

## THE SCIENCE AND PROCESS OF NEGOTIATING

*This is the first in a four article series about The Science and Process of Negotiating by Philippe Lavie and Rob Gullett.*

Negotiation is both a strategy and a science; when followed correctly negotiating is a defined process, which meets the needs of both the buyer and the seller.

More precisely, negotiation is a set of interactions between two or more parties, intended to resolve a point of difference, to produce an agreement upon courses of action, to bargain for individual or collective advantage, or to craft outcomes to satisfy specific interests. Negotiation is a process where each party involved tries to gain an advantage for themselves by the end of the dialog; therefore it is intended to aim at compromise.

The purpose of this article is to reveal and analyze negotiations from the perspective of the sales cycle, and to illustrate how buyers make purchasing decisions. Sales people often believe that negotiations occur only at the end of the buying cycle once the buyer is selecting a seller's solution. This couldn't be further from the truth! Negotiating should occur throughout the entire buying process. All buyers ask for information, white papers, demos, case studies, references or proof-of-concept before selecting a solution, so shouldn't sellers ask for - negotiate for - something of value in exchange?

Is it true in sales that there are winners and losers in negotiations? The results of any negotiation can be designated into one of the following groups:

- Lose/Lose (all parties lose)
- Win/Lose (I party wins and the other loses)
- Lose/Win (I party loses and the other wins)
- Win/Win (both parties win, but sometimes this is a compromise)

Although we accept that a win/win viewpoint is the only practical means to achieve a measure of competitive advantage, it is equally important that this approach be applied in a sensible manner appropriate for today's global marketplace. It would be near-sighted to presume that all negotiated agreements are mutually equitable.

There are three stages in negotiation within a sales cycle.

1. During the buying cycle and throughout the selling engagement
2. As the selection step when the buyer has chosen a seller's solution
3. In a situation where renegotiation has become a necessity

During the buying cycle and the selling engagement, negotiation is based on the core concept of "Quid Pro Quo". From the seller's point of view, this means that the seller should receive something from the buyer before the seller fulfills the buyer's request. For example: Buyer calls and asks to get product information and pricing from the seller. The seller acknowledged what the buyer is asking but before agreeing to send the requested information, the seller asks a series of questions that

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will help the seller understand the buyer's situation, and with what the motivation, initiative, or project the buyer is involved. Once the seller receives the answers, then the seller can provide the requested materials, perhaps modified to fit the valuable new information from the buyer.

The second stage in negotiation is the final step within the buying cycle when the buyer has chosen the seller. The seller should once more confirm that he is the vendor of choice using a sentence like: Before we start our contract or pricing negotiation, let me ask you if we are the chosen vendor and pricing is your only concern? If confirmed, then the pricing or contract negotiation can start. There are many elements within this phase.

Let's break this negotiating down into more manageable and relevant elements to consider when planning for negotiations:

### *Preparing for Negotiations:*

#### **1) Research All Pertinent Information**

Learn everything you can about the company and the people with whom you will be negotiating. Similarly, ensure that all departments involved in the upcoming negotiation are in alignment with your own expectations and obligations.

#### **2) Contract Negotiation Preparation**

Before entering the negotiation, you must clearly define your goals and objectives and their relative importance to each other. What could you offer by way of concessions or trade-offs in exchange for the same from the other party? This is the most crucial phase.

#### **3) Define Your Position**

Your position will form the backbone of the proposal or offer you are prepared to make to your negotiating counterpart. A backup position should be formulated prior to making your proposal, in the event that your counterpart does not deem the initial offer acceptable. Leave yourself room to maneuver, to allow yourself and your counterpart flexibility in the contractual negotiation process. Also, ask yourself what your backup position would be, should the negotiation fall apart. What options are available and what is the best possible alternative for you should you be unable to reach an agreement?

#### **4) Evaluate the Other Side**

Think about what your prospective partner's position will be in relation to their expectations, as well as your own (take notice we didn't say opponent's position). You must also consider what would be of relative importance to them and gain clarity around their goals and objectives. Consider what objections or issues they might raise and how you might counter them in a mutually productive manner.

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### 5) Introductory Meeting

Before you make an offer or proposal, be sure that you are both in agreement about the objectives and goals of the contractual agreement you are about to negotiate.

### 6) Listen

Buyers believe that sellers have 2 operational modes: Talking . . . and waiting to talk. Prove this assumption is wrong about you; become a listener. A successfully negotiated contract is not a one-sided viewpoint. It's important that you take the time to listen to what your negotiation counterpart has to say. This is not the time to talk, but to listen, and by doing so you will learn what is important to your counterpart. Reaching an agreement will become easier if you pitch your position in a manner that gives your counterpart more opportunity to say "Yes". Active listening is crucial.

### 7) Concessions

Don't rush to accept or make concessions. Take your time, and if necessary, put the request for a concession on the back burner. Most importantly, avoid making a concession without ensuring you will receive something of equal or greater value in return. **Preparation is important** for maneuverability in a negotiation, as it enables you to cover various scenarios that may occur.

### 8) Don't Be Afraid to Say No

A bad agreement can be worse than no agreement at all. If what your prospective partner proposes does not satisfy your own goals and objectives, you must be prepared to say "No".

### 9) Confirm Your Prospective Agreement

Once you have made a tentative agreement on the contractual obligations of both parties, you should verify the terms of the pending negotiated contract both verbally and in writing.

### 10) Expect the Unexpected

Unfortunately, a common negotiation ploy many negotiators face in contract negotiations is a final demand or additional concession request by the other party – usually, just when you thought the deal was sealed. Again, don't be afraid to say no, as this is not what you had initially agreed upon. Conversely, this could also be an opportunity to convince them to offer you an additional valuable concession – but only if it is warranted.

All that is good in a normal economic climate, but we are in anything but normal, right? So what changes in tough and challenging times like we're in now? The third stage in negotiation is when it becomes a necessity to renegotiate an agreement. Many reasons can lead to such a necessity: bad economy, change in material pricing, change in project scope, and many more. Let's look at what renegotiation means.

### *Renegotiating Agreements in a Tough Economy*

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Suddenly any pretense of collaboration has gone out of the window. Buyers are now quite happy to win at the expense of their suppliers - and some suppliers are now raising their margins with unjustified price increases. For a supplier, the best time to negotiate a price increase is when the buyer is distracted by market-wide changes - i.e. sellers raise prices when everyone else is. So how should you handle this?

### Re-negotiating Done Deals

It is really frustrating when you have another party attempting to re-negotiate a deal that you have already agreed upon - particularly if it is part of a complex long-term framework. The situation is likely to become emotionally charged because it may feel that one party or the other is now negotiating in bad faith. People start to make statements using "hot" words and "faux pas" to describe the other party's behavior (e.g. you reneged, we can't trust you etc.). This makes rational behavior unlikely.

When you initially make an agreement with somebody, both parties are usually looking at a gain of some sort. When a re-negotiation takes place, at least one party will probably end up in a worse position than they were before the re-negotiation.

It is very tempting to react emotionally to any attempt at contract negotiations; this can become dangerous. Under these circumstances people frequently make irrational decisions. The ego kicks in and people start becoming attached to the original deal without realizing - or refusing to acknowledge that the status quo has now changed. This frequently results in deadlock that doesn't help either party.

Two things happen in a re-negotiation:

1. The negotiation is likely to become much more unpleasant and competitive than the original negotiation. In the original negotiation both parties are generally looking at positive outcomes. In a re-negotiation somebody will almost certainly come off worse. Research has shown that ***negative events affect us much more than positive events*** - and this is likely to affect people's behavior
2. Both sides are likely to be less willing to compromise and more likely to end up in a stalemate. Research has shown that ***negotiators who looked at deals in terms of profits rather than loss are more likely to compromise***. What this means is that:
  - As a **seller**: you need to ***guard against positive "spins"*** put on the situation by the buyer. If the buyer portrays a situation in a positive convincing way, you're more likely to compromise but you may not need to. Playing hardball can be an option.

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- As the **buyer**, re-negotiating prices downwards will continually talk about how much profit the seller will still make - rather than how much it will cost them.

One of the most effective ways buyers and sellers use in dealing with this is to swap out negotiators. This has the benefit of reducing the emotional content of the discussion, and also removes the attachment to the initial deal. Further research supports that people continue to throw good money after bad to support their initial position – yet another reason to change the negotiator.

Before looking at what it means to the buyer, it is important to remind ourselves, especially when faced with the possibility that renegotiation may occur, to train the people responsible for, or involved with renegotiation. A renowned training consultancy conducted research during the last recession with one of their clients to see what the impact was, if no training was provided or stopped during these trying economic times. They trained part of the sales force and didn't train the rest of the sales force (the experiments 'control' group).

### What happened?

Sales of the untrained (control) group fell by 13%. The trained had a gain of 17%. In terms of gaining new business the trained group performed 79% better than the control group. This highlights not just the importance of training, but of re-skilling when the negotiation game changes. Negotiations are conducted differently in many ways in times of bust to times of boom.

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*Special gratitude to the following referenced authors, companies, and organizations:*

- CustomerCentric Selling©
- “Getting to Yes” by Roger Fisher and William Ury
- “Power of Negotiation” by William Zartment and Jeffrey Rubin
- HBR and Harvard Business School – case studies on negotiations
- Spin Selling© by Neil Rackham