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Bolotin Points Newsletter

Providing Actionable Ideas to Increase Your Profit

Go to Market Strategy & Execution ◆ Revenue Acceleration ◆ Due Diligence ◆ Partnering & Asset Sales

How to Understand and Profit From Negotiation

Being good at negotiating is one of the most important life and business skills you can have.

Even if we wanted to, we can't avoid negotiating, and often the consequences of how well we negotiate are very significant. Whether it's potentially life changing or not, any time you trade something with another person (or even with your dog), you've negotiated. Examples from the business world of who you would negotiate with not only include customers and vendors, but also employees, supervisors, Board members, distributors, bankers, investors, etc. In your personal world, you're constantly negotiating with spouses, children, parents, friends and others. Each of these people have something you want and each of these people want something from you. You trade these things. To work out the trade, you negotiate.

Does this sound odd to you, somehow unseemly? Does the prospect of negotiating all the time make you anxious? If you feel this way, you're not alone. The reason so many people have negative feelings associated with negotiating is that they don't have the right definition. Let's clear this up before we go any further.

> definition
>
> **Negotiation** *n.* the process of reaching an agreement in an honorable way.

The reason so many people fear and / or dread negotiation is that they tend to attach other activities to it, such as being lied to, tricked and / or bullied. (Think about your most recent experience "negotiating" for an automobile.) While some people use these tactics, I recommend against them. And, in the case of when others use these tactics against you, I'll show you how to respond in a way that gives you the advantage.

With that out of the way, let's talk about the promising world of negotiation, and how, if you're good at it, you can get not only what you want, but help others to get what they want as well. The first thing we have to do is to divide the types of negotiations into two categories, "Win-Win" and "Win-Lose":

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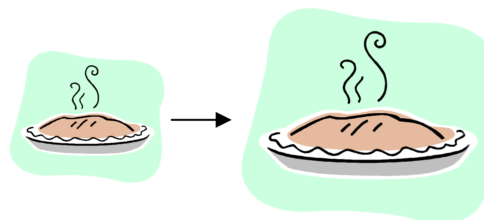
definition

Win-Win negotiation *n.* One in which negotiators are partners in finding an agreement whereby the object of their negotiation is to increase benefits to both partners. Both partners strive to increase the size of the pie, for themselves and for their partner, so both participants "win".

Using Trade Theory, the advantages to both sides of a Win-Win trade can be simply illustrated by considering the situation of two countries that are potential trading partners. Country A has more butter than they need but very little wheat. Country B has more wheat than they need but very little butter. If each country trades what they have too much of for the thing that they have too little of, both win. In this example, both countries would gain by trading and each would wind up with the perfect amounts of wheat and butter.

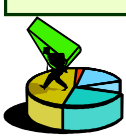
With Win-Win negotiation, the pie is expanded.

If you have to negotiate again with the same person in the future, always strive to make your negotiation a Win-Win. If the person you're negotiating with wants to make it a Win-Lose, try to convince him that this is not in his best interest.



definition

Win-Lose negotiation *n.* (also called a "zero sum gain" negotiation). One in which negotiators are not "partners", but rather, are "adversaries" or "opponents". Whatever each gains from the negotiation, by definition, their opponent loses. Opponents strive to gain as much of the non-expanding pie as possible at their adversary's expense. There is a winner, and there is a loser.



Before entering into any negotiation, you need to figure out if you are in a Win-Win negotiation or a Win-Lose negotiation.

how to test this:

The easiest way to quickly determine if you are in a Win-Win negotiation or a Win-Lose negotiation is to ask yourself the question "Will I ever have to deal with this person again?"

If you do have to negotiate with the same person again, you probably should be in a Win-Win mode and it will be best for you if you don't antagonize this person. If your negotiating partner finds out that the deal was lopsided or you used any dishonorable or unfair tactics, it won't be good for you the next time you have to negotiate.

Good examples of what should be Win-Win negotiations are negotiations with long term customers and, of course, everyone in your personal life. In a Win-Win negotiation, your objective is to build or continue to build a long term, mutually beneficial relationship, as opposed to trying to gain as much of the pie for yourself as possible.

If you don't have to negotiate with this person again, you're probably in a Win-Lose negotiation. In a Win-Lose negotiation, all you and your opponent care about is getting the most lopsided deal in your favor as possible. Think about the vast bulk of transactions where people sell their cars. Once the seller has your money, he doesn't care what you

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think.

One of the keys to successful negotiating (winning the battle and the war) is knowing when you are in a Win-Lose negotiation and when you are in a Win-Win negotiation. If you apply Win-Lose negotiating to what should be a Win-Win negotiation, you may win in the short term, but you will not be able to win in the future, because you'll have burned your negotiating partner. Conversely, if you apply Win-Win negotiating to what should be a Win-Lose negotiation, you'll probably get taken advantage of.

note

Less than scrupulous negotiators such as many car dealers try to convince you that you're in a Win-Win negotiation, when you're really in a Win-Lose. Not recognizing the difference can cost you money.

If possible, always strive to make any negotiation a Win-Win. If you can't or the situation does not lend itself to Win-Win, go into Win-Lose mode.

What follows are techniques to use to varying degrees in Win-Win and Win Lose negotiations:

technique

Gain Knowledge First

In either a Win-Win or a Win-Lose negotiation, the more knowledge you have about what the other person wants, the better position you'll be in to get what you want.

Let's talk about Win-Win negotiations first.

The first part of any Win-Win negotiation is to find out what the other person wants that he doesn't have and what he doesn't have that he wants. Match this up to what you want but don't have and what you don't have that you want and simply trade: your partner gets what he wants more of, and you get what you want more of.

In a Win-Win negotiation, you'll use the knowledge you gain in order to trade in a way to make the pie bigger, such as in the wheat and butter example above. If you don't gain this knowledge and your partner is not skilled enough to gain it, both you and your partner suffer because you don't know what you need to in order to make the pie bigger. If, in a Win-Win negotiation, your partner does not strive first to gain information about what you want and to tell you what he wants, do him and you a favor by steering the negotiation so that you both gain this information first, before trading anything.

If, as opposed to being in a Win-Win negotiation, you are in a Win-Lose, zero sum gain negotiation, your first objective is still to gather information. It will most likely be more difficult to obtain that information, because your opponent will try to hide it from you while at the same time trying to get as much information from you as possible. In both cases, you and your opponent share the same objective: discover the "point of indifference" for the other party.

definition

Point of indifference *n.* Point after which, the person doesn't care if the deal happens or not. In the example of the person who will purchase the car for any amount up to $25,000, $25,000 is the buyer's point of indifference. At any price below $25,000 the buyer will purchase, while at any price over $25,000, the person will not purchase.

In the example in the definition above, the car dealer will strive to uncover the prospect's point of indifference. Why? Because this is the highest price the car dealer can charge for the car to this particular buyer. Any amount the car dealer charges for the car that is less than the prospect's point of indifference is money the car dealer could have gotten from the buyer, but did not.

Using the same example, the car dealer also has a point of indifference. This is the lowest price at which the car dealer is willing to sell the car. Anything above that price the prospect pays takes money from the buyer's pocket that the buyer could have kept, and puts it in the car dealer's pocket.

In order to illustrate this, let's talk more about the car buying experience and assume that, this time, you're the one shopping for a car. Here's a fact it would have been good for you to know before starting to negotiate:

> If the dealer sells 500 or more cars in a calendar year, he will get paid a 2% bonus on the total volume of cars sold. It is December 31 at 7:30 in the evening, and he has sold 499 cars to date. No one else is in the dealership and he has to close in 30 minutes. If the dealer sells you a car (the 500th for the year, and the qualifier for the 2% bonus), he would get a bonus check for $150,000. If you don't buy, he wouldn't qualify for a check at all.

If you knew this, how good a deal could you make?

Here's another example, this time, in Egypt.

example As we were leaving the pyramids, a vendor jumped on the bus we were in and tried to sell me a necklace for $20 before the bus would leave. I really didn't want the necklace, and told him so. He then offered me 2 necklaces for $20. I didn't want one, so two really weren't that appealing, which is what I told him. He must have seen this as a clever negotiating ploy because then he said, "OK, $5 for the necklace." I still didn't want it. The end result: I gave him $2 for a necklace that, even though I didn't really want it, I paid in pure recognition of the vendor's hard work.

What can we learn from this example? The vendor was in a position of weakness in that he had to make a deal before the bus left (more about deadline pressure below). In this Win-Lose negotiation, even unwittingly, how did I discover my opponent's point of indifference? By me consistently saying that I didn't want the necklace at the price he was offering it. How would I know his point of indifference otherwise? After all, I'm not an expert at necklace prices in Egypt. If I did want the necklace and were not a skilled negotiator, the time pressure would have been on me, and I may have paid $20 for it, 10x more than the price I could have paid.

Our travelogue continues in Turkey.

example A vendor tells me the price of the silk rug I want is $150. I have absolutely no idea what would be a good price. As opposed to the necklace vendor in Egypt, this Turkish rug vendor has most of the advantages: knowledge, my time deadline (which he knows, because he's sold to tourists from the cruise ship before), I want the rug and he knows it, etc. I ask him what he would sell it for. He repeats that it sells for $150. I'm in trouble. I wound up paying $110, with the suspicion that I was had. To this day, I don't know. (But the vendor does.)

If you're the buyer, the difference between the lowest the seller is willing to sell for (their point of indifference) and what you believe to be the lowest they're willing to sell for is equal to how much you pay extra because you don't know this information.

Information is very, very important to know before any trading begins.

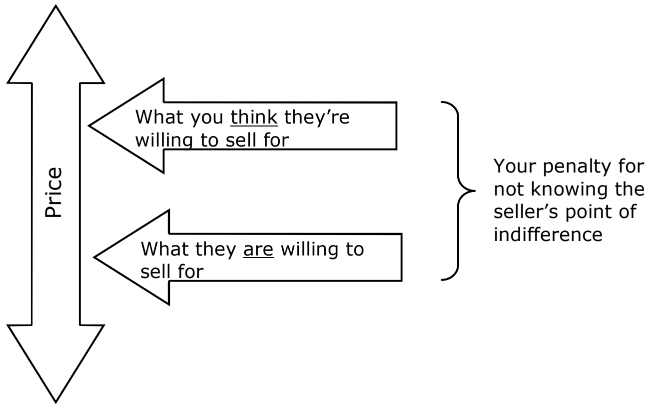

Figure Out Who's Got the Power

In either a Win-Win or a Win-Lose negotiation, find out and consider what happens if the deal doesn't go through. Which side will be hurt more? The negotiator who will be hurt less is in the superior position (i.e., has the more power, or "leverage"). In a Win-Win negotiation, the person with the most power should not use this advantage too much.

Conversely, in a Win-Lose negotiation, use leverage to your full advantage. Consider the situation of buying a commodity, such as a truck. If you don't buy the Ford F-150 from the dealer you're negotiating with, who gets hurt more? Before answering, consider the fact that you can buy a the exact same Ford F-150 truck from any of hundreds of other Ford dealers, while, if you don't buy from the dealer you're currently negotiating with, that particular dealer will have lost an opportunity to sell to you. This fact gives you the advantage. It also means that you can drive a very hard bargain and should be in no hurry to complete the deal.

In this situation, the dealer may try to re-gain some leverage by coming up with reasons why he has some special offering that you can't get from hundreds of other Ford dealers. The extent to which you believe this is the extent to which he's regained some power.

As this example illustrates, understanding who has the power or leverage in any negotiation will put you in a better bargaining position than you might have otherwise thought.

He Who Mentions the Number First... Loses

In a Win-Win negotiation, price is rarely the most important issue. In a Win-Lose negotiation, it is usually the only issue. In either case, follow the first rule of negotiation: The first person who mentions a number (price) loses. In a Win-Win negotiation, you should first do knowledge discovery before you get around to price. Mentioning price first will tend to short circuit knowledge discovery and lead to a sub-optimal deal for both sides. Using our example of the two trading partner countries above, if Country A didn't know that Country B needed what Country A had a surplus of, neither would have gained as much from the trade.

In Win-Lose negotiations, until you know your opponent's point of indifference, if you mention a price, you're giving out valuable information your opponent can use in order to discover your point of indifference. Don't do this. Example at a car dealership:

example

Dealer: How much are you wiling to pay?

Me: I'm not quite certain yet. What's the lowest price anyone's paid for one of these for lately?

In skilled Win-Lose negotiations, this "cat and mouse game" can go on for quite some time, with each opponent essentially re-peating their question while not answering their opponent's question.

In many of these circumstances, silence can be a very useful tactic. (More on that be-low.) If you feel forced to give a number either because you've been out-maneuvered or you just want to try another tack, give one that barely passes the "laugh out loud" test; i.e., a price that is pretty ridiculous, but still somewhat in range. Giving this number will cause your opponent to react (thereby giving you information), and usually causes him to come up with a number himself. Here's how: after he tells you that the price you of-fered was not serious, ask him what a serious price would be. If he answers this, you got him to be the first one to give the number.

example

In 1990, I wanted to buy a Volvo. The sticker price on it was $33,600. I figured I could get it for somewhere in the range of $30,000, if I did a really good job of negotiating. That being said, I still followed my rule and refused to give a number to the question "How much are you looking to pay for this automobile?" Instead, I asked the salesperson what was the lowest price the dealership had sold one for. His answer? "The best deal anyone's made is for $27,000". Bingo!! Moral of the story: I was willing to pay $30,000, but, because I followed my rule and got information before stating what I was willing to pay, I got to put $3,000 in my pocket.

technique

Don't Negotiate Against Yourself / Silence is Golden… For You

I've combined these two techniques because they're so often used together in Win-Lose negotiations. The artful and judicious use of silence can be extremely effective in getting people to negotiate against themselves.

As a general rule, human beings feel uncomfortable with silence in a conversation and, in order to remove their discomfort, will start talking. What they talk about could be very valuable in providing knowledge to you and also many times causes your opponent to negotiate against himself.

In the example in Egypt, above, the vendor "negotiated against himself" because I didn't really respond with a counter-offer. The same thing happens at a car dealer when the buyer asks, "What's the lowest price you've sold these for?" In that example, after ask-ing the question, the buyer should be completely silent, even if it takes minutes before the dealer responds. In contrast, what does the inexperienced car buyer negotiator do? After a few seconds of silence, he fills it in with words, allowing the dealer off the hook.

example

In another example, a salesperson gives a large potential customer a proposal (without an expiration date) and doesn't hear back. Every few days or so, the eager salesperson calls back and gives a lower bid. In this circumstance, the lack of information (the "silence") caused the salesperson to negotiate against himself. All the customer had to do to get a lower price was to keep quiet.

Find a Competitor or Make One Up

This technique is generally used to try to gain back some leverage in Win-Lose negotiations.

If, after the knowledge-gathering process, your position is weak, how do you gain back some leverage if you don't naturally have it? Here are three suggestions:

1. If you're selling something and there is only one bidder, you are unlikely to get a very high price. Consider the example of a company negotiating for the purchase of another company. What leverage would the selling company have to get the highest price if the buying company knew that no other company was interested? To remedy this lack of leverage, the selling company should do everything in its power to get another potential acquirer interested and not be shy about telling the first buyer about it.

2. If another company is not willing to bid, some people invent a fictitious competitive buyer and are very sly about how they communicate it. (Be very careful using this, because you're bluffing. This suggestion requires the willingness to not be 100% forthcoming, and could backfire— they could call your bluff and walk away.)

3. If this fails, the selling company many times will say that, if they don't get a certain price, they will walk away. If this is believable, in effect, the company is communicating their point of indifference and at the same time creating a competitor: "no deal".

Create a Sense of Urgency

One of the best reasons for a seller to use an impending event is that negotiations have a natural flow the seller will want to go as fast as that flow allows (but no faster) and wrap up quickly. This is especially the case when dealing with larger companies, which seem to go through almost unending re-organizations, changes in strategy, etc., all of which mean that you could have to start over, or have your opportunity pass. To avoid this (and for other reasons as well), always include a deadline or expiration date.

Final take away: there are very few things you could spend your time learning and practicing more beneficial to you than negotiating. Learn, practice, and prosper.

In the next issue, I'll tell you everything you need to know about sales, in one sentence with two steps.

About Chuck Bolotin

Chuck founded, funded, operated and sold two companies. The On Target Consultants Process™ he developed, and the success he has achieved applying it has made him an expert in bringing products to market in virtually any vertical market, many times when the target market is not known in advance.

Chuck is available for talks to your organization as well as personalized consulting assignments.