

BUSINESS NEGOTIATION

A PRACTICAL WORKBOOK



A **Gower** Book

Paul T Steele
and Tom Beasor

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*Paul T. Steele
and
Tom Beasor*

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CONTENTS

<i>Acknowledgements</i>	vii
<i>Introduction</i>	ix

PART 1 INTRODUCTION TO NEGOTIATION	1
1 Negotiation – what is it?	3
Negotiation defined	3
Negotiating frequency – in the short and long term	7
The process	8
2 What relationship?	11
3 Which style?	19
Behavioural patterns	19
Influences on style	19
Stereotyping – why people behave as they do	19
Style profiling questionnaire	21
PART 2 PRACTICAL NEGOTIATION	31
4 Objective setting and planning	33
Step 1 Why are we here?	33
Step 2 What do we want to pay?	45
Step 3 Pricing the variables	57
Step 4 What do we want to know?	68
Step 5 Organizing the case	78
5 The first phases	88
Step 6 When do we start?	88
Step 7 The opening round	99
Step 8 The power of questions	110
Step 9 The skill of listening	122

6	Managing movement	136
	Step 10 Who moves first?	136
	Step 11 It's your turn to move	151
	Step 12 Bargaining and dealing	163
	Step 13 The edge of the cliff	174
7	The end of the road	185
	Step 14 Shaking hands	185
	Step 15 Controlling and leading	196
	Step 16 The meaning behind the words	206
	Step 17 Looking like you mean it	217
	Step 18 When the going gets tough	228
	Step 19 Emergency!	238
	Step 20 The long run	248
	<i>Index</i>	255

ACKNOWLEDGEMENTS

Where do good ideas come from? How many of us can reasonably claim that something new was all our own work?

Most new concepts come from the amalgam that is our experience, our own creativity and the seeds that others sow for us to germinate. Environments that are conducive to the flourishing of such ideas are precious places and in such places new ways of managing evolve.

PMMS Consulting Group is such a place, and we have been fortunate to share in the riches of such an environment. We were stimulated by many forward-thinking individuals to produce this workbook. The concepts in it owe their origins to so many people that it is impossible to acknowledge them all individually. We are particularly indebted to negotiating specialists working within the PMMS team.

We acknowledge the contributions from our many clients ranging from the largest multinational to modest-sized private companies who have ensured that our concepts have an immediate payback and practical application in the world of commercial negotiation. Without them there would be no purpose.

To all our colleagues and clients, our sincere thanks. We regret we cannot acknowledge each individually. However, it is possible to recognize some specific contributions: David S. Wood for his reasoned contributions and in-depth practical knowledge; Paul E. Rogers for many creative hours spent mainly with Tom Beasor developing new models for commercial relationships and interpreting them into better negotiation concepts; R. Ian Patterson for his voracious reading and contributions to drafts of the workbook; Emma Hill and Sue Swindlehurst for their hard work word-processing and laying out the handbook from our original manuscript; and finally, Barry J. Hankinson for his constructive criticisms, and his proofing of the work and finalising the many details needed to bring the book to fruition.

Some of the ideas discussed in this workbook first appeared in *It's a Deal* by Paul Steele, John Murphy and Richard Russill (McGraw-Hill, 1989).

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INTRODUCTION

This workbook has been written to provide the readers with both a stimulating medium for the discussion of key negotiation topics and a means to equip themselves confidently with techniques for implementing them. It is designed to be a practical guide for those readers who wish to be confident and competent practitioners. It is very much a users' book.

WHO SHOULD USE IT?

The book is designed as a standard textbook for those who wish to understand the subject better but, more significantly, it is a means by which the reader can develop effective techniques to put that knowledge into practice.

Newcomers to negotiation will find simple integrated sections that will help them move through the subject in easy supportive steps. The 'voice' of the tutor will be with you as you study. Practical application of skills will be the main objective.

Experienced teachers and learners will find the exercises of real practical value for understanding 'how' and 'why' people behave the way they do. We have designed this book with a practical 'how to' bias and those learning on their own will find an easy progression along a path of 20 steps towards increased negotiation competence.

Many experienced negotiators will be interested to compare their views with ours on the resolving of negotiation dilemmas.

HOW IT IS STRUCTURED

Part 1 is a discussion of the basics of negotiation. It is designed to provide an answer to three key questions:

- Chapter 1 asks, 'Negotiation – what is it?'
- Chapter 2 asks, 'What is the most appropriate relationship?'
- Chapter 3 asks, 'Which style of negotiation is the most effective?'

This section gives the reader a solid foundation of theory on which to base the practical tools that we offer in Part 2.

Part 2 is in four sections:

- Chapter 4 looks at objective setting and planning.
- Chapter 5 covers the first phases in a negotiation.
- Chapter 6 gives advice on managing movement.
- Chapter 7 provides help on other aspects of negotiation.

We have organised this part so that each chapter is divided into a series of steps. Each step has a standardised format:

- There is always a discussion of a major topic. We then ensure that you are ‘match fit’ for putting the topic into practice.
- We provide scripts for each step to help you find the correct turn of phrase and tone.
- We then look at some tactics and counterplays that are relevant to that issue.
- This is followed by a practical exercise that will keep the workbook relevant to negotiations in your business and personal life.
- Negotiation dilemmas are found in each step to put the theory into a practical context. These are accompanied by our opinion on how they can be best resolved.
- Each step ends by asking you to revisit the key learning points and encouraging you to make a real commitment to action.

We hope that this book will stimulate you to examine your current style and technique and find ways to reach more successful outcomes, create better business relationships and take pride in your enhanced performance.

PART 1

**INTRODUCTION
TO
NEGOTIATION**



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1 NEGOTIATION – WHAT IS IT?

We recognize the skill with which an experienced helmsman negotiates a busy harbour to tie up, being mindful of charted hidden dangers and the unpredictability of the behaviour of other users. But are we always aware that we should be exercising a similar degree of skill and attention to detail in handling our interpersonal relationships? Statistics on the rising trend of divorce make for grim analysis of most domestic scenes, but are we any better equipped to deal with commercial difficulties? We doubt it, if only because the nature of negotiation and the impact it has on relationships has yet to be widely understood. All too often we see people exchange information, test understanding and then make a decision – *and believe they have negotiated*. Well, they haven't.

NEGOTIATION DEFINED

Using a workable definition, we see negotiation as

A process through which parties *move* from their initially divergent positions to a point where agreement may be reached.

Let us examine negotiation from a practical viewpoint using it in an everyday example:

The compact disc player

A couple bought a CD player from a well-known electronic goods stockist located out of town. They travelled home some miles away. Following the manufacturer's instructions carefully, they set it up and plugged it in. It was lifeless. A phone call to the stockist elicited a typically brusque response: 'Bring it in and we will see what can be done about it.'

Any summary of this opening scenario would be incomplete if it failed to

identify customer dissatisfaction and a potential for a marked difference of opinion between the parties:

Having reflected on the irony of being invited to spend more in order to obtain a reliable product, the customer rang the sales manager with a number of observations:

- A separate return journey was inconvenient.
- Time lost could profitably be spent elsewhere.
- There were costs for petrol and parking which would be eliminated if the retailer collected.
- There would be loss of goodwill if the matter was not resolved satisfactorily.

The sales manager was somewhat taken aback. It was not normal custom and practice to reimburse costs.

The customer, sensing the Manager's hesitation, pressed his point and said a set of classical CDs and a box of VHS tapes would be an acceptable recompense.

In due course the customer called in at his convenience and collected a new CD player, which was unboxed, fully tested and reboxed in his presence, along with a gift-wrapped parcel of high quality discs and tapes accompanied by a letter of apology. The customer went away satisfied with the outcome and still frequents the shop.

Points to Ponder

Jot down your initial reaction to these points.

1. As the customer how would you have proceeded differently?
2. When did the negotiation actually begin?
3. Do you think the customer's demands were aimed too high?
What would you have asked for?
4. What behavioural approach did the customer use?
5. What other methods could the customer have effectively employed?
6. Do you think parity has been satisfactorily restored between the parties to their mutual satisfaction?

OUR VIEW

1. In asking this question we are concerned with intuitively identifying and exploring possible alternative styles of approach that could have been adopted. We are looking at high and stretching objectives but ones that maintain our credibility. We are also aiming to provide ourselves with the widest choice of options depending on both the commercial opportunities and the different people involved.

The buyer has done well to avoid putting 'markers' down by refraining from setting an upper limit on what can be achieved. A 'marker' is usually a figure – a price, a delivery period, a number of days holiday – that is your ideal position in any negotiation. By putting a marker down you immediately put a ceiling on what you can achieve, and you could prevent the other party moving further in your favour.

In this example a mixture of logic, used with low key emotion, has yielded a satisfactory beginning.

2. If you have to ask yourself when a negotiation started then you can almost certainly be sure that you are too late. A negotiation begins at the very first point at which either party has the opportunity to influence the other. It could have begun with a letter or might have started even earlier. Many customers will have been influenced by the store's reputation or advertising.
3. Aiming high allows room for manoeuvre. Incremental adjustments can favourably influence the atmosphere and actions of the other party. Aim as high as possible. Research indicates that those people who ask for more, gain more. However, do not take up a position so extreme as to damage your credibility.
4. Whereas logic was clearly evident, there was a hint of a more emotive appeal which could have been based on customers' rights had the stockist not been amenable to reason.
5. Discreet threat can be employed in circumstances where power is seen to best serve the interests of the party resorting to it. When one party has leverage there is always a temptation to use it. Applied skilfully, this is a very legitimate approach. Conducted poorly, such coercion is seen as overpowering and destructive.

It is better to use brains before brawn. Heavy handed threats have a tendency to backfire on you, particularly when used against parties whose cooperation you may need at some point in the future.

Another approach, much in favour in Anglo-Saxon culture, would have been to use compromise. It differs from bargaining in that it applies to reaching an understanding on a single issue by agreeing to a satisfactory midpoint. A willingness to compromise could be a sign of potential weakness and the customer avoided this approach by the use of several different variables. Compromise when used in Anglo-Saxon culture denotes a desire to 'split the difference'. We believe that this should be a tactic of last resort and should remain at the tail end of the negotiator's repertoire.

6. This has to be a matter for both parties. Each will have had their own objectives and each will be seeking a different outcome. It is not a sign of weakness that a negotiator is dissatisfied with the outcome. Experienced negotiators are always trying to drain the last drop from every deal.

This example of negotiation over a CD player provides a basis for exploring two further considerations that play a part in better understanding the subject:

- The kind of relationship being sought (this is discussed further in Chapter 2).
- The style of negotiation that comes most naturally to us (this is analysed in depth in Chapter 3).

NEGOTIATING FREQUENCY – IN THE SHORT AND LONG TERM

Let's ask ourselves what we are considering – a date or a marriage!

- Will it be an open/shut instance for which a single meeting should suffice?
- Is it a more complex matter which may possibly take several meetings to resolve because long-term interests are involved?

Having decided the frequency of relationship, the next task is to evaluate the merits of the business arrangement best suited to meeting the perceived objective of both parties, and the style of approach to match. In the CD

player negotiation the shop manager is interested in a long term relationship (i.e. a regular customer); the customer may also want this.

THE PROCESS

Negotiation is a process through which parties move from their initially divergent positions to a point where agreement may be reached.

The five main approaches to negotiation are:

- compromise
- bargaining
- threat
- emotion
- logical reasoning.

All five approaches share a common purpose – to achieve sufficient movement by parties to reach agreement. They can be used in isolation – or in combination – to achieve their purpose.

Cultures throughout the world have their own individual means of achieving movement from the other party. In Britain many show a preference for compromise, whereas it has been noted that the countries of Eastern Europe and the Far East tend more to use emotion and threat. The Germans are renowned for employing logical reasoning and the Americans enjoy bargaining.

These cultural generalizations provide only a rough guide. National stereotypes do a grave injustice to skilled negotiators of any nationality capable of a wider range of techniques and approaches.

A negotiation can be regarded as a ritual, attracting procedural nuances which may call for careful compliance. If the process happens too quickly there is a risk of one of the participants feeling dissatisfied. They are likely to feel they could have done better had they been more adventurous in setting their planned limits. The feeling that a good contract cannot be agreed without a contest may appear illogical but can be true nevertheless. Appearance (or 'face', in an Eastern culture) is all-important.

Experienced negotiators understand these key elements of human nature:

- We like to appear to be popular.
- We wish to avoid losing prestige (face).

- We will offer concessions at little cost to ourselves ('straw issues') at the concluding stage of a difficult negotiation in order to finalize the deal and make the other party feel better.
- Emotional factors carry as much weight as any single factual component in the careful planning of a negotiation.

KEY POINTS

1. Negotiation is all about creating a movement between parties with initially divergent positions.
2. The negotiation process is one of interaction between parties with differing objectives which can be resolved by a *variety* of approaches.
3. Avoid gaining a reputation for using only one approach when attempting to move another party to your way of thinking.
4. Both parties could use emotion. Be prepared for behaviour that could upset your logically sound plan.
5. Avoid putting 'markers' down which limit your flexibility.
6. Before you use threat think about the consequences. Negotiators are ordinary people who don't easily forget being threatened. Given the opportunity they will get their own back, so don't go over the top.
7. Engineer sufficient reassurance into the outcome to ensure that the other party think honour has been satisfied – a particularly significant point should you have to negotiate with the other party on another occasion.

What's next?

Now that you appreciate the nature of negotiation it is timely to consider the kind of relationship the differing parties would like to establish. Write down quickly before you move on what types of relationship you might seek with the other party in a negotiation.

Purchasing, like other business functions, cannot be considered in isolation and decisions have to be made as to what relationship is necessary or appropriate. The type of relationship, whether it be arm's length, cooperative, collaborative or partnership, governs the style and strategy of the negotiations within that relationship.

Two techniques that are helpful in deciding the most appropriate relationship are:

- supply positioning, as used by purchasing executives and
- supplier preferences, as used by supplier account executives.

The relationship and application of the two techniques require explanation, providing as they do a method of channelling management effort into the most productive areas of the business likely to yield competitive advantage.

SUPPLY POSITIONING

Supply positioning identifies, plots and segments purchases, relative to both their cost and the degree of risk they represent should supply be interrupted. The evaluation forms the basis for formulating a credible purchasing and negotiating strategy which embraces both the state of the supply market and the criticality – or other perceived classification – of the item within the plot of a market segmented into four quadrants (Figure 2.2).

It can be time-consuming to list all the goods and services that are purchased for an organization and then plot them into the four quadrants as in Figure 2.2, but if the purchasing activity is to be lifted into a strategic role

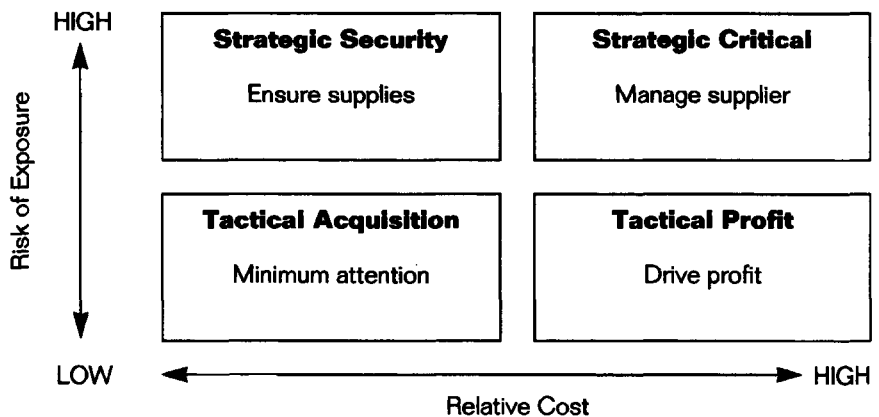


Figure 2.2 Supply positioning

within the organization and contribute significantly to profit, cash flow and corporate development, then it is essential.

SUPPLIER PREFERENCES

Supplier preferences identify, analyse and place the buyer's business in a segmented market made up to reflect the seller's vital interests (Figure 2.3). It enables the suppliers to evaluate the competitive position of their own firm in regard to other suppliers competing in the same market and to compare the attractiveness – or otherwise – of doing business when weighted against the relative value/cost equation. This is vital information to any supplier formulating a negotiating strategy.

MATCHING THE PARTIES

The best possible scenario is one where the buying and the selling parties share a common belief that each can realize their respective goals through a contractual relationship that supports this aim.

Given that the analysis by the buyer (Positioning, Figure 2.2) and the supplier (Preferencing, Figure 2.3) are conducted entirely independently of each other there is ample room for incorrect assumption and misunderstanding. It is timely to consider two aspects that may provide a clue to identifying the clear intention of the parties:

- **Power** What is the power balance both from a person-to-person perspective and from the respective business-to-business angles?
- **Empathy** Can we see and understand how and why the opposing party think and feel the way they do and what drives them?

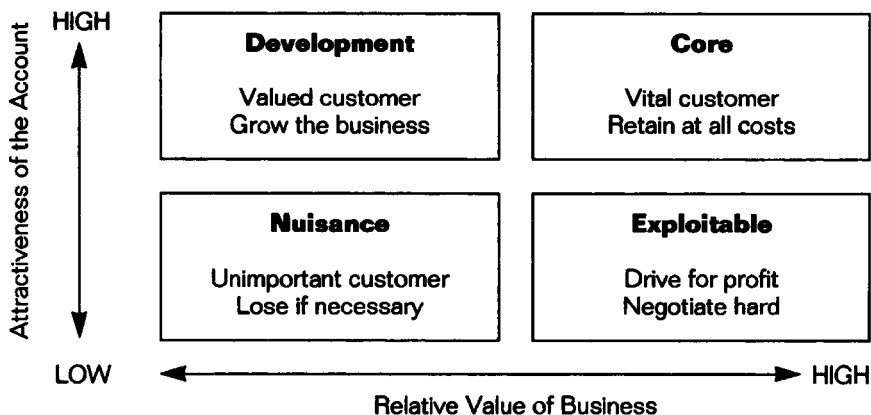


Figure 2.3 Supplier Preferences

It is our contention that the parties need to understand where the sources of power lie and from where pressure can be anticipated. This is a factor likely to affect the negotiation and the ultimate choice of relationship.

The use of empathy calls for good listening skills and self-control. We need, however, to ensure that the fine line between empathy and sympathy is not crossed.

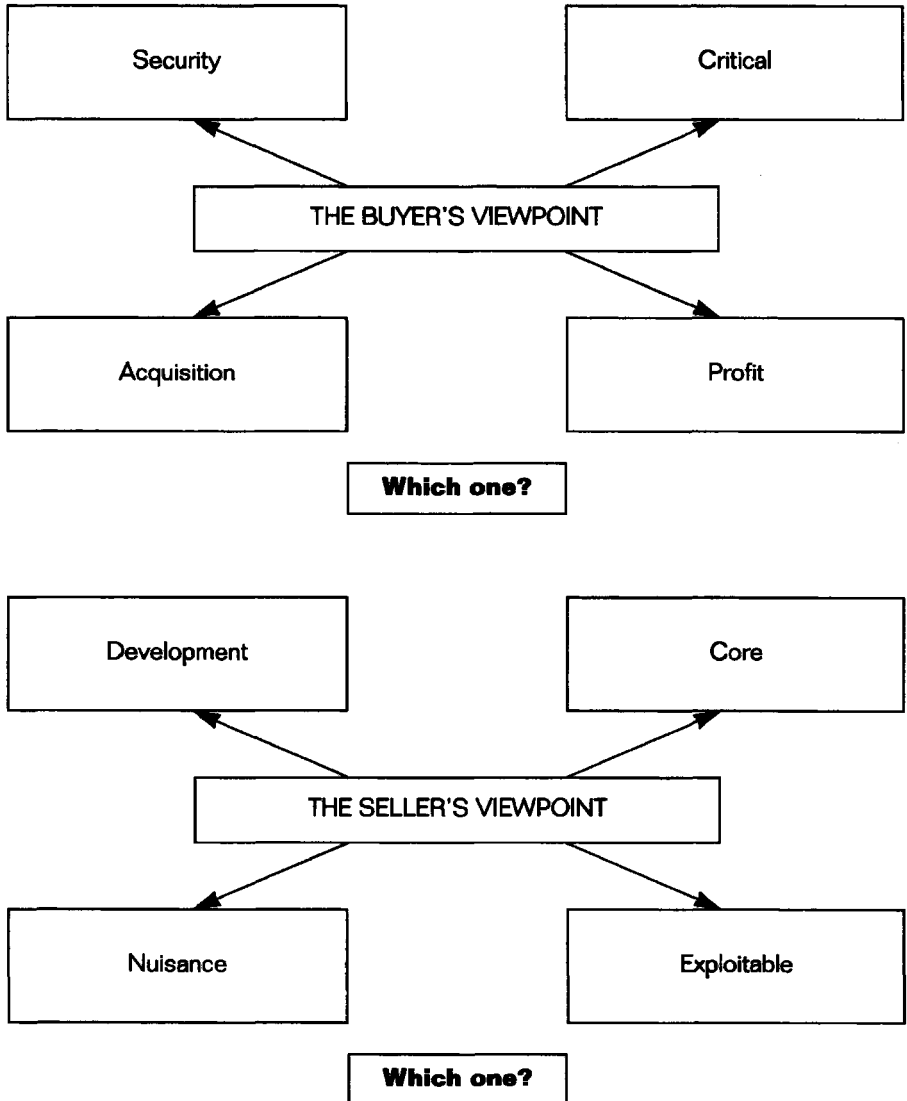


Figure 2.4 Matching Intentions

The importance of finding out at the earliest possible stage in negotiation how much the other party want the business cannot be overemphasised.

The answer to these and similar questions, which go to the heart of the relationship, need to be obtained at an early point in the contractual cycle. Care and attention has to be invested in a relationship to generate a genuine desire to reciprocate.

Irrespective of outcomes derived through the impersonal application of positional analysis, such decisions require validation through skilled dialogue to discover real intentions.

Any negotiation has, therefore, to take place on two interdependent levels if it is to succeed (Figure 2.5). Efforts will be concentrated in the personal dimension to alter mismatches of business grouping or categorization. The aim is to achieve a better fit of the segments (as in the examples of buyer and supplier analyses in Figures 2.2 and 2.3) towards an agreement of purpose which will ultimately underpin the relationship.

Whereas much general discussion has centred on the ideal of partnership, this should not be construed as a blanket endorsement in support of total commitment to that principle. Many business situations are resolved quite satisfactorily at differing levels of relationship. A partnership is by no means the only way to resolve business relationships.

Collaborative research ventures, as witnessed in the aerospace and motor industries, show that possibilities can be jointly studied without the necessity for concluding a strategic long-term relationship.

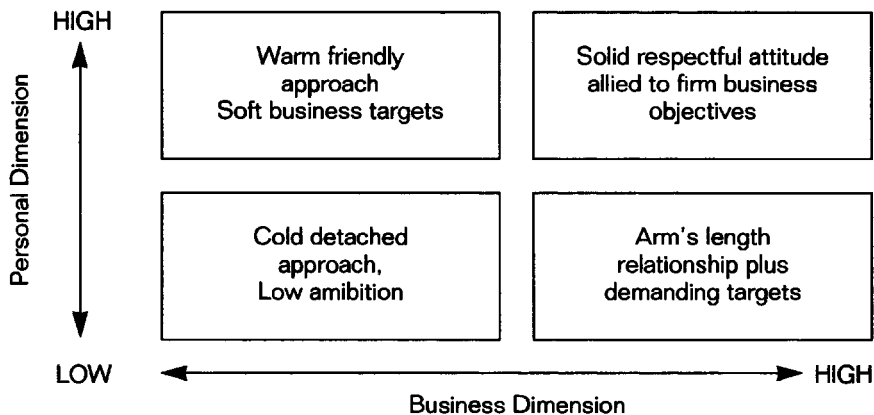


Figure 2.5 The personal and business dimensions

KEY POINTS

1. Clearly establish the nature of the difference between parties before deciding on the kind of relationship that needs to be fostered. Will the time frame matter?
2. Analyse the benefits and decide on the amount of effort needed to make the arrangement achieve what you want. How important is it to the business?
3. Think in terms of the other party. How attractive is the potential business to them? Do they need or want it? How does it fit into their portfolio? Clues to answers take effort to recognize. Signals in early negotiation will be detectable if you empathize and share the concerns of the other party.
4. Study the balance of power between interests and the respective parties. Power may flow from a position or appointment held, from the reputation of an organization or even from the latest development in the business picture. Expect leverage and conditioning from those used to exercising power – and be prepared to counter it.
5. Sales staff sell to customers but buyers deal with companies. Both deal with people as distinct from organizations but it is a point for reflection on how the different roles are perceived.
6. Negotiations – once started – proceed on two levels:
 - the personal
 - the business (or task)

Despite the excellence and accuracy of analytical methods any changes to achieve a best fit (congruence) will largely rely on the efficient functioning of the person-to-person level.

7. The choice of relationships (as examined in Figure 2.1) influence the style that the parties are likely to adopt (more about this in Chapter 3) but the choices within the spectrum are essentially contractual by nature. How much reliance is placed on the written word when such trust would have been better invested in securing commitment on the personal level?
8. Negotiation is a two-way street. From our understanding of its nature (Chapter 1) there needs to be a genuine desire to create a climate in which pledges of trust can be

reciprocated. Shared warmth produces remarkable dividends once the parties are at ease and contributes to making the deal work.

9. Beware of the wolf in sheep's clothing! We have recently encountered buyers in the manufacturing sector with minds set upon adversarial intent whilst professing a belief in the benefit of partnership, thus offering every prospect of a bumpy ride. B. K. Pilling and L. Zhang, in their research, observed that 'power must be exercised judiciously. The use of coercive power in inter-firm relationships has been shown to weaken their cooperative nature' ('Cooperative exchange: reward and risks', *International Journal of Purchasing and Materials Management*, spring 1992).