CHANGE THE NEGOTIATION CONVERSATION: TWO STEPS FOR HANDLING "I CAN GET THE SAME THING CHEAPER"

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The challenge

At Think! Inc. we've executed deal coaching on billions of dollars of negotiations all over the world. We have consistently seen one key problem, especially with renewals or end-of-the-quarter deals. The customer or buyer says to the account manager:

- "I can get the same thing cheaper elsewhere."
- "Either you meet these terms, or we won't renew."
- "Your competition undercut you by 20%!"

For each of our new clients, we survey account managers regarding buyer tactics and although the words their buyers use are different, we always see the same pattern. The negotiation conversation follows predictable patterns but what also remains consistent is the response from the account manager and the deal approval team. The account manager and deal approval team immediately focus on the concessions demanded by the buyer and ignore the step of diagnosing alternative tactics.

This ultimately results in eleventh hour, reactionary fire drills often causing the account manager to give away value to win the deal.

Anticipate the negotiation conversation

First and foremost, as an account manager, you should never be surprised by what happens with renewals or new deals during the negotiation phase. You can predict what the negotiation conversation is going to be so use this knowledge to your advantage and change the conversation before it happens.

To gain insight into buyer behavior, Think! Inc. conducted primary research on buyer tactics. The study spanned 19 countries over two years. We were shocked to find that we can anticipate **97% of buyers' verbal tactics** during negotiations.

Buyer tactics fall into two categories:

1. The buyer refers to an alternative option to commodify the seller and reduce value.
2. The buyer uses the alternative option to force concessions.

The answer is not to conduct more generic negotiation training focused on situational, countertactic behaviors. The answer is that account managers should gather better data around those two categories and prepare. We recommend that companies develop a framework that their deal makers and deal approvers can use during negotiations with customers.

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The framework: A two-step solution

There are two critical steps that need to be followed when creating a framework.

Step one: Identify your buyer's alternatives

The purpose of the first step in the negotiation analysis is to net out the two to three ways you meet the buyer's business objectives better than their deal alternatives. This is in fact your real time value on this deal and is your shield against concession pressure. You are looking to build a framework that will allow account managers to analyze their buyers' most likely alternatives if they don't reach an agreement with you. This helps avoid zero-basing alternative analysis with each new negotiation.

Your buyer's alternatives typically fall into three categories:

- **Competitors:** your buyer selects one of your typical competitors
- **Do nothing:** your buyer remains with their current situation (whatever that is)
- **Do it myself:** instead of hiring you for the project, your buyer decides to assemble their own team to execute the project

After outlining these alternatives, you should move on to documenting the top decision criteria your various buying influences should use when comparing you to an alternative.

- **Classify the impact of the decision criteria** in terms of hard vs. soft, costs and benefits and short and long-term consequences if your buyer chooses an alternative.
- **Compare each decision criteria** to your solution and the likely alternative.
- **Examine how your solution and the likely alternative** may impact stakeholders in your client's organization and where your strengths and weaknesses lie.

Case example

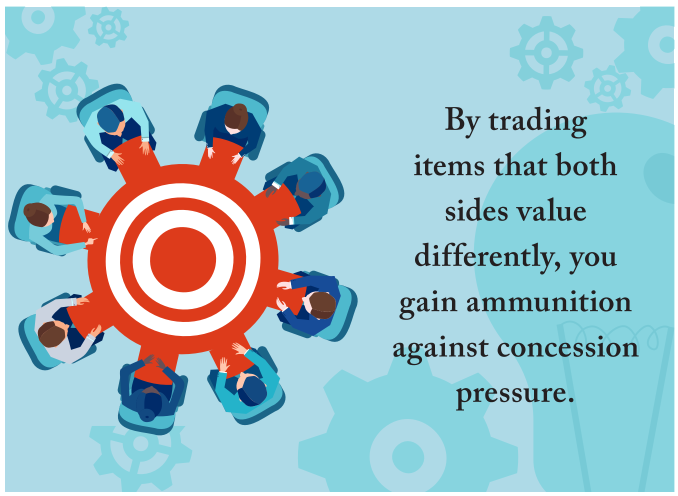
As an example, for one of our technology customers, the most common alternative to reaching an agreement was to *do nothing* or simply let the renewal expire and "go dark." We went to work analyzing the "do nothing" scenario deeply. From the perspective of the customer, this meant uncovering the detailed decision criteria the customer often missed when they reviewed their various buying influences. This proved the risk of "doing nothing" was high and they would be negatively impacted in many areas if they delayed renewal. The account manager was then equipped to reframe the conversation with the customer and clarify the operational risks of allowing the renewal to expire.

Supported by this framework, account managers become more confident. Not only are they no longer surprised by negotiation tactics but they become more proactive in anticipating the most likely alternative early in the sales process, arming themselves with data and successfully changing the concessions conversation.

Step two: Create a template that includes all commercial terms in the negotiation

With every deal, there is pressure to make concessions. This pressure comes when a buyer anchors the conversation on just one deal component or term, such as price. Given that there are typically many products, services and terms and conditions to agree to, price is only one of the terms that encompasses the entire economic and risk package. To feel more confident with concession pressure, follow this path:

- Collect data on all aspects of potential "trades," i.e. – a deal component that you would trade in exchange for something of equal or greater value.
- Assign a metric and "high to low" range for each of these deal components. For example, for components, such as price, length of contract and service support, ask yourself "what is the high end we will target and the lowest we will go?"
- Anticipate what specific commercial terms are likely to receive concession pressure.
- Refer to step one (alternative analysis) to determine your "power" in this negotiation. The analysis from this step should inform how passive or aggressive you can be on commercial terms.
- Broaden the dialogue to all commercial terms beyond the one in question.



By trading items that both sides value differently, you gain ammunition against concession pressure. You will also appear more flexible and creative. When under concession pressure, one of our clients likes to say, "There might be a pathway to that; can we consider longer term, higher volume etc.?" Focusing on only one item like price cannot create value, it is a zero-sum game where one side wins at the expense of the other.

This type of planning seems simple but Account Managers and Deal Review teams rarely execute it. Keep in mind that the Harvard Business Review published a study indicating that a 2.5% discount on the top-line price impacts the bottom line by 35%.[1] If you change the conversation in a deal from a single concession to a group of interrelated "if this, then that" trades, you will improve your margins and lower your risk on contract terms.

A cross-functional approach

To provide Account Managers with the data they need to change the conversation, a cross-functional effort is required. While building these two templates, it is important to involve all cross-functional stakeholders in the process.

When conducting the customer alternatives analysis in step one, engage operations, marketing and product teams. They can assist in determining the various buying influences and decision criteria for each alternative.

For your trading strategy template in step two, work with internal stakeholders, such as pricing and legal, to help you create a library of all the commercial terms and possible trades. Ask for specific priorities and preferred high-to-low ranges on terms such as price, length of contract etc.

This approach will put the strategy of those who approve deals directly in the hands of Account Managers. The terms will, of course, still need to go through a deal approval process; however, creating a strategy bridge from approvers to dealmakers can greatly reduce friction in the process.

Conclusion

Negotiations are predictable and they follow patterns. You don't need a lengthy list of tactics, countertactics or behaviors to help. You only need two steps. Focus deeply on the data beneath these two steps earlier in your sales process and you will start consistently creating a negotiation strategy to successfully anticipate and counter those tactics every time. Changing the negotiation conversation requires installing a systematic process to put data into the hands of dealmakers. ■

[1] https://hbr.org/1992/09/managing-price-gaining-profit

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