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SAM Program Manager

A Strategic Negotiation Process

This article is second in a series adapted from Strategic Negotiation, a new book written by Brian Dietmeyer, Co-Founder of Think! Inc., with Rob Kaplan, Principal of Kaplan Associates, which became available in book stores in June, 2004.

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In our last Velocity™ *article we explored the importance of building a Negotiation Strategy into your organization. This article will focus on the tactical pull-through of your strategy one deal at a time using a Negotiation Process.*

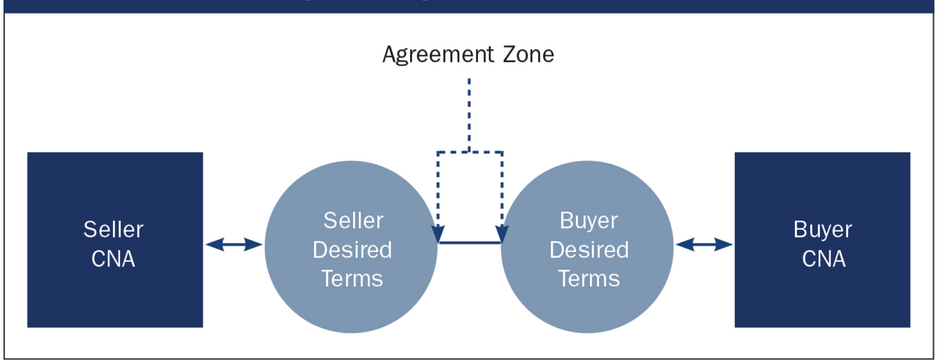
The Strategic Negotiation Process

At its most basic level, the Strategic Negotiation Process is a step-by-step system that enables you to blueprint a negotiation, making it possible for you to see and understand a negotiation from your own perspective as well as that of your customer.

But in order to understand the process, you're going to have to start thinking differently about what negotiation really means. The traditional view of negotiation is promising, cajoling, threatening or using any of a wide variety of tactics to get what you want from another party. Negotiation, however, begins long before you sit down with someone to work out the terms of a deal. It starts as soon as you select an account and start selling and / or managing the account relationship. This is all negotiation, and redefining it as a process is what leads to world-class deal making.

The Blueprint

Figure 1. Negotiation Blueprint



Our research and global field work have shown that virtually every negotiation, regardless of who's conducting it or where it takes place, can be blueprinted in exactly the same way. This is an extremely important point, because we also found that everything that takes place in the course of a negotiation – the planning, research and all the tactics used in the final face-to-face meeting – is ultimately driven by that blueprint. But what is this "blueprint"? It's essentially a picture of the entire negotiation revealed when each side of any deal answers the following two questions:

- What are the consequences if we do not reach agreement? and
- What items are likely to be included if we do reach agreement?

In order to answer these questions, however, we must first go back to some very basic concepts about negotiating. In most negotiations, both sides have a separate "Wish List" of what they would like to achieve in the negotiation. Although neither side gets its exact list in the final deal, if the two sides do come to agreement, both get at least some of the things on their wish list.

Whether the two parties come to agreement or not, there is a blueprint that can be applied to the situation. Figure 1 explains all likely outcomes of the situation.

In the middle of the blueprint are the two wish lists, and, between them, the Agreement Zone—the place where the two sides meet if they come to an agreement. There is always an alternative to both sides reaching agreement, however, which we refer to as the Consequences of No Agreement (CNA); this is shown on either side of the blueprint.

What Are the Consequences of No Agreement?

You may never have used the expression "Consequences of No Agreement," but chances are that you've thought about them. After all, you know that something is going to happen if you don't make a deal. As the seller, your Consequences of No Agreement, your alternative to making a deal, is going to be losing the sale. Your customer, on the other hand, generally has three possible alternatives to reaching agreement with you. They could (1) go to a competitor, (2) build the solution themselves or (3) do nothing. It's only when negotiators obtain something that's at least marginally better than their alternatives that they prefer agreement to impasse.

Understanding the Consequences of No Agreement, both for yourself and your customer, is the most important aspect of constructing a blueprint of a negotiation. The reason for this is that, in any negotiation, the other side always sees your offer as a gain or loss based on its perception of the consequences of not reaching agreement with you. Simply put, if it believes that making a deal with you will be to its benefit, it will do it. But if it believes that it will be better off if it doesn't make a deal with you, regardless of the alternatives, you're going to lose the sale.

Note that we said the other side makes a decision based on its perception of the consequences. The truth is that in most negotiations, one or both sides either hasn't taken the time to analyze its Consequences of No Agreement, or has misunderstood those consequences. In either case, even if one side is putting a great offer on the table, if the consequences – the alternatives to that offer – are misdiagnosed or misunderstood, chances are the two sides won't be able to reach agreement. Understanding this is the first step in blueprinting a negotiation, as well as the first step in the Strategic Negotiation Process.

What Items Are Likely to Be Included if We Do Reach Agreement?

The majority of negotiations succeed, ending in agreement rather than impasse. But in order to reach such agreement, and in order to fill in the rest of the blueprint, it's necessary to answer the second question we posed: What items are likely to be included if we do reach agreement? In the course of our consulting we see people involved in very complicated negotiations that include a variety of items such as price, length of agreement, service, payment terms, legal terms, volume, etc. Even so, when we ask them to tell us what the negotiation is about they often just say, "Price." Bear in mind that these are not young, inexperienced negotiators, but rather seasoned executives who may have negotiated hundreds of deals, and who still fall prey to this common mistake.

In any negotiation, the other side always sees your offer as a gain or loss based on its perception of the consequences of not reaching agreement with you.

Determining what items should be part of the final deal should be a very simple exercise. Due to financial pressures, political pressures, lack of planning and a lot of antiquated negotiation tactics, however, it's not unusual to see situations in which neither side has a clear idea of what they really want out of a negotiation beyond one or two simple items. That's not a problem if you're negotiating over a commodity, but the less commodity-like your product or service the more important negotiation skills become, and the more opportunity there is for creating value for both sides by trading something one side values more than the other. The reality is that the heart and soul of business negotiation is trading. And in order to trade properly, a world-class negotiator has to understand not only all the variables in a business deal, but also the importance of each to both sides.

Using the Blueprinting Process in a Large and Complex Negotiation

Let's try out the process on a "live deal" involving thorough analysis and effective customer questioning around the two aspects of the negotiation blueprint.

It's April 1st and you've just been told by a potential new global customer that after all your months of trying to sell some of your machines to them, it's finally down to a choice between you and your closest competitor. The customer wants to see your "best foot forward" proposal in six weeks, by May 15th, and has hinted that your competitor is aggressively pursuing it, is being quite creative on price and has a pretty good "product fit.

"The Consequence of No Agreement (CNA) – Yours

You complete an overview of your own CNA and determine that if you don't reach agreement with the customer in this negotiation you will most likely lose the business. In this case, losing the business means you will lose about $750K in global revenue in the first year. If, however, you take into consideration potential long-term revenues from this customer, total CNA costs could be as much as $2.5M. In addition, if you don't close this deal you will lose the costs associated with the four months you've spent selling to the customer—approximately $25K for staff time, product demonstrations, etc.

You will also have some soft costs in the form of "political heat" from your Vice President of Global Sales and the head of your product management group, both of whom have a personal interest in this sale as it impacts their bonuses, as well as yours. You are also aware that losing this sale will, in effect, fund a competitor by sending these revenues to them.

Good news for your CNA is that the market is growing—albeit slowly compared to past years. The chances of replacing this customer are fairly good and your list of other prospects for sales looks good at the moment. Also, while you have no other customers that are this large and ready to close, there are at least two or three smaller ones that you feel positive about. All of them together could replace this sale, but it's always more profitable to close and service one customer than several.

Consequence of No Agreement (CNA) – Your Customer's

As always, attempting to analyze the customer's CNA is trickier. In this case, you know their CNA is to go to your major competitor, and, as they've hinted, pay less. What's tricky, though, is the total analysis – that is, determining the positive and negative effects – of their choosing the competitor over you. The first thing you do is pull together a team from your side. You invite one of the company's account managers who worked for your competitor on this deal, a guy from engineering who just came to you from the customer's organization, and some additional product experts. You give them an overview of the situation and ask them to help you brainstorm all the elements the customer may be considering when comparing your offer to their CNA.

It's not unusual to see situations in which neither side has a clear idea of what they really want out of a negotiation beyond one or two simple items.

After brainstorming you ask the group whether, from the customer's perspective, each element is positive or negative compared to choosing you. The team breaks down the analysis in terms of design of the solution, delivery and installation, ongoing maintenance, output and long-term upkeep. They also suggest doing an evaluation of comparative terms and conditions. The results of their analysis suggest the questions that must be addressed are:

Design Elements

- Whether or not there is an off-the-shelf solution that fits the customer's needs;
- How much "ground up" design is needed to build and test custom aspects; and

- How much time / commitment is needed from the customer for design.

Delivery and Installation Elements

- How long will it take?
- How long will the customer's operation be down while the machine is being installed? And
- How labor intensive will it be for the customer?

Maintenance Elements

- How often does the machine break down?
- What are the service hours and fees? And
- How difficult will it be to train the customer's team to run it?

Output Elements

- How many units per hour will the machine put out?
- What is the customer's machine's defect rate? And
- Can the machine be run "24 / 7"?

Upkeep Elements

- What do maintenance costs look like in years two, three and four?
- How easily upgradeable is the machine? And
- What is the machine's expected service life?

Terms and Conditions Elements

- Lease vs. buy;
- Flexibility of contracts;
- Payment terms; and
- Short-term product price.

In regard to design, you've determined that your competitor does have a pretty good "off-the-shelf" machine, while yours would require some customization. Your customization, however, would be free, and would require very little customer interface.

In terms of installation, your engineering department has just found some independent studies showing that easily customizable machines – like yours – are also relatively easy to install, and therefore end up taking about as much total time to install as less flexible "off-the-shelf" machines.

As far as maintenance is concerned, the folks in your engineering department and, especially, the engineer that just came over from the customer, say you have a huge advantage in terms of your machine's reliability. Of course, customers aren't likely to tell you that, but it's one of your strengths.

In regard to output, you and your competitor are pretty close. Their output may be a bit higher than yours, but since your machines run a higher percentage of the time, it probably makes up for the difference. In terms of upkeep, because of how they've been engineered, your machines breakdown much less frequently and, as a result, last longer.

Finally, in regard to terms and conditions, you and your competitor both offer lease or buy options, your industry contracts are all pretty much the same and payment terms are usually 25% at signing, 25% on delivery and 50% when running. Your "price" is a bit higher, but you've determined that because of the reliability and flexibility of your machines, they have less downtime, easier long-term upgrades and longer shelf life. As a result, not only does your return on investment get better after year one, but your product is less expensive to own in years two and three.

In answering the questions about each group of elements, you've determined that there is a value proposition gap between what you have to offer and the customer's CNA (your competitor) in all but one of them (Output). Based on that, you feel good about this negotiation, however the problem is that either your customer doesn't have all the data on its CNA that you do, or it's bluffing.

Wish List – Your Side

You've pulled together your product manager, pricing manager and someone from the legal department for this estimation and, after much wrangling, have prioritized your Wish List of trades as follows:

Wish List Estimation

Your Side

Rank	Item	Weight	Range ("preferred" to "will accept")
1	Length of contract	30%	3-1 years
2	Price	25%	$300-250K per machine
3	Volume	15%	3-2 machines
4	Upgrades	15%	50% discount-free
5	Man hours you provide for installation	10%	100-150
6	Ongoing Service	5%	8 hours x 5 days- 24 hours x 7 days

Wish List – The Other Side

With the help of the account manager who used to work for your competitor and your pricing manager, you've estimated the types of trades this customer has looked for in the past and come up with the following educated guesses for its Wish List:

Wish List Estimation			
	The Other Side		
Rank	**Item**	**Weight**	**Range ("preferred" to "will accept")**
1	Price	40%	$200-350K per machine
2	Ongoing Service	25%	24 hours x 7 days-8 hours x 5 days
3	Upgrades	15%	Free-75% discount
4	Length of contract	10%	1 year-??
5	Volume	5%	2 machines-??
6	Man hours you provide for installation	5%	200-100

You know exactly what the customer's CNA is, and you've done a pretty good job of analyzing its positive and negative elements. Now, in order to learn how your customer sees its CNA, and to educate the customer on it, you prepare the following questions:

- Have you determined how much customization the two machines will need for installation?
- How do you see the impact on your facility during installation?
- Do you have a certain amount of time budgeted for installation?
- What are your expectations in terms of machine downtime?
- When the machine breaks down, how quickly do you expect service?
- How much staff retraining do you expect you'll need?
- Do you have a figure in mind for year one maintenance costs?
- Do you have figures in mind for costs in years two through four?
- How would you like to handle future upgrades?
- Do you complete total cost of ownership analyses or just compare acquisition price?

Having developed questions to validate your customer's CNA, you now develop questions to validate its Wish List items, as follows:

- I understand you will be looking to negotiate price, service, upgrades, length of contract, volume and man hours to install. Is that right? Is there anything missing? Is there anything that should be deleted?
- What would you rank as your lead priority? That is, what should we focus on most? How about second, third, fourth, etc.?
- Do you have any specific targets you'd like to hit for each item?

You now send out an e-mail to the head buyer, Vice President of Manufacturing, Vice President of Finance and all the other people you've been selling to, asking them if you can have 15 minutes of their time to better understand their needs for the upcoming negotiation. If they ask for them, you can send the questions in advance. When you get together with them, whether on the phone or in person, you ask the easy Wish List questions first to get the ball rolling, then go on to the CNA questions. You also bring someone else from your account team with you to record the customer's answers.

Having had meetings with your buying influences on several levels to validate your assumptions, you now feel that, even though the customers didn't answer all your questions, you were able to tighten up your estimations. You also feel that you succeeded in educating it on many aspects of its CNA as well as on many of the items to be agreed upon in the negotiation. Now, taking into account your interest in length of contract, price and volume, and the customer's in price, service and upgrades, you devise three customized offers, equal to you (in that you would accept any one of them), but very different to your customer:

Either your customer doesn't have all the data on its CNA that you do, or it's bluffing.

Now it's May 7th and you're ready to make a presentation—a full week before the customer's due date. You invite the customer's head buyer, Vice President of Manufacturing and Vice President of Finance, and bring along product and technical support people from your side.

You open the presentation by thanking the group for taking the time to answer your questions a few weeks earlier, and let it know that its doing so went a long way toward helping you customize three different potential relationships. You also tell the group that you realize that if they don't choose you they will choose your nearest competitor, and admit that your competitor has a pretty good off-the-shelf solution as well as pretty good output. You also note that during your earlier conversations, the buyer and the Vice President of Finance put a lot of emphasis on price, and that the Vice President of Manufacturing talked a lot about "up-time," that is, the reliability of machines. This is the point at which you present the value proposition gap you found in your CNA analysis, specifically:

- Your machines are higher in short-term price (year one);
- Your machines are X percent more reliable than your competitor's, resulting in:
  - Higher output (which manufacturing was concerned with); and
  - Less maintenance cost (which the buyer and finance department wanted).
- The combination of higher output and lower maintenance makes your machines cost less starting late in year one, then drop by X percent in years two and three.

You tell them that based on their needs and the value proposition of your competitor, you've put together three different relationships that you highlight on a flipchart or PowerPoint presentation. You briefly overview some key elements of each, then offer everyone a handout containing the details and go through them. You now ask them to rank the three offers in terms of their preference. They quickly agree that the short-term option as the least preferable, but there's a lot of internal negotiation among them over which of the remaining options is most preferable. It's obvious that neither is quite right, so at this point you begin the trading to come up with one solution that fits their needs. They keep telling you that you're more expensive; you keep going back to total costs. They try to push you for concessions; you continue to trade using both wish lists. In the end, you settle on this deal:

FINAL AGREEMENT

Length: Three years

Price: $255K per machine

Volume: Three machines

Service: Five days x 24 hours

Upgrades: 25% discount

Installation Support: 300 hours

Negotiation Strategy Coupled with a Negotiation Process

The power is in the two sides working together. A Negotiation Strategy without a Negotiation Process runs the risk of never getting implemented, and a Negotiation Process without a Negotiation Strategy often results in inconsistent individual outcomes. An aligned approach will help you proactively manage your organization's reputation in the marketplace by consistently executing one deal at a time.

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