

## Negotiation Master Class: Step up to the Next Level

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**Abstract.** Negotiation skills are important for procurement professionals. This session takes a fresh look at tools and techniques for negotiation, offering some new ideas and views to incorporate into your toolkit. Even if you're not the best negotiator, you can win by being the *best prepared* negotiator.

The audience will leave the workshop with the following tools or concepts:

1. A methodology for preparing the *people side* of negotiations
2. An appreciation of how increased knowledge of the other party's background, history, corporate culture, style, etc. can help you achieve success
3. An appreciation of the value of identifying and getting buy-in to alternative plans of action within your own organization

**Introduction.** Negotiation, in the end, is all about people. It's about two individuals, or groups of individuals, agreeing on a course of action. Decisions are made by people and the quality of the deal you make with your supplier is colored by the relationships and opinions that the parties have with one another. My thesis is that there are actions you can take and facts you can learn to create an atmosphere that will be more conducive to the other party agreeing to the deal that you want

How do you achieve the result you want?

One method, Immersion Negotiation<sup>sm</sup>, focuses on preparing the *People Side* of the negotiation process. In the end, you don't have to be the best negotiator – you have to be the best prepared negotiator. The more you can understand the positions, cultures, pressures, and backgrounds of your opposites, the more you can use that knowledge to achieve your desired end result.

Some specific areas we'll cover are:

- Identifying individuals and their backgrounds and objectives.
- Understanding the culture in which you're operating
- Defining market and company conditions
- Increasing areas of commonality
- Adapting your style for the culture and issues that exist
- The value of identifying alternatives to your goal, and getting buy-in to those alternatives within your own organization

**Preparation.** Joanna's Rule: "*She who wants it the most, loses.*" In planning negotiation, it's important to clearly define your end game. Not just "I want a cost reduction" but "I want a price of x". Once your objective is set, broaden and narrow your objectives. What more could you get? What could you give up? If you reach an impasse on price, what concessions can you get or offer on payment terms, lot size, e applications, etc. that will drive down total cost of acquisition.

Once you've set your goal, develop your BAG, Best Alternative to your Goal. But what do you do with your BAG? You can alleviate a great deal of the pressure on yourself and eliminate your own fear of failure by having a fully developed backup plan, and *getting executive approval*. If the worst case scenario is understood and supported by your own executive management, then in developing an agreement the only way is up! It allows you to be cooler and calmer in negotiating, because you can quiet that nagging voice inside asking "What if I fail?"

Doing this takes courage on your part. It's not easy to talk about possible failure. But really drilling down and having frank discussions with senior executives will give you a better foundation for achieving success. Once you've achieved your BAG, you can take more risks because you can't fail – you've already achieved a solution that your Executive team supports.

Role playing is important as well. In planning for important negotiations, I have used an executive coach from time to time to play devil's advocate and to test her reactions to my questions and responses. And you have to role play the hard stuff, practicing your response to the questions that you're hoping they won't ask. If you're comfortable with your own style, actions, and options, you can spend more time looking at nonverbal clues that the other side is giving off, interpreting them, and using to your advantage.

If the person with whom you are negotiating senses you have no where to go, you're at a huge disadvantage. The better prepared you are, the more open and willing to listen you'll be and the more confident you'll present yourself.

**Supplier Conditioning.** First of all, your supplier's executives must *want* to do business with you. If you're a Fortune 500 company, you may already have a high profile and be on their radar screen. But many companies have a much lower profile and are virtually unknown to the supplier Executives and Board members. Your job is to get on that radar screen – to "sell" your company and get the supplier emotionally engaged long before you have to negotiate. To the extent you can engage the decision makers in supporting your business, you will have an easier time later when you need to negotiate a supply agreement.

I once worked for a Fortune 30 company, a well respected name in healthcare. It was easy to get suppliers engaged, in fact they fell over themselves wanting to have us on their list of customers. There, the task was one of managing expectations; because of the diversity of the product line, spend was very fragmented and spend in any one category could very easily disappoint a potential supplier. With another employer, the company was virtually unknown and education was an important part of supplier conditioning. We needed the supplier management to understand who we were and why they should be doing business with us. By the time I left the company, I was spending one-third of my time meeting with current or potential supplier Executive teams...developing relationships for the future.

In meeting with Executive teams, focus on the business segment in which you're operating, starting with an overview of the market and market trends, and narrowing down to market position, business plans and challenges, and then engage some dialogue on how that supplier could help achieve your goals. Maybe it's by focusing its design team on a particularly thorny packaging design challenge faced by your company, thus differentiating themselves from the other suppliers. Maybe its supply chain simplification by building a punch out website for ordering and inventory control. Whatever it is, you should have some clear ideas identified in advance on how that supplier can help you achieve your goals.

You don't have to give out any proprietary information. There should be plenty of data from public sources to fashion an excellent presentation. Even better, if there is a confidentiality agreement in place ask the Marketing community for help in developing the presentation, and get permission to drill down into specifics ("Our goal is to achieve x% market penetration for Brand Z by 2006, and this is how we plan to accomplish it"...or, "here's how you could help us accomplish it").

The key objective is to get them engaged, to get their hearts and minds wanting to support your company. What great position to be in when negotiating: with the management team of your supplier fully convinced that yours is the company to deal with, and hopefully putting pressure internally on their team to make sure they close the deal. And you must ensure that the dialogue is taking place at the highest possible. Don't end with the highest level person with which you deal normally (say, Sales VP). You need to be engaged at least one level up, preferably with the Executive committee or the Board.

In a recent talk, the CPO of a financial services company stated, "I don't buy, I sell." By selling your company in advance, you stand to ensure that support will be there when the time comes to negotiate a supply agreement.

**Build a People Strategy.** Remember: It's not about you. It's all about them. The more you can understand where your opposite is coming from, the more you can use it to your advantage.

First of all, you have to get inside the individuals in the process, understanding the backgrounds and pressures on the people and planning how you could use that to your advantage. You have to know how success or failure will affect the people with whom you are negotiating. An example: In recent negotiations, we mapped the backgrounds of the participants and stakeholders and discovered that the key participant on the other side had recently been transferred back to the USA from an international assignment. He was perceived to have failed in that last assignment, and he was given the US role as a last chance. Knowing that he was under great pressure to do a deal, we pushed harder than we normally would have, correctly assuming that he would be more willing than normal to compromise.

The opposite occurred when our research uncovered that a different supplier had just done a deal with another customer that would bring them to nearly full capacity in an industry nearing full capacity. There, the strategy changed to one of a broader picture. We spent much more time conditioning on other levels – growth, opportunity for long term commitment, the image that they'd enjoy as a supplier to some of our brands. We soft pedaled on price until we had established reasons "why" at a much broader level.

**Understanding the Other Company's Culture.** In the USA, laws protect people from prejudice due to cultural differences, so we tend to ignore them. But the reality is that people bring to the negotiating table all the biases and preconceptions that are in their brains, regardless of the fact that they're not verbalizing it. You have to understand the culture of the company with which you are dealing, and adapt your style to best fit the people with whom you want to connect.

For example, in spite of a shared language Americans and the British tend to have very different decision-making styles. Americans tend to be more verbal and be faster decision makers; the British culture is one of a more written approach with more time planning and more stakeholders involved. An American hoping to complete a transaction with a British firm needs to understand that a proposal delivered via Powerpoint presentation and some follow-up discussion stands little chance of being accepted.

**During the Negotiation.** Use body language to your advantage. An understanding of some nonverbal communication basics can give you an edge. Being proactive, you can do things to make yourself more believable. Being reactive, a knowledge of body language basics can help you interpret the nonverbal signals being sent by you negotiating opposite.

For example, one of the most successful negotiators I know is a man with a deep Southern accent. He is keenly aware that people from many parts of the world listen to his slow, deliberate way of speaking and are drawn to its warmth and friendliness, but also assume that he's not as quick or driven as someone from a big city. They're so wrong, but by understanding that they've probably let their guard down as they listen to him speak, he can take a firm stand on issues and will be not be perceived as negatively as others.

Proactively adjust your style. You can make your opposite feel more comfortable by matching gestures and movements to his, changing your rate of speech and using some of the same keywords that your opposite uses.

Listen and observe what the other side is saying. People who use phrases like, "To tell the truth" are often not telling the truth. The same with someone who makes little eye contact or limits hand movements or never points. People who say, "I'm authorized to approve \$1 million" may be neglecting to tell you that someone at a higher level could approve more. People who never use the pronouns *I* or *We* may be taking a position with which they don't agree. By watching for these signals, you can judge the quality of the responses or proposals you are getting.

**Execution.** As you do your preparation, assign a value to everything and negotiate separately if it works to your advantage. After you've settled on a price, negotiate payment terms. Look at quickest methods of funds transfer and obtain value back if you make a change. Map out the functions done by each company and eliminate duplication, eliminating the cost of that duplication along the way. Look at the work being done by support groups on both sides like R&D, Finance, Quality, design, AP, AR. Then improve the process and extract the cost benefit of doing so. Recently, our team added 5% to what was already an excellent deal by doing just this.

Also, if you are pushing for a position vastly different from the one espoused by the other side, you have to give them a reason for changing their position. Perhaps more information, a different context, or different options – but you have to put yourself in their positions and give them the same richness of reason to take back to their management that you'd need to have to take back to yours.

Finally, remember that in the end sometimes “a” deal is better than “the best” deal. If getting the best deal is going to take many months, tie up many resources, strain relationships, etc, sometimes the best thing to do is to compromise, get a quick deal in place for limited time, and use the ensuing months to get more data and get better prepared. A mentor of mine often used the term “death of 1000 cuts”. It may be graphic but it makes the point: sometimes, getting where you want to go means chipping away, a little at time.

**Summary.** A well built sourcing strategy needs thorough research on market conditions, suppliers, capabilities, demand forecasts, etc. in enough depth to work out a plan for supply. As it comes close to negotiating the supply deal, that must be augmented by a people plan that ensures the support of key stakeholders and maps out a plan for surmounting the cultural and human barriers to achieving success.

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