

Negotiation



Negotiation

Negotiation: can be defined as a process of bargaining by which agreement is reached between 2 or more parties.

We all negotiate every day in a wide range of work and social situations.

In sales we need to negotiate with our customers to arrive at mutually acceptable and profitable deals.

Negotiation is important for 2 main reasons; the effect on our profits and the relationship with our customers.

Effect on Profits

Negotiating skills are important if you are to be successful in business and in life. The importance of negotiation to your business is vital and the impact of good or bad negotiating can be shown as follows:

- Assume you work for a company with a turnover of £10 million and costs of £8 million. In a very simple model your company is making £2 million profit.
- Assume that your sales people and buyers, by improving their negotiating techniques
- increase sales by 5% and reduce costs by 5%. How much does your profit increase by?
- Most people would instinctively say 10%, If you do the maths what happens is that sales increase to £10.5 million, costs reduce to £7.6 million and the new figure for profit is £2.9 million

This represents a massive 45% increase in profits and this is one reason why negotiation is important.

Effect on Customers

Successful negotiations can lead to increased profits but can also lead to greater customer satisfaction.

For example, you are buying a car and you see a car advertised in the newspaper for £8,500. You decide to make an ambitious offer to see how they react. You offer £6,000 and they accept your offer immediately. How do you feel?

Most people feel two things in quick succession:

1. I could have done better
2. There must be something wrong with the car

Think of this next time you are negotiating for your business with a customer or supplier. Are you 'being fair' by offering your best price first time? What impact has your action had on the way the other side feels?

The objective of successful negotiation is not necessarily to charge the highest possible prices for your products, or to pay the minimum price possible for your supplies, but to creatively put together solutions to problems that ensure:

- The best possible outcome for your business
- Customers and suppliers who are happy to do business with you
- A reputation for being a tough negotiator while earning the respect of those with whom you negotiate

Or as Napoleon put it, "The objective of negotiation should not be a dead opponent"

Planning the negotiation

In any kind of negotiation, the planning stage is probably the most important. Too often in negotiations we go in badly prepared and end up giving concessions that reduce the overall profitability of the final deal. The importance of planning is in having a very clear idea before entering into the negotiation:

1. What are my objectives?
2. What does the other side wish to achieve?
3. What information will influence the final outcome of the negotiation?
4. What concessions can I make?
5. How am I going to achieve my objectives?
6. What part will other people play in the negotiation?

Objectives

Before entering into the negotiation, you need to have a clear idea of your objectives and think about the other side's objectives. Ask yourself the following questions:

1. What exactly do I wish to achieve from this negotiation?
2. Which of my objectives:
 - a) Must I achieve?
 - b) Do I intend to achieve?
 - c) Would I like to achieve?
3. What options or alternatives would be acceptable to me?
4. What are the other sides' objectives?
5. How does the other side see the negotiation?

Information

It has often been said that information is power. In any negotiation, there will be 4 types of information that is important to the final outcome.

1. What information do I have that the other side has also?
2. What information do I have that the other side does not have?
3. What information do I need to have before negotiating with the other side?
4. What information does the other side need before it can negotiate with me?

This can be particularly important when negotiating with people who concentrate on price issues. What other things are important to this person? What pressures do they have on them to conclude the deal? How well is their company doing at the moment? How important is it that they deal with my company? What is the competition doing and how do we compare?

During the early phases of negotiation both sides spend time finding out more information before talking about a specific deal or set of alternatives. For example, if you find out the other side has a time deadline that only your company can meet, it may give you the chance to negotiate on more favourable price.

If you know that the other side has recently expanded their production capacity, you may be able to negotiate more favourable terms in return for a commitment to buy certain volumes over an agreed time period.

By spending time as part of your preparation in listing what you already know and what you need to know, you will give yourself a better chance to negotiate well on your company's behalf.

Concessions

It is rare in negotiation for agreement to be reached immediately or for each side to have identical objectives. More often than not, agreements have to be worked out where concessions are given and received and this is the area where the profitability of the final outcome will be decided.

When preparing for negotiation, it is advisable to write down a realistic assessment of how you perceive the final outcome, find out the limits of your authority within the negotiation and decide what you are willing and able to concede in order to arrive at an agreement which satisfies all parties.

Concessions have two elements; cost and value. It is possible during negotiations to concede issues that have little cost to you but have great value to the other side. This is the best type of concession to make. Avoid, however, conceding on issues that have a high cost to you irrespective of their value to the other side.

When preparing for negotiations, ask yourself the following questions:

1. What is the best deal I could realistically achieve in this negotiation?
2. What is the likely outcome of the negotiation?
3. What is the limit of my authority? At which point should I walk away?
4. What concessions are available to me? What is the cost of each concession and what value does each have to either side?

Strategy

Planning your strategy is important in negotiation. Once you know your objectives, you need to work out how you are going to achieve them. It is also useful to try and see the negotiation from the other side and try and work out what their strategy will be. During the negotiation there will be opportunities to use various tactics and you need to decide on which of these you feel comfortable with and recognise the tactics being used by the other side.

Ask yourself the following questions:

1. How am I going to achieve my objectives in this negotiation?
2. What is the strategy of the other side likely to be?
3. What tactics should I use within the negotiation?
4. What tactics are the other side likely to use?

Tasks

If you go into negotiation with a colleague or colleagues, you need to decide during the preparation phase:

1. What role will each team member take in the negotiation?
2. How can we work together in the most effective way?

Some teams of negotiators appoint team leaders, note takers, observers and specialists, each with their own clearly defined authority and roles to perform.



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