



# Developing a Negotiation Strategy

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### What Is a Negotiation Strategy?

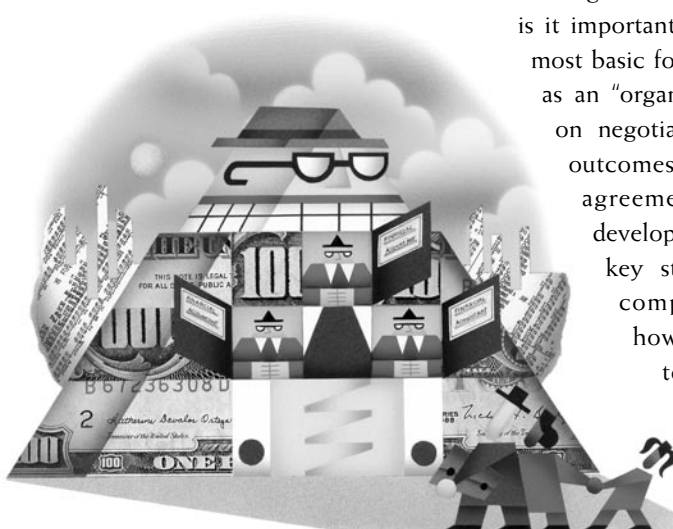
Being in the business of providing strategic negotiation solutions, we often ask organizations that we work with, "Do you have a written negotiation strategy?" Continually, the question is met by one of two responses, "What does that mean?" or "No, nothing has been written down, but I believe it is implied." A 2002 research study, conducted by Think! in conjunction with SAMA, included a sampling of SAMA's constituent groups and provided evidence that corroborates our informal poll: 95% of respondents reported having a written sales strategy, something commonly in place in corporations today, yet *only 15% reported having a written negotiation strategy.*

The data begs two questions: What is a negotiation strategy and why is it important to have one? In its most basic form it can be defined as an "organizational agreement on negotiation guidelines and outcomes." "Organizational agreement" means a developed consensus among key stakeholders in your company regarding how negotiations are to be conducted and what the results of those negotiations

will be. What the stakeholders are really agreeing to is guidelines, not rules often imposed on them by headquarters. Our experience shows that when SAMs, for example, are forced to go through a pricing committee or some similar corporate group, the negotiation process becomes slow, bulky, inflexible and unfriendly to the customer. This often results in losing sales to more creative, nimble competitors. At the other extreme, when SAMs are allowed to do whatever they want, it invariably results in inconsistent customer and competitor messaging, as well as inconsistent profits.

### WHEN SAMs ARE FORCED TO GO THROUGH A PRICING COMMITTEE OR SOME SIMILAR CORPORATE GROUP, THE NEGOTIATION PROCESS BECOMES SLOW, BULKY, INFLEXIBLE AND UNFRIENDLY TO THE CUSTOMER.

While having general agreement on a particular way to negotiate deals is beneficial to the entire organization, what is more beneficial is providing individual negotiators with ample flexibility to address their own situations within those guidelines. Having a negotiation strategy developed by the appropriate stakeholders provides an organization with what can be thought of as a radically *centralized* strategy with radically *decentralized* execution. Meaning, the strategy is centrally designed and those closest to the customer have generous flexibility to execute it. Once the stakeholders agree on ranges, or guidelines, for what can be negotiated, the negotiators have the ability to move within those ranges and need to go to management only in exceptional situations. A negotiation strategy can be developed for an account, a section of your salesforce or for your entire organization. The idea is to start with a controllable group in which behaviors can be changed and success can be measured cleanly and closely.



## Do You Have a Proactive Response Strategy for Your Irrational Competitors?

Why should you establish a negotiation strategy, whether it be for a specific account or your entire sales organization? Consider our research data that shows 85% of organizations polled did not have a proactive response strategy to address competitors that were acting more and more irrationally. Further, from an internal perspective, 85% reported more complex internal negotiations, coupled with 71% reporting misalignment with various functional areas or stakeholder groups. There are several very good reasons to establish a negotiation strategy, not the least of which is that it provides a means of successfully addressing changes in the business environment that have made negotiation so much more difficult. When there is consensus in an organization about where you want to go in negotiations, how you're going to get there and what the results will be, there is inevitably a reduction in internal conflict and external customer variance; the latter could be in the form of pricing and / or consistent deals executed time and time again. Reducing variance sends more proactive and consistent messages to both your customers and your competitors. It also consistently enables you to foster trust with your internal and external customers and avoid irrational behavior in your competitors. Ultimately, of course, the advantage of establishing a negotiation strategy is that these internal behavioral changes have a positive effect on the bottom line.

The process for designing and implementing a negotiation strategy is essentially comprised of four steps:

1. Identifying your company's negotiation stakeholders;
2. Writing the negotiation strategy;
3. Distributing and implementing the strategy; and
4. Measuring the outcomes.

## Identifying Your Company's Negotiation Stakeholders and Internal Collaboration

The first and most critical step in establishing a successful negotiation strategy is stakeholder involvement and internal collaboration. It's essential to include all groups for several reasons, perhaps the most important of which is that they all have their own particular roles in the process, their own methods, their own goals for their particular functional area and their own interests in the outcome. The process could and should include functional areas such as account management, field sales, finance, customer service, legal, operations and, of course, senior management. These various individuals are likely to have equally unique negotiation strategies and tactics, and unless those strategies and tactics are coordinated, the result could be a great deal of internal misalignment and external confusion. By involving all parties in the process, all of this can be improved. Do not underestimate

### **START WITH A CONTROLLABLE GROUP IN WHICH BEHAVIORS CAN BE CHANGED AND SUCCESS CAN BE MEASURED CLEANLY AND CLOSELY.**

the power of collaboration. Most likely this will be the first time that many of these stakeholders will be in the same room together discussing this subject, and obtaining buy-in will ultimately lead to a higher probability of them adopting whatever strategy evolves from the process. It's important to bear in mind that at this step it's not necessary to identify every single stakeholder; selecting a valid sample from each stakeholder group will suffice.

## Writing the Negotiation Strategy

Asking your stakeholder group to draft a negotiation strategy requires answering three essential questions:

1. Why do you need a negotiation strategy (whether it is for your strategic account management group / regional sales or field sales organization)?;
2. How will you measure the results of the strategy once it's been implemented?; and
3. What specific guidelines should be included in the strategy to support your measurement?

## Why Do You Need a Strategy?

This question relates to the motivation for developing a strategy in the first place, that is, the reason for wanting to make a change. Often the term "strategy" spawns nebulous phrases or written statements that get tucked away in a boardroom somewhere, never to be heard from again. Your goal is just the opposite: keep it simple, actionable and clear that the cure is not worse than the disease. Start

by asking your stakeholder group what kind of problems it has encountered in the negotiation process. It's likely that members of this group will come up with a fairly long list, but it's best to pare the list down to three to five most important issues. After going through this process, some of the answers companies typically arrive at include:

- Irrational competitor pricing is on the rise;
- There is too much internal negotiation, misalignment and bureaucracy;
- Professional buyers are trying to make our product / service a commodity;
- We have margin pressure; and
- Our consultative sales process has us selling solutions, but we end up negotiating price.



## How Will You Measure the Results of the Strategy Once It's Been Implemented?

Having determined why you need a strategy, the next step is to determine how you'll measure the results of that strategy after you've implemented it. There are three things that you should bear in mind. First, in order to be useful to those negotiating deals on the street every day, you need to focus only on the most important negotiation issues, not all of them. Second, you have to remember that this is just about negotiation. There's a tendency during this process to bring up all sorts of business issues, whether they're service, product or sales process-related, and it's essential that you stay focused on negotiation. Finally, you have to be wary of including items that are extremely difficult, expensive or time-consuming to measure. It's all well and good to come up with great success measurements, but unless there is available benchmarking data on them, they're not going to do you much good.

In order to clear away the clutter, an excellent way of establishing realistic measurement indicators is to imagine, "It's a year from now, our negotiation initiative has been very successful and our results are as follows..." But how do you fill in the rest of that sentence? Ask for input from your stakeholder group. Similar to the question, "Why do you need a strategy in the first place?", the group will probably come up with a long list of answers. Again, it's best to focus on the three to five items that are most important in the negotiation process. In fact, once you have the list, a good way to whittle it down is to ask your stakeholders to answer the following questions:

- What types of salespeople control the highest margin deals?
- What types of customers do the highest margin deals come from?
- What are the 20% of deals that drive 80% of our revenues?
- What two or three things that

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adversely impact margins should we stop doing?;

- What two or three things that positively impact margins should we do more of?;
- What is our time frame for measuring these results?;
- What aspects of the strategy are difficult and expensive to measure?; and
- What aspects of the strategy cannot be influenced in the negotiation process?

But there's also another good reason for paring down the list in this way. Our experience has shown that when you start implementing a negotiation strategy it's best to start small by using the process only for your highest margin, most complex deals, and only after you've achieved some success extend your efforts to the entire organization. In other words, your best strategy is evolution rather than revolution. Answering these questions should provide you with a clearly targeted group of high-margin, high-profile deals to which you should start applying your negotiation strategy.

Some of the measurement indicators we've seen used by companies that have chosen to start with a narrow focus and measure the success of their strategic account negotiation strategies are:

- Discounts deeper than 10% will decrease from 30% of global account deals to no more than 5%;
- Free licenses will decrease from 14% of all deals to zero;
- No request to reduce prices to match a competitor's will be considered until a full analysis of the competitor's value proposition has been completed;
- Price concessions will decrease in exchange for value creating trades; and
- The average customer satisfaction

rating for negotiations for both internal and external customers will increase from 73% to 83%.

### What Specific Guidelines Should Be Included in the Strategy?

Having determined why you should establish a negotiation strategy and the means by which you will measure its success, the next step in drafting the strategy is to decide on exactly what guidelines to include. Do this by correlating the measurement indicators you established in the last step and developing specific actions that will enable you to address each one, again tapping your stakeholder group for input.

For example, one of the measurement indicators cited in our research is, "Free licenses will decrease from 14% of all deals to zero." A good way to address that problem might be to provide a specific action that states, "A request for a free license will be granted only when the customer is willing to trade something of equal value."

Another measurement indicator statement is, "The average customer satisfaction rating for negotiations for both internal and external customers will increase from 73% to 83%." An appropriate action to match this would be, "For all global account deals over \$100,000, multiple stakeholders will be involved in any negotiation planning prior to a customer meeting."

To round out the picture, a complete account negotiation strategy might then look like this:

### Why Do You Need a Strategy?

- Irrational competitor pricing is on the rise;
- There is too much internal negotiation, misalignment and bureaucracy;
- Professional buyers are trying to make our product / service a commodity;

- We have margin pressure; and
- Our consultative sales process has us selling solutions, but we end up negotiating price.

### What Specific Guidelines Should Be Included in the Strategy?

- We will do a full analysis of our competitor's value proposition before reacting to irrational competitors;
- We will not decrease our prices by more than 10% or more without trading for something of greater value;
- We will eliminate free licenses;
- We will include new service "X" in every negotiation; and
- For all global account deals over \$100,000, multiple stakeholders will be involved in any negotiation planning prior to a customer meeting.

### How Will You Measure the Results of the Strategy Once It's Been Implemented?

- No request to reduce prices to match competitors will be considered until a full analysis of the competitor's value proposition has been completed;
- Price concessions will decrease to zero in exchange for value creating trades;
- Discounts deeper than 10% will decrease from 30% of all deals to no more than 5%;
- Free licenses will decrease from 14% of all deals to zero;
- The inclusion of new service "X" will increase to 90%; and
- The average customer satisfaction rating for negotiations for both internal and external customers will increase from 73% to 83%.

### Distributing and Implementing the Strategy

Patiently weathering two, three or four drafts of your negotiation strategy is not uncommon, and obtaining up

front buy-in through effective internal collaboration will save immeasurable time and heartache on the back end. Only after you have a version of a negotiation strategy that's satisfactory to *all* your stakeholders is it appropriate to start implementing that strategy. Of course making changes in an organization, even under the best of circumstances, is always difficult. As we've suggested, a good way to start is by using the negotiation strategy for your most important deals

## YOUR BEST STRATEGY IS EVOLUTION RATHER THAN REVOLUTION.


only, and then after agreed upon success you can start applying the process to a wider sales audience and a wider range of negotiations. When you do, bear in mind that even at this point it may be necessary to revise your strategy. The competitive and customer landscapes change all the time, new products and services come and go and a negotiation strategy must be fluid enough to take these changes into account. It may, in fact, be necessary to adjust your strategy as often as three to six times a year.

It's essential that you make sure that everyone knows about the strategy, understands it and is capable of carrying it out. You can do this by communicating the strategy widely and by auditing and coaching your leaders and implementers. Auditing means making sure that the strategy is being used to guide every new negotiation. Coaching is providing help to anyone who doesn't understand the strategy and is having trouble implementing it. Again, this is extremely important because by including everyone in your internal negotiating system in the process of defining the problems that need to be solved and determining how to solve those problems, you will substantially increase the likelihood of bringing about organizational change.

### Measuring the Outcomes

The final step in establishing a negotiation strategy is measuring the results. If you've taken all the previous steps correctly, the results should be exactly what you expected them to be. If, however, you find that despite your efforts you still haven't achieved the goals you put in writing earlier in the process, you need to go back and see what went wrong. It might, for example, be that you didn't properly identify all the company's stakeholders, or that you didn't determine reasonable and realistic goals. Our experience shows, however, that when goals aren't achieved, more often than not it's because the guidelines you established probably weren't followed. Correcting this may require additional auditing and / or coaching, but once you've provided those you should find that you'll be able to consistently meet whatever goals you set for your organization.

### The Negotiation Process

We've defined a Negotiation Strategy as an internal, highly confidential document that provides negotiation parameters and desired outcomes for a corporation, salesforce, customer team or specific deal type. A Negotiation Process helps implement the negotiation strategy through a systematic and repeatable approach. Virtually every negotiation follows a consistent pattern or "blueprint," and once you understand this underlying structure you will be able to diagnose and prepare for each negotiation more effectively whether you have five minutes or five days. Part two of this article, which will be featured in the next issue of *Velocity*<sup>™</sup>, will focus on the tactical pull-through of your strategy one deal at a time using a Negotiation Process that can create true and measurable business value. Please look for it in the next issue of *Velocity*. 

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