marketing assistance, and alternative training assistance. We proposed a package price 20% above our average selling price.

The alternative training assistance was to retrain the displaced employees due to our product features. The marketing assistance was to assure full capacity use of the capital equipment. Our assumption was both were "wants" not "needs". Our assumptions turned out to be true. When the prospect countered with a lower price we accepted that term but countered by changing payment



terms and removing both the alternative training assistance and marketing assistance. The prospect resisted but we showed them that other customers were not offered that assistance at that price. We finally proposed to the prospect the options of keeping the deal as proposed, or we would accept their counteroffer and they could either remove the assistance programs or, keep them and remove the space planning unit. Enter the “tension” point. They chose to remove the assistance programs and accept the new terms and conditions. We believed that the space planning team was a “need” not a “want” and we were right. We leveraged that to construct multiple options and allow them to make the choice. In addition, we effectively cut off any further discussion of price as we focused on what was important to them and acceptable to us. Discussing further price reductions was not as important as keeping the space planning unit assistance.

In conclusion, we have found that many people think they have planned for an upcoming negotiation but often the person or team has not considered all of the questions we suggest will make them thoroughly prepared. Take into account four key components of a negotiation (negotiators, negotiables, leverage, and strategies) and you will be more prepared, more confident, and achieve better outcomes.