

Negotiation

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Too many people starting up in business see negotiation as a chore and haggling as an embarrassment or a waste of time.

As a buyer, if you spend 15 minutes knocking £500 off the price of a piece of equipment, you effectively earn your business £2,000 an hour.

As a seller, good negotiation will ensure you do not waste money giving discounts needlessly, or miss opportunities to increase sales.

This briefing explains:

- How to prepare for negotiations.
- How to improve your negotiating position.
- How to sell for more and pay out less.
- How to handle tactics and gamesmanship.

1 The golden rules

There is no single formula for successful negotiation. In one situation, you may need to tread carefully and make concessions. In another, you can be fast and aggressive.

In particular, a one-off deal is different from a series of deals with one customer or supplier.

But there are a few golden rules experienced negotiators refer back to time and time again.

1.1 Set your objectives.

For example, if you are selling, you might decide upon these four key objectives, plus several less important ones:

- Price — a price to aim for, and a lowest acceptable price.
- Volume — high volume is vital if you have

spare production capacity (often the case with manufacturers).

- Timing — you need to fill quiet periods.
- Payment terms — you want fast payment, but the buyer will want to try the goods and delay payment as long as possible.

1.2 Try to **understand** what is really going on.

The other side will have key objectives, too.

- What can the person you are negotiating with not concede?
A negotiator may not have the authority to change certain conditions (see box).
- How urgently is your product needed?
- Is your supplier trying to clear old stock?
- What alternatives does the other side have?
Knowing your opponent's negotiating position is the most powerful weapon you can have (see 2.4).

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1.3 Give **nothing** for **nothing**.

Avoid making a concession without getting something in return.

Stay firm, or make a trade-off:

- 'No, our product is worth our price.'
- 'Yes, we can do it. But it will cost extra.'
- 'I am willing to pay your price, if it includes delivery.'

If the other side makes a concession, do not feel you must. Treat it as a natural outcome.

1.4 Create a '**win-win**' situation.

- Stress the benefits the other side will receive from the deal.
- Do not screw every last penny out of suppliers and customers, if you want to build a long-term relationship with them.

1.5 Write down your negotiating **strategy**.

- Outline your negotiating position and what you know of the other side's.
- List objectives, what is negotiable (and how far you are prepared to go) and any concessions you could make.
- Decide your negotiating tactics.

A written strategy is vital for a negotiating team. People must know their roles.

2 Give yourself power

If you begin negotiations feeling you are in a weak position, you will not get what you want.

2.1 Pay attention to **timing**.

Choosing the right time can make negotiation a lot easier.

For example:

- Ask for a bank loan when your account is in credit — before you get into trouble.
- Negotiate your tenancy when tenants have moved out, and the landlord needs you.

2.2 Create **alternatives**.

A forced seller always gets a poor deal.

- Avoid over-reliance on one customer, or one supplier.
- Use your bank, or improve your credit control, so you do not go into a negotiation desperate for cash. (See **Financing your business** and **Credit control**).

2.3 Establish what **points** you are negotiating from the outset.

This stops the other side from bringing new factors into the discussion later, especially when you think you have an agreement.

2.4 Keep key **information** to yourself.

Do not give away your negotiating position until you have completely established the other side's negotiating position.

For example:

- If a buyer asks what price you are offering, say that it depends on all sorts of things, including volume and timing. Then ask questions about what the product will be used for, how large the order might be, and so on.
- Answers like 'We are keen to do a deal' provide the other side with no useful information, sound positive and allow you to go on asking questions yourself.

2.5 Recognise that **relationships** win the day.

If someone wants to do business with you, getting a fair deal should be easy.

- Use your contacts to get introductions to people you want to do business with.
- Where possible, get to know someone before any serious negotiations start.

3 Buying at a lower price

It is almost always possible to pay less — if you are prepared to negotiate purposefully.

3.1 Never accept a **first offer**.

Even the seller may be unhappy — wondering if you would have paid more.

- Make a counter-offer.
- Your low opening bid will lower the seller's expectations.
- Even if he or she is very unhappy with your offer, you will get an idea of how far the seller is prepared to move.

3.2 Think what could **change** the price.

Even if the unit price appears to be fixed, try different approaches.

- 'How much for two?' 'How much for the whole box?'
- 'How much for the ex-demonstration model?' 'Can I have ten per cent off for this scratched one?'
- 'How big a discount for immediate payment? Or for collecting the machinery myself?'

“Don't be put off by bluster and gamesmanship. If you become aware that people are consciously using negotiating tricks and tactics on you, this often means they are desperate to get a deal. And if they need it more than you do, the chances are you will have the upper hand.”

Ken Burnett,
Chartered
Institute of
Purchasing
& Supply

4 Selling at a higher price

Begin negotiating as soon as the customer appears interested.

The buyer will immediately start trying to judge what concessions can be won from you. Do not reveal what you are prepared to give away.

4.1 Do not make concessions from the **start**.

- Even if you are prepared to accept offers, do not say so in your advertisements.
- 'Introductory' discounts are difficult to remove later.
- Do not offer discounts which have not been asked for, in an attempt to buy goodwill. This may make the customer believe the original price was too high.
- Postpone any concessions — eg 'Let's talk about that when we meet.'

4.2 **Start tough** and stay tough.

Start with a high demand, and then offer only minor concessions, or deals which work to your advantage.

- A tough opening usually gets a soft response.
- There is almost always a chance to start negotiating again, if things go wrong.

4.3 Sell **all the benefits** (see **Effective selling**).

- Show how much the product will be worth to this particular customer.
- To make the headline price lower, strip out extra costs like expenses and consumables. Charge for them separately.

Playing for time

A If your negotiation is deadlocked, invent an **adviser** or partner you must consult.

- You gain time to think over your negotiating strategy.
- The other side will feel the pressure of the deal slipping away.

B If this tactic is used on you, ask for the adviser to come to the **next meeting**.

- Politely indicate that you do not want to waste time dealing with someone who is unable to reach a binding agreement.

C You can use an **agent** (or perhaps one of your employees) to negotiate for you.

- They can use this tactic and mean it.

- Sell a package which shows that the customer is getting value. For example, a quote of £2,000 to do a day's training sounds expensive. Exactly the same training, sold as 'two full days' preparation for a 12-person course, including a tailor-made training manual (that will make the training three times as effective), plus the day's actual training, all for £2,000', sounds like better value.
- If you are already a supplier, and the buyer mentions a 'better offer' from a competitor, point out the risk and hassles of using a new supplier.

4.4 **Restructure** the deal, rather than reducing your price.

- Can you offer better payment terms, delivery service, or special specifications? Do not do this if it would be more expensive to you than dropping the price.
- Is the buyer prepared to place a larger order, or commit to future orders?

4.5 **Link** the deal.

- Make a concession on one deal in return for getting another deal settled. For example, 'I will agree to your request for a five per cent discount, if you withdraw your claim for compensation on those parts you said were faulty.' This puts the other side under pressure to settle both deals.

4.6 Work out the true **value** of your product to this particular customer, at this particular time.

The same product may be worth more or less to different customers.

For example, an antique table could be:

- Valuable to a specialist collector. Hold out for your price — you know that piece of furniture is worth it.
- Needed in a hurry by a film company. Up the price and stress the most important part of the deal — that you can deliver the table today.
- More than is necessary for someone who just needs a table for a computer. If the price is too high, offer another product which is more suitable.

4.7 Avoid getting drawn into an **auction**.

- Find out if the buyer is really trying to do a deal with you, or just window-shopping. If it looks like shopping around, invite your customer to come back to you with details of the best offer at the end.

“The most effective tactic used by professional buyers is the flinch. If buyers flinch when you quote your price, just look them in the eye and ignore it.”
Mike Ewart-Smith,
Whitegrove Group

Ask him or her to agree that you will get the business if you can beat that offer.

5 Tactics

You can use a variety of tactics to try to swing things your way.

5.1 Use the power of **silence**.

Many people cannot bear silence, and will fill the space by agreeing to your terms.

- If you are getting the silent treatment, start making notes in your diary.

5.2 Make **deadlines** work for you.

- Linking your concessions to a deadline can pressure the other party into agreement.
- If you are told a deadline, test how serious it is: 'So, if I do not agree by the deadline, there is no point in talking any more?'

If you can afford to stall until close to the other side's deadline, you will probably get the deal you want.

5.3 Explain that you have **budget** limits.

You want to pay £5,000 for advertising. They are asking £6,500. Try 'I've got no more money.'

5.4 Make sure the other side **invests** more time and effort than you. This makes it hard for a negotiator to walk away empty-handed.

- For every action you agree to take on, get the other side to commit to two.

5.5 **Threats** are usually counterproductive.

People threaten you back, and you end up in a no-win situation. Instead, negotiate.

- Avoid making threats, especially if you lack the will and the means to carry them out.
- To disarm a threat, show you are indifferent to it.

Negotiation can be stressful, but keep your reactions low-key.

5.6 Ignore psychological **gamesmanship**.

- Some negotiators try to gain a psychological edge. For example, by displaying status symbols (eg smart car), name dropping, or arranging staged interruptions (eg phone calls which make them look good).
- Recognise these for what they are: tactics.
- Blank them out and focus on what is actually being said.

6 Finishing up

You have done the deal. Do not throw away all that hard work.

6.1 Look after the **pennies**.

You clinched the deal without promising any extras, so do not throw them in now.

- If someone is buying your premises, offer the carpets separately — for more money. The buyer may be willing to pay £1,000 for carpets that are worth nothing to you.

6.2 Verbally **summarise** the agreement reached.

- Make sure you both agree on all the points you have covered.

6.3 **Shake hands** on the deal.

- Nobody likes going back on a handshake.

6.4 Emphasise the **benefits to the other side**.

- Even if you have negotiated a deal which is very much in your favour, present it as a 'win-win' outcome — so there will be enthusiasm about dealing with you again.

6.5 Get it **in writing**.

Any important agreement must be in writing — even if it is with your best friend.

- This makes sure both sides are clear about what has been said. And it helps stop people wriggling out of the agreement later.
- Send a letter summarising any concessions you have won in a meeting — even if no overall agreement was reached.

6.6 Deal with any **last-minute** changes. Some negotiators will let you think the deal is done and then ask for another concession.

This is done in the hope that you will panic at the thought of losing the deal and cave in immediately.

- Remember that they have invested as much time in the deal as you have.
- Stay calm and keep negotiating as before. This is a chance to improve your position.

Expert contributors

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Further help

There are other Start-up Briefing titles that can help you. These briefings are referred to in the text by name, such as **Credit control**.

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