

Guide from



Think Ahead



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Negotiating

Skilful negotiation helps you get the right deal.

Good preparation, clear objectives and an awareness of common pitfalls are all you need. They will remove the need for inspiration or dazzling technique and provide the basis for purposeful, successful negotiation.

1. Knowing what you want

Decide how important the deal is to you

- For sales, establish the likelihood of repeat business, large orders or quick payment.
- For purchases, identify the problem you are aiming to solve and calculate how much money the product or service may save you in the long run.
- Estimate what the implications of the deal might be, for example, for your cash flow.

Set your objectives

- Define what you would see as ideal, expected and unacceptable prices.
- Identify any other key terms that matter to you. For example, the volumes involved, how soon an order can be fulfilled and payment terms.
- Decide how much time you are prepared to spend negotiating.
- If you are keen to deal with them regularly, you need a deal that will last.

Decide which areas are negotiable

- Think about what you can offer that means little to you but a lot to them.
- Cost out negotiable areas and consider the implications. For example, what would happen if you offered more favourable payment terms?
- Work out what your response will be to different proposals they may make.

Consider your alternatives

- Which other customers or suppliers could you be working with instead? Avoid getting into a situation where you are over-reliant on someone.
- Does this particular deal offer something that dealing with other customers or suppliers cannot? For example, if they are the only supplier that can guarantee the quality and service that you want.
- Know where you will draw the line in the negotiations - and be ready to walk away.

2. Understanding their position

Understanding and working with the other side's needs is the key to successful negotiation.

Know what they want

- If you are selling, do you understand what the customer is looking for? Do they need all the features you offer? What extras will they value most (eg free delivery)? What are their purchasing priorities (eg quality or price)?
- If you are buying, how much does the supplier need your business? What is their order book like, and do they have spare capacity? What are their sales priorities (eg increasing sales volumes, maintaining margins or getting cash in quickly)?

Assess how much a deal is worth to them

- The same deal may be worth more or less to different customers or suppliers, at different times.
- For example, does what you offer solve a customer's problem? How much money will they save by buying your product?
- Does having you as a customer bring any special benefits to a supplier? For example, making it easier to sell to other customers.
- How urgently do they need to reach a deal?

Assess their alternatives

- In terms of sales, what are your competitors doing? How much are they charging? What can they offer that you cannot?
- Be alert to clues about any 'red lines' the other side cannot cross. For example, if their cash flow is tight they may be unable to agree the payment terms you would like.

Anticipate their approach

- Assess what you think their negotiating strategy will be.
- Think about the weaknesses in your own negotiating position and whether they are aware of these.

3. Your negotiating strategy

Develop your strategy

- Decide the overall approach you will adopt. Much of the detail may only come into focus when you write it down.
- Be clear about the type of deal you want and the priority you will give it.
- List your strengths and the ways you might use them in the negotiations.
- Plan how you will defend the weaker aspects of your position.
- Give a written copy of this strategy to anyone negotiating on your behalf.
- Stick to your strategy until the deal is done.

Identify any special circumstances

- If you are trading abroad, business assumptions, cultural attitudes to negotiating and laws may all be different. You may want to use an experienced local agent.

Be aware of timing

- Timing typically works in the customer's favour, when the supplier is keen to reach a deal. Individual salespeople's bonuses may depend on meeting quarterly quotas.
- Customers can also be under pressure. For example, if their existing supplier has let them down or they urgently need to replace failing equipment.

Get the right negotiating team

- Where possible, match the seniority and style of those you are negotiating with.
- Include the relevant specialists. For example, contract, commercial or production.
- Bring together complementary skills. For example, choose one team member for his or her ability to get on with people, and another to focus on the details.

Aim for a deal that works for you while keeping them happy

- Even if negotiations are going your way, keep emphasising the benefits for them.
- Be firm but fair. Do not wring every last penny out of suppliers and customers you value.

4. Controlling the negotiation

Establish what points you are negotiating and how the negotiations will be handled

- For a major deal, produce written heads of agreement, setting out the key points of the deal you are proposing.
- If appropriate, ask them to itemise areas they want to negotiate. Write these down to avoid last-minute sticking points.
- Agree ground rules which recognise that nothing is final until all the elements of the deal are agreed.

Ask questions and listen carefully to the answers

Learn to read between the lines. For example, if a customer says they have no budget:

- Does the individual you are dealing with lack the authority for the size of deal you are discussing? Perhaps you could break a sale up into several smaller deals.
- Is there no budget left for the current financial year? Perhaps you could agree a deal that falls into next year's budget.
- Is the budget for a particular type of spend used up? Perhaps you could recast your proposal to fit a different budget heading.

Do not reveal your negotiating position

- For example, if a customer asks what your minimum price is, say it depends on the size of the order.
- Answers like "We are keen to do the deal" give the other side no useful information, sound positive and allow you to go on asking questions yourself.

Confirm understanding each time a key point is settled

- Ask for a break if you need time to think before agreeing a point.
- Summarise the state of the negotiations, before and after each meeting.

Keep going

- Do not volunteer unnecessary concessions at the last moment.
- Deal with any last-minute changes. Some negotiators let you think the deal is done and then ask for another concession. Stay calm and keep negotiating.

Finalise the deal

- Summarise the agreement that has been reached. Make sure you both agree on all points.
- Confirm the key points in writing there and then, even if only by jotting down the details.
- Shake hands on the deal. Nobody likes going back on a handshake.

Tricks of the trade

Avoid playing games

- If both sides know what is going on, negotiating ploys are effectively cancelled out.
- If you use tactical ploys that they become aware of, this may make it harder to get the deal you want.

Do not appear too keen

- If it is apparent that you need this deal, you will be in a weak position.

Use deadlines to your advantage

- Encourage movement by setting a deadline for completing negotiations.
- If they set a deadline, test it. Ask if there will be any point in talking after the deadline has passed.

Invent a partner or adviser you need to consult

- This can help you gain time and indicate to the other side that you have reservations.
- If the other side does this, suggest the adviser should attend the next meeting.

Refuse to deal in aggression

- Do not threaten. Also make it clear that you are indifferent to threats.
- Ignore hostile or 'wounded' body language.
- Keep your own reactions low key.

5. Making concessions

Do not make concessions too easily

- You need to test how much the other side wants them.
- Do not indicate from the outset that you are ready to concede. For example, by offering a starting price of '£X or near offer'.
- Make concessions only if they are necessary to help you get the things you want.

Make any concessions real, and insist on real trade-offs from the other side

- Avoid making concessions without getting something in return. Every 'free' concession you make encourages them to press for more.
- Offer concessions the other side values. For example, agree long-term supply contracts or a minimum volume in return for lower prices.
- If the other side makes a concession, do not feel you must. Treat it as a natural outcome.

Look for alternatives

- If they will not budge on price, ask for other improvements. For example, changes to payment terms.
- Consider agreeing a package deal for several products, if this will help achieve more of your negotiation objectives.
- Link different deals. You might make a concession on one deal in return for finalising another. This puts the other side under pressure to agree both deals.

6. Negotiating on price

Price is often the key issue in negotiations.

Selling at a higher price

- Pitch your opening price high. A strong opening often gets a soft response. If things go wrong there is usually a chance to start negotiating again.
- Only make concessions that work to your advantage and be careful with discounting.
- Show the customer that he or she is getting good value by detailing the component parts of the deal.
- Link your price to the industry standard. Let the customer know that others have paid it.
- Consider charging a psychologically attractive price. Some people see £99 as being more than a pound less than £100.
- Consider offering a low headline price and charging for extras separately. Beware of alienating customers with unreasonable charges, or losing out if customers do not buy profitable extras.
- Defend your price by offering valuable non-price concessions. For example, better payment terms, out-of-hours delivery or customised specifications.

Buying at a lower price

- Do not accept the supplier's first offer. Make a low counter-offer to lower their expectations and see how they react.
- Undermine the asking price. Focus on features you do not need.
- Expose the total cost of ownership. Ask about expenses and consumables, service and repairs, including parts.
- Ask for free extras and other concessions, but only if they are things you value.

- Use your negotiating power to get what you want. For example, ask for discounts in return for a larger order.
- Beware of 'bargains'. Ask the supplier why the price is so low. Work out whether this is the real reason.
- Never buy on price alone.

Discounting

Be careful how you use discounts to win sales

- Do not give discounts just to buy goodwill. The customer will soon regard the discount price as normal, and other customers may become resentful.
- Beware of giving discounts for immediate payment. Some customers will claim the discount and delay payment anyway.
- Encourage larger orders with bulk discounts.
- Offer retrospective discounts so customers concentrate their purchases with you.
- Be prepared to refuse a request for a discount if you know the customer really wants or needs your product.

In some industries, discounts are the norm

- You may need to offer trade discounts to be competitive. For example, in the building trade.
- As a customer, don't be fooled by being offered the standard discount.

7. Contract issues

A contract exists whenever two parties agree to a deal

- If one side's standard terms of trade are to apply, they need to be agreed in advance.
- Verbal contracts are legally binding, but difficult to prove in court.
- If the deal is important, consider taking legal advice.

Make sure you cover all the key issues before you make the agreement

These may include:

- details of price, payment dates, payment method and delivery;
- guarantees covering a specified period;
- when ownership of the goods will transfer from seller to buyer (eg when they are fully paid for);
- what will happen if delivery is delayed due to circumstances beyond the seller's control;
- how other problems will be dealt with (eg if goods are faulty);
- limitations on the seller's liability (taking into account the buyer's statutory rights).

Be careful with payment terms

- You may be at risk. For example, if you pay in advance and the seller fails to deliver, or if you supply the goods and the customer then fails to pay.

Document each stage of the negotiations

- If you have a written contract, make sure it expressly refers to any standard terms of trade that have been agreed.
- If there is no written contract, notes you made at the time may be acceptable as evidence if you have to go to court.
- When a key point has been agreed, always put it down in writing. Write afterwards to confirm what was agreed.

8. Building a relationship

Being straight, pleasant and easy to deal with can be a critical factor in getting a good result.

Build rapport with the other side

- Where possible, get to know someone before serious negotiations start.
- Make it easy for your opposite number. Find out what information he or she needs to be able to justify the deal.

Build partnerships with regular suppliers and customers

- Check your records and correspondence to build up a picture of their views and concerns.
- Meet them regularly and get to know the people who deal with your business. Go over areas of concern. Keep them informed.
- Give them direct telephone numbers for their key contacts.

Consider long-term contracts

- For example, you could agree a fixed price for a year, subject to continuing volume orders. Or you might define in advance how the price will change if the supplier's costs change.

Signpost

- Search for [negotiation training courses](#) from the Chartered Institute of Marketing.

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