"Extreme Negotiations" with Customers

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In November 2010, Jeff Weiss and Jon Hughes of Vantage Partners along with Aram Donigian published an article in the *Harvard Business Review* titled "Extreme Negotiations" that highlighted some lessons in effective negotiation under extreme pressure from the US Military that also apply in the business world. This article was followed up with a 2011 piece called "Extreme Negotiations with Suppliers" by Jonathan Hughes, Jessica Wadd, and Jeff Weiss. Below is a companion to these two articles that explores how the recommended strategies play out in high-stakes negotiations with customers.

Negotiation behaviors tend to be deeply ingrained and are often reactive rather than deliberate or strategic, especially in high stakes and stressful situations. The *Harvard Business Review* article titled "Extreme Negotiations" outlines and explores five strategies that can help negotiators not only respond quickly at the bargaining table, but also reshape their thinking and strategies in advance of formal "negotiations." Applying the same strategies successfully employed by US Army officers can help Sales leaders manage high risk, high stakes negotiations in the sales theater. Using these approaches will help sales leaders prepare for extreme situations such as when a top ten customer threatens to take their business elsewhere unless they receive a significant price reduction, or if you are confronted by a customer with a slide showing your margins and the margins of all your key competitors, or when a large customer up for a renewal says they won't even consider such until their relationship with your company has been improved. The following five examples demonstrate how lessons drawn from extreme military situations can be utilized by Sales professionals in their toughest negotiations.

Strategy 1: Get the Big Picture

Start by soliciting the other person or group's point of view; use that understanding to shape the objectives of the negotiation and to determine how you'll achieve those goals.

One hallmark of the "dangerous negotiation" is a feeling of pressure to act fast to reduce the level of perceived threat. In the face of this pressure, negotiators often begin acting before they fully assess the situation. They act and react based on gut feel and initial perceptions, and given the added pressure to look strong and gain or remain in control, they tend not to test or revisit their initial assumptions even as the negotiation progresses. As a result, they often negotiate based on incomplete or incorrect information — a strategy which often leads to conflict, impasse, or an incomplete solution that addresses only a part of the problem or opportunity at hand.

A large IT supplier in North America was negotiating a three-year multiproduct deal with an existing client. This round of negotiations took place with a new Procurement representative who said his company was no longer interested in either a multiproduct or multiyear deal (even though the deal he was being offered was a very good one). Instead, he just cared about one product and said he would need it at a 30% discount! The IT supplier could not understand this, since the buyer's company would need each product in the multiproduct package within the next three years, and the new Procurement representative had to be aware that the deal was a great one. As a result, the overwhelming perception across the IT company was that "the 'new' guy is trying to make a name for himself and we're being played."

To do this . . .
Avoid
■ Assuming you have all the facts: "Look, it is obvious that…"
■ Assuming that the customer is biased (but you're not)
■ Assuming the customer's motivations and intentions are obvious (and likely nefarious)
Instead, try
■ Being curious: "Help me understand how you see the situation"
■ Being humble: "What do I have wrong?"
■ Being inquisitive: "Is there another way to explain this?"

Since the sales team thought the customer was trying to take advantage of them, they began a positional game of offers and threats, starting high on the pricing to ensure they could make enough concessions for the buyer to defend himself internally while simultaneously using threats to show how bad it would be for him to not take the deal. Matters escalated very quickly, with the customer threatening to send the business out for bid, and the sales team then responding by discounting to a new lower price.

At this point, an experienced, skilled "extreme negotiator" was pulled into the team who suggested they take a big step back and challenge their assumptions. He convinced the sales team to have an open conversation with the buyer about broad objectives for the deal, not just tactical objectives like pricing. As the sales team dug deeper they found they were trying to solve the wrong problem: the buyer's boss was also new, and came from a competing customer. The new Procurement boss had changed how people in the buying organization were incented and also identified some new technical needs and risks to be managed. Discovering these changes led to a fundamental change in the sales team's strategy, to one based on risk-sharing and customizing to meet technical needs instead of making a huge price concession. As a result of slowing down and reassessing the big picture, a better deal was reached that enabled both the seller and the buyer to better satisfy their key interests.

Strategy 2: Uncover and collaborate

Uncover motivations and concerns; take responsibility for proposing multiple solutions; invite the other side to critique or improve on those ideas.

Danger (a high level of proximate risk) not only creates a desire to act fast, it also produces a perceived need to look strong and take control. This, in turn, often leads negotiators to quickly put a stake in the ground, and to negotiate primarily by making demands. Unfortunately, this almost always triggers or intensifies resistance from the other side. As a result, such an approach tends to produce contentious and inefficient negotiations, and exacerbates the risk that no agreement will be reached, even when one was possible.

To do this . . .
Avoid
■ Asking: "What do you want?"
■ Making unilateral offers: "I'd be willing to…"
■ Simply agreeing to, or refusing, the customer's demands
Instead, try
■ Asking questions: "Why is that important to you?"
■ Proposing possible solutions for critique: "Here's a possibility; what might be wrong with this?

A large US medical device company was locked in a difficult negotiation with large hospital that was seeking major changes in both price and terms of its contract as a condition of renewing a supply agreement. The hospital demanded a reduction of at least 15% in price and wanted the seller to absorb a much higher share of shipping costs while also removing a volume commitment from the agreement. The medical device company was surprised, as these terms represented a major departure from past agreements and were presented in a "take it or leave it" manner. Further complicating the challenge, the contract was up for renewal in only 90 days, creating risks for both sides — the hospital could lose access to a standard medical device, and the device company could lose a major customer.

The account representative for the medical device company wanted to respond quickly to this unexpected development with a quick concession on price to secure the business. However, the regional manager of the medical device company was a skilled "extreme negotiator" and encouraged the account rep to pause and gather more information by reaching out to a series of stakeholders within the customer organization. Through these discussions, the device company learned that the hospital was initiating a major research effort and needed to free capital to support this research; in fact, most areas of their organization had been asked to reduce costs by a double-digit number. The hospital also was in the midst of reorganizing its stockroom management, shifting from a single centralized warehouse to a more distributed model, changing significantly how it would manage inventory. Finally, they learned that the hospital's new CFO had stated that inventory costs and unused products were a major drag on profitability and had been pressuring the buying organization to reduce volume commitments to avoid excess inventory.

Armed with this new information, the medical device company worked with its internal team to develop options for a proposal that might satisfy these newly identified customer interests. While the hospital had sought a price reduction on the medical device, their real interest appeared to be to ensure sufficient money was available to fund the research initiative, and so the device company used its expertise on medical device reimbursement to share a few ways the hospital could enhance reimbursement for a range of medical devices and generate more revenue, which could be used to fund the new research. To meet the newly-identified interest in a distributed distribution model, the device company proposed offering discounted next-day shipping, after determining that this would be significantly less expensive than the hospital's current warehouse cost structure. The device company also calculated the minimum and maximum number of devices ordered for each of the hospital's major locations over the past three years, clarifying likely inventory requirements. These analytics also helped tell a story about the need for the device company's products, enabling the buying organization to recognize the low risk of committing to a purchase volume in line with historical spend.

The hospital's initial demands seemed inflexible and suggested little room for a value-creating deal. However, by engaging with a broader set of stakeholders and digging under the initial positions to identify the true interests of the customer, a new set of options was identified. These options were tested with the hospital and ultimately a new agreement was reached which preserved pricing and better aligned the medical device company's shipping and distribution approach with the hospital's new inventory management strategy.

Strategy 3: Elicit genuine buy-in

Use facts and the principles of fairness (not brute force) to persuade others: arm them with ways to defend their decisions and create useful precedents for future negotiations.

Danger often produces a temptation to use force, leading negotiators to negotiate primarily on the basis of threats instead of on facts or principles of fairness. Such an approach breeds resentment and sows the seeds for future conflict, even as it makes future negotiations that much more difficult.

To do this . . .
Avoid
■ Threats: "You better agree, or else…"
■ Arbitrary demands: "I want it because I want it"
■ Being close-minded: "Under no circumstances will I agree to, or even consider, that proposal"
Instead, try
■ Appeals to fairness: "What ought we to do?"
■ Appeals to logic and legitimacy: "I think this makes sense, because…"
■ Considering constituent perspectives: "How could we each explain this agreement to our colleagues?"

Confronted by a declining economy and the growing influence of Procurement over technical purchasing decisions, a Fortune 500 company began to experience significant price erosion as many of its key customers pushed back on pricing and threatened to switch business to competitors. The company was surprised at this change since they had strong technical differentiation and because they had invested significantly in many of these customers over the years and built strong internal relationships. As they explored the buyer's reasoning, they kept hearing the same oversimplified message: you must reduce your prices.

Rather than yielding to the temptation to make their own threats, the Fortune 500 company brought in an experienced "extreme negotiator" to help them communicate the unique value of their products to these customers they had worked with for so long. This intervention helped them redirect the conversation from one focused on the price of the products to a deeper discussion around facts, principles, and industry standards. Shifting the discussion enabled the company to communicate the value of lower total cost of ownership of its products (which included not just product price, but also the investment in training, the impact of product performance and longevity, shipping, and inventory management support) relative to the competition. Shifting to a standards-based discussion allowed the company to show the value they brought to the customer and defend its higher prices. The standards surfaced in this discussion also enabled the buyers to recognize the true value of the Fortune 500 company's product and defend that value internally. By using basic arguments of fairness, both sides felt that they ended up getting good deals.

Strategy 4: Build Trust First

Deal with relationship issues head-on; make incremental commitments to build trust and encourage cooperation.

Negotiating in a high stakes, high risk context frequently produces a temptation to buy cooperation. In order to build a relationship, or rebuild trust, many negotiators choose the quick and easy path of attempting to trade resources or make concessions in order to reach agreement and avoid upsetting the other side. Taking the time to build understanding and to develop or fix whatever is getting in the way of a good working relationship with one's counterparts is perceived as time-consuming and likely to cause more problems than it solves. Unfortunately, making substantive concessions in an effort to improve a relationship almost never works. At best, it appeases the other party enough to get on with negotiating the near-term issue at hand. Often, however, such an approach does not even do that. It almost always creates a perverse set of expectations and incentives for the other side — that is, it invites future extortion by signaling to the other side that they can get their way by holding the relationship hostage, and can breed disrespect or even outright contempt.

A common scenario looks like this: a services provider experiences a significant outage midway through a multi-year agreement. The outage wasn't handled as it should have been — perhaps the initial response was slow, or there was poor communication about when a solution would be in place, and there may have been a missed deadline or two occurred before finally resolving the outage. The customer becomes frustrated at the outage and the response, and when it comes time for the contract renewal, the customer asks for a significant (say, 20%) discount as a way to "make up for" the service outage and to repair the relationships. "You always say we're partners" the customer might say to amplify the relationship play — "so if you valued working with us you'd be willing to do this." While it may feel easy to give the discount to lock in the renewal, doing so is likely to cause trouble in the short-term and set a bad precedent that may last for the long-term.

In order to have a strong working relationship with your customer, you need to build trust — and trying to "buy" the relationship by giving them a 20% discount will not build trust. Instead, it will teach the customer that they can keep coming back to you for more discounts just by threatening the relationship. An experienced "extreme negotiator" will, rather than trying to buy the relationship back, separate out the relationship issue from the substantive challenge and address the relationship piece directly. For the service provider this might require discussing the root cause of the service outage with the customer, talking explicitly about how the response was handled, and being sure the provider fully understands the customer's concerns. These issues explicitly on the table, the service provider can then, share how the underlying root cause has been addressed, and how services and the capability to respond to outages have been improved, and discuss how the customer was truly impacted by the service outage. If there are business impacts from the outage, they can be jointly calculated and the parties can determine how to compensate the customer for those impacts in a fair way. Approaching the outage this way will build trust with the customer, ground any compensation in legitimacy, and create a foundation for working effectively together over time. Most of the time, the actual compensation will be less than the 20% discount requested as well!

To do this . . .
Avoid
■ Asking customers s to "buy" a good relationship (or trying to "buy" one yourself)
■ Demanding concessions to repair breaches of trust (actual or perceived)
Instead, try
■ Exploring where and why a breakdown in trust may have occurred, and how to remedy it
■ Requesting (or making) concessions only if they are a legitimate way to compensate for losses incurred due to non-performance or broken commitments
■ Always treating customers with respect, and always acting in a manner that will command theirs

Strategy 5: Focus on process

Consciously change the game by not reacting to the other side; deliberately take steps to shape the negotiation process as well as the outcome.

Danger produces a strong desire to avoid harm to oneself or one's constituents. This desire often leads negotiators to give in on critical issues to avoid or minimize immediate threats. The result, unfortunately, is often an agreement that creates enormous future risk exposure.

A technology equipment company that specialized in selling high-value, high-unit cost equipment to manufacturers was trying to determine why margins were shrinking significantly with one of their major customers. This customer bought roughly the same volume, with a roughly similar product mix, as other top-tier customers but managed to extract lower prices in deal after deal.

This customer had a very aggressive procurement group which had invested heavily in analytics and had developed a practice of using "should cost" price estimation as a lever during negotiations. Whenever the equipment company tried to defend the value of their products, the customer pointed to their "should cost" estimate and said that they were unable to pay any more than that amount. The equipment company was able to describe the benefits of their product, but not able to respond in detail to the "should cost" estimate. To heighten the pressure, the customer created very short response times for each purchasing decision. In deal after deal, the customer said that while they recognized the value of the seller's technology, if they weren't able to get a "fair" price they would have to consider a competitor instead. Faced with the threat of losing the business, and unable to respond effectively to the "should cost" estimate, in deal after deal the account team felt forced to react by dropping its price toward the "should cost" estimate. Knowing this was costing them significant margin in each transaction and creating a dangerous precedent for future negotiations, the equipment company turned to an experienced "extreme negotiator" to help them come up with a better way to handle this process.

To change this dynamic, the "extreme negotiator" worked with the equipment company to alter their negotiation process to help them better defend the value of their products by using a deliberate and disciplined approach. First, the equipment company's product experts were engaged in the negotiation process much earlier and explicitly tasked with developing a detailed explanation of the true costs of developing and manufacturing the product so that the account teams could share it with the customer. Second, the account teams were briefed by the product experts on "hidden costs" for each product that were likely to be missed by a "should cost" estimate, but which were real and important to the successful development of the product. Third, the account teams were equipped with a "playbook" to help them respond effectively to the time-pressure tactics of the customer, and to effectively open a discussion with the customer about potential gaps in the "should cost" estimates, highlighting how the estimates may miss costs or aspects of the value provided by the product. The account teams were encouraged to approach the customer early in the negotiation process and build in extra time to respond to the "should cost" estimates. This time was used to bring the "should cost" estimates back to their own product experts to develop specific critiques of the estimate, and to share those critiques back with the customer to ensure a shared understanding of the true product costs. Lastly, the sales team discussed their need for a new process with the customer, explaining that if they were given more time to respond then the customer would not have to constantly threaten them with going to a competitor, because they would be properly prepared to explain why their product was a better deal.

To do this . . .

Avoid

- Reacting, without deliberate consideration of how any action might advance, or impede, progress toward your objectives
- Acting without considering how the customer is likely to perceive your actions, and how they are likely to respond
- Ignoring the future consequences of a given action (later in this negotiation, as well as other subsequent negotiations)

Instead, try

- Talking not just about the issues, but about the process: "We seem to be at an impasse; perhaps we should spend some more time exploring our respective objectives and constraints."
- Slowing down the pace of negotiations: "I'm not ready to agree, and I'd prefer not to walk away either. I think the issues warrant further exploration."
- Issuing warnings, without making threats: "Unless you are willing to work with me to search out a mutually acceptable outcome, I cannot afford to spend more time negotiating."

By understanding the tactics used by the customer, and then changing their own preparation and negotiation process to respond to these tactics, the equipment company was able to better prepare their teams to defend the value of their products, and to set precedents for negotiating based on legitimate standards.

Conclusion

As it turns out, many of the strategies for dealing skillfully with "dangerous negotiations" with customers are not new — they are grounded to a significant degree in the basic ideas interests-based negotiation laid out more than 30 years ago in *Getting to YES: How to Reach Agreement Without Giving In*. Often, the interests-based approach is dismissed as a "soft" or even naïve approach to negotiation with customers. It is symptomatic of how easy it is to fall into the traps we describe, and how deeply ingrained are certain assumptions about negotiation, that so many people mentally edit out the subtitle of Getting to YES (the part about not giving in) and/or fail to act on the advice this book provides on how to be assertive in negotiations without being adversarial.

At core, perhaps the most fundamental lesson when negotiating in high stakes, high risk ("dangerous") situations is that in the very context where one feels the most pressure (either because of the customer or internal pressures) to act fast and emphatically stake out an unwavering negotiating position, it is best to do neither. Control and power can most effectively be asserted by slowing down the pace of the negotiation, actively leading counterparts into a constructive process, and demonstrating a genuine openness to learning about, and even being persuaded by the views of others. The in extremis negotiator recognizes that this is not giving in. It is being strategic rather than reactive. It is thinking several moves ahead about how one's own actions in a negotiation are likely to be perceived by the other side, and making tactical choices that elicit constructive responses and help move the negotiation toward achievement of one's ultimate objectives.

About Vantage Partners

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