

# Negotiation

## Introduction

If you have gained genuine commitment from a target account and presented your product/service and pricing solution, you will now be ready negotiate!

By the end of this chapter you will be able to:

- Become a good negotiator, rather than someone who only bargains
- Plan how to achieve a 'win – win' situation
- Know how to maintain your prices
- Understand what factors affect a negotiation
- Deal with different types of buyers and make them want to buy from you

Good negotiators protect their profit margin and achieve their sales objectives. This takes time, patience and skill.

## Bargaining and negotiation

Before we look at the difference between bargaining and negotiation let us note some of the qualities of good negotiators. These include:

- Being knowledgeable about your products/services (and your market)
- Being a good listener
- Expressing yourself clearly
- Being patient (and having a relaxed manner)
- Being honest and 'customer focused'
- Being persuasive and decisive
- Know your target account's business/background

By showing these qualities you will be more relaxed and confident. This will then have a positive effect on the person you are negotiating with. Some people confuse the difference between bargaining and negotiation and bargaining. What are the differences?

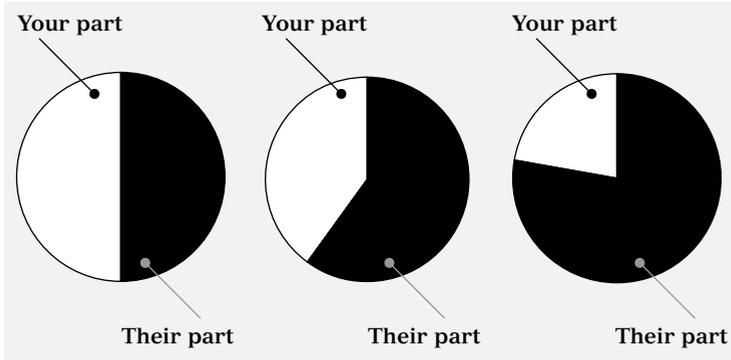
### **Bargaining**

Bargaining is the same as bartering. It is where one party wins a concession at the expense of the other. This is normally in the form of a price reduction! It has a major limitation in that the seller gets nothing in return for giving a concession.

If you sell in this style you will need to have a higher starting price than your actual selling price so that you can reduce it, without giving away too much price margin. Although this can give the impression to a buyer that your price was too high at the beginning. **It can also lead buyers to focus on price rather than value!**

Bargaining can be illustrated in the following way:

## Bargaining



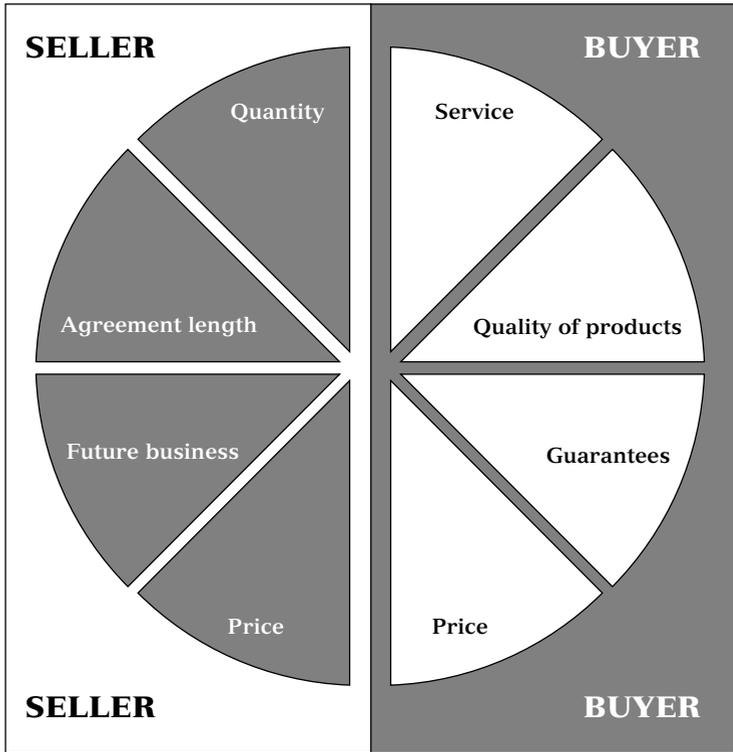
## Negotiation

Negotiation is where both parties look to win through compromise. If the seller gives a concession, he/she will look for something from the buyer in return. **The focus here is on a 'win – win' situation.** For both parties, any concessions that are given are likely to be in a number of areas, other than price only. These include service, other products, length of agreement and future business potential.

The advantage of negotiation over bargaining is that the focus is not on price but on other areas of value! This is because, if a buyer wants a concession, he/she will be asked to concede something too. This encourages more of a partnership approach that leads to better long-term business relationships.

In a negotiation, the amount available to negotiate for both parties is larger than in bargaining. In the following chart, the seller is looking to bring into the negotiation items like the quantity of products purchased, length of agreement, future business and group discounting/price. The buyer looks to discuss topics like service, quality of the supplier's products, guarantees and price.

## Areas of focus for a buyer and seller



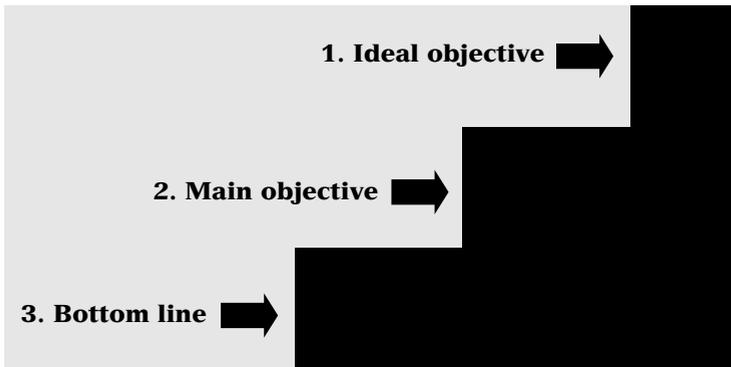
Price is not the only or dominant factor! Negotiation should result in an appreciation of one party, by the other. It also means that both parties will rarely finish where they started because they will need to be flexible and to adapt to the situation. However, the better negotiator you are, the easier it becomes to get the agreement you want. To do this you will need to plan how to achieve what you are looking for.

## Setting out your objectives

Although many negotiations take place in an informal manner it is still a good idea to prepare. This will include getting to the appointment early enough to read through your objectives. By doing this you are likely to be more relaxed as you will have the main negotiation issues fresh in your mind.

### Your objectives

When planning a negotiation, look at setting out your objectives, for example:



- 1 **Ideal:** Would like to achieve.
- 2 **Main objective:** Sacrifice some of the ideal objective to achieve this.
- 3 **Bottom line:** Only to be used if absolutely necessary.

To help you prepare, consider writing your objectives down before you begin a negotiation:

### **Your objectives**

**1 IDEAL OBJECTIVE:**

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**2 MAIN OBJECTIVE:**

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**3 BOTTOM LINE:**

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By focusing your attention on these principles you lessen your chances of giving away too much by concession. It is possible to have more steps, depending on the size/number of products involved, the length of your sales cycle and the company you are targeting. Avoid having to go to your bottom line. If you find that you are doing this focus harder on your areas of value.

A good way of looking objectively at an account before you go in to negotiate is to do a SWOT analysis. This analyses your:

- Strengths.
- Weaknesses.
- Opportunities.
- Threats.

This will enable you to recognise your own (and your company's) strengths as well as some of the weaknesses you will need to overcome and will help you to be aware of possible future business opportunities. It will also focus you on any potential threats from your competitors as well as key players in the target account itself.

### **The target account's objectives**

As part of the preparation process you should look at what a buyer is likely to want. For example:

- What is the best outcome that you can expect and how can it be achieved?
- What would I do if I were in the buyer's position?
- What are the alternatives if you can't reach an agreement?

Consider listing the target account's objectives, for example:

### **Target account objectives**

**1 TARGET ACCOUNTS IDEAL OBJECTIVE:**

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**2 MAIN OBJECTIVE:**

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**3 BOTTOM LINE:**

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This preparation will help you to persuade a buyer of the value of reaching an agreement with you. Seeing things from a buyer’s point of view will also give you an insight into his/her likely negotiating style. Planning is often the key to a win – win negotiation.

### Areas of negotiation

Some negotiation areas will be more important to a buyer (and to you) than others. Therefore you will need to focus on what your distinguishing selling points (D.S.P’s) are. This will enable you to reinforce your areas of added value and negotiate in those areas. These are the same ones we discussed in Chapter 2 – Targeting new accounts, (*Differentiating yourself from your competitors*).

In the table below, we have created a list of D.S.P’s (in the right hand column) to match each sales issue (in the left hand column).

### Sales issues table

Negotiation and questioning areas	Distinguishing selling points
View of your company	<ul style="list-style-type: none"> <li>• Experience</li> <li>• History</li> </ul>
View of the competition	<ul style="list-style-type: none"> <li>• Our competitive edge on product specification</li> <li>• Our nearer location</li> </ul>
Products/services	<ul style="list-style-type: none"> <li>• Product fit</li> <li>• Application</li> </ul>

<b>Negotiation and questioning areas</b>	<b>Distinguishing selling points</b>
After sales service/support	<ul style="list-style-type: none"> <li>• Specialist service team</li> <li>• Guarantees</li> <li>• Award winning service</li> </ul>
Account management and business relationship needs	<ul style="list-style-type: none"> <li>• Customer service team</li> <li>• Customer focus</li> <li>• My own history, experience and values</li> <li>• Referrals</li> </ul>
Value for money	<ul style="list-style-type: none"> <li>• Ability to meet your needs</li> <li>• Your agreement on product fit</li> <li>• Budget requirements able to be met</li> </ul>
Other reasons	<ul style="list-style-type: none"> <li>• Our professional standards – ISO 9001</li> <li>• Guarantees</li> </ul>

Setting out your objectives and planning are often the keys to a win – win negotiation. It will make it easier to see things from the buyer’s perspective, which will give you an insight into his/her likely approach and position. This will help you to focus on the main issues that both parties will be looking to negotiate on.

## **The principles of negotiation**

There are certain principles in negotiation with a target account that can help you to achieve your goals and close a sale successfully. These include:

- The value of your products/service.
- Your expected revenue and profit margin expectation.
- A buyer's timescale for making a decision.
- The price a target account wants to pay.

Negotiation can be made easier for you by linking a target account's 'Must Have' needs to your solution. You will also need to consider the following points:

### **1 Don't give a concession easily**

The main rule to remember in negotiating is that:

*'If you are asked to give a concession, ask for something back'.*

A good negotiator will look at how a compromise can be reached to achieve this. It is important for both parties to feel that they have won a good proportion of what each set out to achieve.

### **2 Maintain your price levels**

It can be tempting to reduce your price to try to get a quick sale! You may have to reduce your price but this should be as a last resort – not in the first instance! You should look at the type of accounts you are doing business with (and your own selling style) if they only seem interested in a low price!

There is a way of letting buyers know (without actually saying it), they are reaching your lowest offer. To do this:

- Make your first concession a reasonable one.
- Make your second much smaller.
- Make your third and any other concession even smaller.

For example if you have a total offer price of £5,000:

**1st reduction** – £4,850

**2nd reduction** – £4,800

**3rd reduction** – £4,780

Each of these concessions should warrant something being given back in return! If the buyer wants a fourth concession he/she can work out for themselves that it is only likely to give them about £10 off the last concession. By doing this, a buyer should question whether it is actually worth asking for another concession.

Continually reducing the prices of your product/service will give the wrong impression to a buyer. This is something that you don't want, particularly if you are selling the latest technology or something that you have offered as 'high value' to the target account.

Maintaining your price will have a positive psychological effect on a buyer and strengthen your negotiating position.

### **3 Look at the wider picture**

Always keep the entire business proposition in mind. Knowing your target account's requirements in full will strengthen your negotiating position. This will help you to:

- Reinforce the value of your products and services
- Focus the value in the buyer's mind

It will also help to focus the buyer on the benefits of a long-term business relationship.

### **4 Look at the value of a concession**

If you have to give a concession, look to choose something that has a low value to you but a high value to the buyer, (like free delivery). This will help you protect your profit margin.

### **5 Stand firm**

If buyers look for a concession remember to justify your offer. If you give a concession too quickly, you might give the impression that there are others worth looking for.

### **6 The danger of deadlines**

A deadline can focus a buyer's attention on the close date and encourage them to make a decision. If you decide to set a deadline for a particular product/service, stick to it and make it realistic. This can happen on special offers/marketing campaigns. If you don't, you will give buyers the impression that it was not genuine. You could appear too keen to win their business, which can encourage buyers to look for other concessions.

If buyers put a deadline on something, this can have a positive and negative effect for you:

- **Positive** – Because it focuses their attention on a defined timeframe.
- **Negative** – Because they may expect concessions before the deadline.

Try to get an agreement regarding any deadline that is imposed on you. This will ease the pressure on both parties, making an agreement more likely.

## **7 Negotiate the deadlock**

If you reach deadlock you will need to confirm the areas that you do and don't agree on and get an understanding of why this is. By now, both you and the buyer will probably have invested much time and effort. Go back in the sales cycle and re-emphasise the points that you agree on so that a compromise can be found.

## **8 Be aware of the strengths and weaknesses of your offer**

If a buyer thinks that there is a weakness in your offer, try and isolate it. As opposed to reducing your price, look to minimise an objection by:

- Reinforcing the value added areas.
- Changing the offer.
- Linking your offer to the buyer's overall needs.

This will help you to focus a buyer on your solution being the right one.

## **9 Confrontation**

If you find yourself becoming confrontational take 'a step back'. This type of scenario creates a 'lose – lose' situation. If a buyer becomes confrontational try and pacify the situation by looking for areas of common agreement.

You should avoid getting into this situation in the first place! You cannot win an argument with a buyer! If this situation occurs, goodwill breaks down which will need to be repaired before a successful negotiation can be concluded. You will need patience and good interpersonal skills to focus the buyer on how both parties can 'win' out of the situation.

The principles of negotiation take practice. Learn from any mistakes you or the buyer make. You can do this by reviewing each sales call and being honest with yourself about how it went. This will help you get better at reacting to any concessions a buyer requests. Also, by focusing on the value of your solution, you will make it easier for a 'win – win' outcome to happen.

## **Understanding the person you are selling to**

When you are going to negotiate with a buyer remember to prepare. When you are preparing to negotiate with a target account, it is wise to understand the type of buyer you are likely to meet. This will help you work out a strategy of the best way to sell.

### **Pressures on both parties**

The negotiation stage can potentially be a stressful time for both buyer and seller. This is because of the time taken since you first met and began discussing future business. Also, both parties realise that the time is coming when a decision has to be made.

(This will depend on the length of your sales cycle and how well you have got to know the target account).

For a buyer, it could be a time when he/she might be judged internally on how good a winning supplier is. It could also involve telling at least one supplier that their hard work has not been successful on this occasion!

Let us look at the main types of buyer you are likely to meet and their main negotiation focus.

### **Different types of buyer**

In a negotiation, buyers will have different types of personality and experience. However, the four main considerations that they tend to focus on are:

- 1 Business needs and objectives.
- 2 Price/facts and figures.
- 3 Products/service/3rd party references.
- 4 The customer/supplier relationship.

Good buyers (at all managerial levels) will focus on *all* of these areas. This is likely to be affected by the role they have in their company and other people involved in the decision-making process. For example, a Finance Director's main concern will be the second factor – Price/facts and figures.

### **Adapting your sales style**

You should try to know what likely area of interest a buyer will focus on and how to react to it. By doing this you increase your chances of doing business with the account. Let us look at the four areas (opposite) of buyer focus/interest in a negotiation and how you should react to it.

## Buying focus

Buyer focus	Buyer's likely areas of interest	Reacting to different types of buyer
1 Business needs and objectives	<ul style="list-style-type: none"> <li>• Your solution versus other suppliers</li> <li>• Justification of product fit</li> <li>• What benefits a solution brings</li> <li>• Fitting in with the business objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Stick to the objectives</li> <li>• Be prepared and well organised</li> <li>• Have supporting information</li> <li>• Relate your solution to the business objectives</li> </ul>
2 Price/ facts and figures	<ul style="list-style-type: none"> <li>• The cost of your products/ services</li> <li>• Budget restrictions</li> <li>• Timing/flexibility</li> <li>• Cost effective options</li> </ul>	<ul style="list-style-type: none"> <li>• Have financial information to support your arguments</li> <li>• Be prepared to discuss figures</li> <li>• Break down your proposal</li> <li>• Prove that you offer value for money</li> </ul>

Buyer focus	Buyer's likely areas of interest	Reacting to different types of buyer
3 Products/ service/ 3rd party references	<ul style="list-style-type: none"> <li>• The application of your products/service</li> <li>• Comparisons between existing and new methods</li> <li>• After sales guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure product/service meet needs</li> <li>• Gap between existing situation and proposed solution</li> <li>• Meet the product/service specification</li> <li>• Reinforce reliability/referrals</li> </ul>
4 The customer/ supplier relationship	<ul style="list-style-type: none"> <li>• Account management issues/reviews</li> <li>• Future guarantees on supplier loyalty</li> <li>• Development of the business relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Your own level of professionalism/ experience</li> <li>• Your company's reputation/ history</li> <li>• Understanding target account's needs</li> <li>• Partnership approach</li> <li>• Future business opportunities</li> </ul>

Knowing the type of buyer you are going to negotiate with will help you focus on what issues are important to him/her. This will put you in a better negotiating position by making it easier for a buyer to trust you.



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**PRACTICAL POINTER**

Trust is a key element in a negotiation that will encourage buyers to want to do business with you.

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Knowing the 'culture' of a target account is another consideration. This will require you understanding something about their values, products/services and market. (As looked at in Chapter 2 – Targeting new accounts, (*Background information on a new account.*))

Knowing how to sell to different types of buyer will help you to negotiate more easily. It will also make it easier for a target account to buy from you.

## Chapter summary

In this chapter we have looked at:

- Bargaining and negotiation.
- Setting out your objectives.
- The principles of negotiation.
- Understanding the person you are selling to.

It is important for both parties to have a 'win – win' situation. This is more likely to be achieved by focusing on negotiating rather than bargaining because a negotiation involves looking for something in return for giving a concession. By setting out your objectives you will be able to think about your strategy and that of a buyer.

Understanding the principles of negotiation will help you deal with different types of situations. Finally, understanding the type of focus a buyer is likely to have will help you to know how to react in order to maximize your profit margin.

### Key points

- ✓ Understand the difference between bargaining and negotiation.
- ✓ Focus on a 'win – win' situation and value, not merely on price.
- ✓ Set out your objectives (and look at this from a buyer's point of view).
- ✓ Practice the principles of negotiation – they will improve your position.
- ✓ Understand the type of buyer you will be negotiating with.

## Coaching table

1. Negotiation?	2. Status	3. Self-development points
<b>Are you in negotiations with the target account?</b>	No	Look at timing/commitment you have from the target account
	Yes, but there is no/limited commitment to a decision	Find out what/who is holding up the decision and why
	Yes	Look for areas of agreement, get commitment and close