



Negotiate Value

Model 4 - Maximize Your Value



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Module 4

Maximize Your Value

Practice Tactical Excellence in Negotiation to Secure the Right Deal & Price

Objectives

Lesson 16: Drive the Process. Maintain control throughout the negotiation and ensure that your communication plan and practice serves your goals.

Lesson 17: Preserving Your Leverage. Advance negotiations while avoiding the most common negotiation pitfalls of early commitment or releasing options.

Lesson 18: Help them Help You. Use best practices to help the other party reduce their costs and increase their margins, so they will be motivated to accommodate you.

Lesson 19: Sharpening the Pencil. Employ additional rounds of discussion to clarify requirements and provide pricing feedback that will lead to more value.

Lesson 20: Closing the Deal. Avoid last-minute surprises and gotchas and shady closing tactics, and make sure that your terms reflect the discussions and agreements.

Lesson 16: Drive the Process

How big is your piece of the pie? The pie metaphor is often used in negotiation and business. It is useful because every negotiation is zero-sum at some point. That means as one party's piece of the pie gets larger, the other party's piece gets smaller.

Through understanding what drives our value (Know Thy Benefit) and finding more and better options (Push the Potential) we have focused on creating more value. So the pie may be bigger; however, we still have to divide it. A win-win approach to negotiating can be productive, but as the negotiation moves forward, it is your job to get the most value for your side. The other party can be expected to do the exact same thing.

Given those conflicting goals, it is important to secure and maintain control of negotiations. That doesn't mean every discussion has to happen at your office or that you have to speak louder than the other party – those are superficial matters. The more important things to control are:.

- Value Drivers – what is important to you and worth paying for
- Pricing Anchors – how the value is framed, and what the numbers are compared to
- Process and Timing – how and when any commitments or decisions are made

Remember

- A win-win, collaborative, or “shared success” approach can result in a transaction with greater margin.
- At some point that margin must be divided, and then the negotiation will be a zero-sum negotiation.
- The other party will act in its own self-interest by trying to capture as much of the margin as they can; your job is to do the same.

Negotiating Process

Nothing substitutes for following a disciplined process through a negotiation, whether you are the buyer or the seller. The best negotiators may have moments of tactical brilliance, but most of their success is due to methodical process. The process steps listed below will serve as a guide:

Buying Process

1. Define Goals and Measurements of success
2. Conduct initial research
3. Conduct Explanatory calls with vendors
4. Refine scope and requirements
5. Request for proposals and pricing
6. Refine and negotiate
7. Review terms and contract
8. Make vendor selection

Selling Process

1. Identify potential customers
2. Begin discussions to gauge interest
3. Have preliminary calls with suitors
4. Refine offering or terms
5. Follow-up with suitors
6. Request bids
7. Negotiate bids and terms
8. Make customer/buyer selection



Apply It

Taking Control of the Negotiation

For this activity, consider a negotiation that you were recently involved in. Next, practice taking control of the negotiation, by determining the following:

1. Value Drivers

2. Pricing Anchors

3. Process and Timing

Homework

Following Your Process

Define your process for buying or selling in the first column (or use the processes provided). For a current or recent negotiation, indicate whether you followed the process with a check mark in the second column. In the third column, explain why you did not follow the step, or note specifics on how you did follow the steps such as who you spoke with, what you learned, etc.

Process Steps for Buying:

1. *Define Goals and Measurements*
2. *Conduct initial research*
3. *Hold initial calls with vendors*
4. *Refine scope and requirements*
5. *Request for proposals and pricing*
6. *Refine and negotiate*
7. *Review terms and contract*
8. *Make vendor decision*
- 9.

Process Steps for Selling:

1. *Identify potential customers*
2. *Begin discussions to gauge interest*
3. *Have initial call with 6 suitors*
4. *Refine offering or terms*
5. *Follow up with suitors*
6. *Request bids*
7. *Negotiate bid and terms*
8. *Make client decision, award*

| Process Step | Followed? Y/N | Note / Reason |
|--------------|---------------|---------------|
| | | |
| | | |
| | | |
| | | |
| | | |
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| | | |
| | | |

Lesson 17: Keep Your Leverage

How do you keep the upper hand in a negotiation? One key is to avoid saying the wrong thing.

In this lesson we'll review some of the worst things you can say in a negotiation. We'll also discuss tactics to make it very unlikely that you – or anyone on your team – will say those things.

In every negotiation, we can have leverage and we can lose it. Leverage gives you power, so the party with the most leverage at the end will likely gain the most value. Leverage is precious and should be maintained as long as possible during the negotiation.

What happens during the negotiation will determine your amount of leverage. During almost every negotiation, it seems that we give away our feelings/thoughts and lose our leverage. In order to keep your leverage, you need to watch what you say. There are several Expensive Sentences® to stay away from. They include the following:

- *"We love it."*
- *"We'll decide next week."*
- *"You're a finalist; we're down to only two vendors."*
- *"Your product is the best we've seen."*
- *"We're not talking to anyone else."*
- *"We can deliver any time."*

These statements weaken your negotiating position by implying to the other party that they are close to making the deal and no longer have to be competitive. Even when those expensive sentences may be true, you don't have to reveal the whole truth to the other party. It is important to be disciplined and intentional with all of your communication in a negotiation.

Just as you have a plan for your negotiation, you should have a plan for communication. Here are some guidelines as you plan:

- | | |
|--|--|
| 1. <i>Who should communicate?</i> | The buying process lead; not the decider |
| 2. <i>When should you communicate?</i> | On your schedule, when it serves your interest |
| 3. <i>How should you communicate?</i> | Written or scripted for all important matters |
| 4. <i>What should you share?</i> | Goals and measurements for the project |
| 5. <i>What should you not share?</i> | Budget, timing, and details about the process |

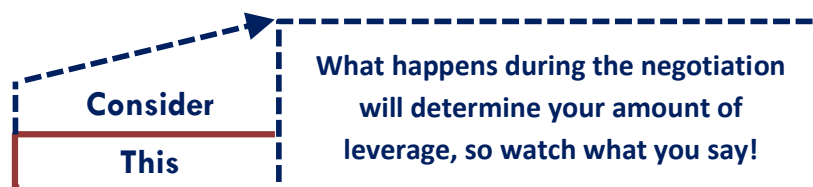
Using these techniques can help you maintain your leverage longer in the negotiations and add more value in the end.

Remember

- Disciplined communication and commitment to your process will help you preserve leverage in a negotiation.
- Leverage is zero-sum. As one party gains leverage, the other party will lose leverage.
- Leverage gives you power, which usually translates into value in a negotiation.

General Tips for Communicating

1. Speak with one voice and be precise
2. Limit those who can speak in the negotiations
3. Email communication is easier to control than phone calls; phone conversations are easier to control than in-person meetings
4. Review and rehearse before face-to-face meetings



Apply It**Watch What You Say**

For this activity, create an alternative to each expensive sentence that would help you maintain your leverage during the negotiation.

1. “We love it.”

Alternative:

2. “We’ll decide next week.”

Alternative:

3. “You’re a finalist; we’re down to only two vendors.”

Alternative:

Homework

Create a Communication Plan

Communication in a negotiation is critical. By saying the wrong things, you can easily lose your leverage. Here are a few general guidelines for how to communicate in a negotiation:

1. Who – *Speak to the process lead; not a decider*
2. When – *On your schedule and in parallel with the other vendors*
3. How – *Written or rehearsed for most important items*
4. What to share – *Goals, measurement*
5. What to keep to yourself – *Budgets, timing, and methods*

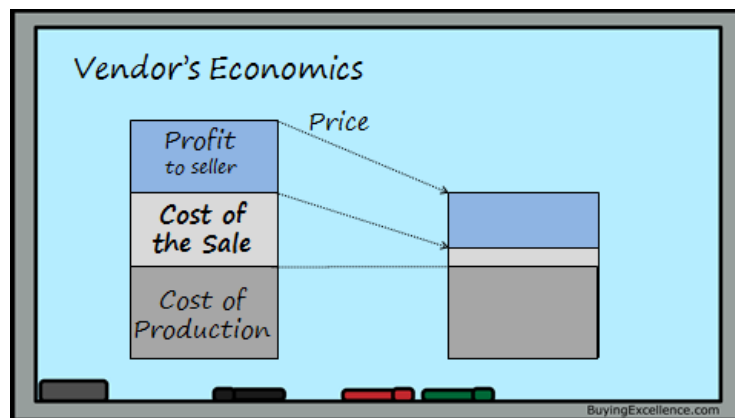
In this exercise, create a communication plan for an upcoming negotiation. Be as detailed and specific as possible.

1. Who –
2. When –
3. How –
4. What to share –
5. What to NOT share –

Lesson 18: Help Them Help You

Helping the other party can advance your interests. In the previous lessons, we have been focused on obtaining the “most pie” possible. We are still concerned with maximizing our value, but in this lesson we will examine how helping other parties reduce *their* costs can lead directly to more value for us.

Reducing overall costs is in some ways like “making the pie larger,” but instead of looking to increase the benefit, the focus is the seller’s cost.



When any of the seller’s costs can be decreased, there will be more surplus. In some cases, the buyer can then capture some or the entire extra surplus. That is, the surplus can become the buyer’s value rather than the seller’s profit. One of the first costs to consider is the seller’s cost of sales, which a buyer can help decrease in several ways:

- Increase the quantity bought
- Sign a contract for future purchases or a period-of-time
- Provide a referral or endorsement to the company

Nearly all seller costs fall under one of eight different areas:

1. Material
2. Production
3. Cost of sales
4. Service
5. Support
6. Delivery
7. Customization
8. Risk

Likewise, buyers have costs beyond simply the purchase price. As you are selling, you may be able to help the buyer control one of the following costs:

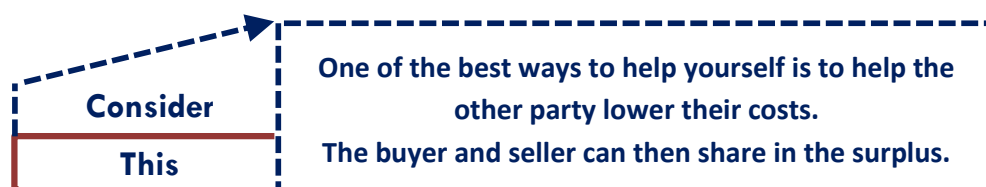
1. Price
2. Shopping
3. Delivery
4. Education
5. Storage
6. Implementing
7. Service
8. Risk

Remember

- Lowering costs is a worthy cooperative goal in negotiating, just like increasing the benefit (or 'enlarging the pie').
- In order to help the seller, we need to know their costs so we can help them lower their costs.
- As a buyer, if we can help the seller reduce their cost of sales, we can often then get lower prices offered in return.
- It is important to assess the costs to the buyers and sellers and brainstorm ways to help them reduce these costs. In the end, both parties will benefit

Steps to Reduce Costs

For buyers and sellers, the first step to reducing the costs for the other party is to estimate their costs. After you have done this, you should mark each price as high, medium, or low (as we did in the Lesson 3 Homework). This correlates to the amount of the cost. Once you have completed this step, you can then brainstorm ways you might help them reduce high and medium costs. Finally, you should communicate with the other party how you can both share in the surplus that has been created.



Apply It**Reduce the Cost**

For this activity, consider the eight important costs to the buyer. Think of a recent purchase that you have made personally or made for your company. Go through the eight costs and determine or estimate how much the total purchase cost you in each area:

1. Price _____
2. Shopping _____
3. Delivery _____
4. Education _____
5. Storage _____
6. Implementing _____
7. Service _____
8. Risk _____

Total Cost of the Purchase: \$ _____

Homework

Cutting Their Costs

Estimate the other party's costs and list some ideas to lower those costs.

1. Pick a scenario: Buyer or Seller
2. Estimate whether the cost is: high, medium, or low for the other party
3. Brainstorm ways you might help them reduce the high or medium costs

| Buyer's Cost | Estimate | Possible ways to reduce costs |
|------------------|----------|-------------------------------|
| 1. Material | | |
| 2. Production | | |
| 3. Cost of sales | | |
| 4. Service | | |
| 5. Support | | |
| 6. Delivery | | |
| 7. Customization | | |
| 8. Risk | | |

| Buyer's Cost | Estimate | Possible ways to reduce costs |
|------------------|----------|-------------------------------|
| 1. Material | | |
| 2. Production | | |
| 3. Cost of sales | | |
| 4. Service | | |
| 5. Support | | |
| 6. Delivery | | |
| 7. Customization | | |
| 8. Risk | | |

Lesson 19: Sharpening the Pencil

Negotiation implies that the first numbers you see are not the final numbers. The second round is often a time when both parties “sharpen their pencils” by looking at ways to reduce their respective costs and offer a stronger deal.

As a buyer, the second round is when you are likely to compare the prices (or bids) that you have received from the different vendors. In addition to the cost, you also want to consider the quality of the solution and the benefits that are derived from each company.

There are several steps that you can take to prepare for the second round conversations. The first is to consider your goals for the second round. Invariably, the goals for the second round are:

1. To move the price & terms so they provide more value for you
2. To better understand the bids / proposals before you

As you have these conversations with the other party, I strongly urge the following guidelines:

- Never lie
- Don't bluff
- Don't share other vendor's pricing
- Don't give “meet” or “beat” price

The second-round discussion usually follows a basic script, as we review in the homework.

- Convey that the value offered so far is not enough to win the deal
- Provide useful pricing feedback for the other side
- Question their assumptions about your requirements
- Ask them to respond

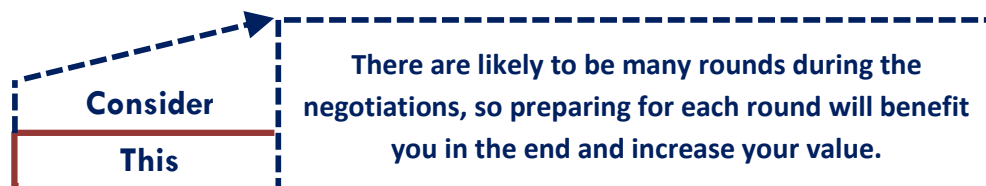
Remember

- During the second round, you are likely to compare the costs/bids that you have received from the different vendors.
- In addition to the cost, you also want to consider the quality of the solution and the benefits that are derived from each company.
- There are several action steps that you can take to prepare for the second round conversations.
- Remember that feedback is important, so communication should be a focal point in this process.

Plan for Success

Before beginning the second round conversations, it is best to prepare a plan of action. Your action items should include the following:

1. Analyze components of costs
2. Prepare your pricing feedback
3. Prepare your questions in writing
4. Rehearse the conversation
5. Send them written feedback; discuss if it is helpful
6. Give them a timeframe to respond



Apply It

Quality of the Bid

One of the aspects that we discussed in this lesson was the quality of the bid; not just the price. Consider bids from vendors that you have reviewed. What other aspects are important or create quality/value? What would you be willing to pay more for because you feel you receive a better value?

Homework

Competitive Feedback

It is important to provide feedback to the other party in a negotiation. Remember the following steps when preparing your feedback:

1. Analyze components of costs
2. Prepare your pricing feedback
3. Prepare your questions in writing
4. Rehearse the conversation
5. Send them written feedback; discuss if it is helpful
6. Give them a timeframe to respond

Use the guidelines and the template below to prepare feedback for your next negotiation.

| Buyer's Cost | Possible ways to reduce costs |
|--------------|---|
| Questions | <p><i>We didn't understand these parts of what you sent...</i></p> <ul style="list-style-type: none"> • • <p><i>Your proposal/offer seems different from others in these ways...</i></p> <ul style="list-style-type: none"> • • <p><i>We're wondering if you could also include info/pricing about...</i></p> <ul style="list-style-type: none"> • |
| Pricing | <p><i>Here's where your proposal was extremely uncompetitive...</i></p> <ul style="list-style-type: none"> • • <p><i>Here's where you are uncompetitive...</i></p> <ul style="list-style-type: none"> • |
| Timeframe | <i>If you'd like to respond, we'd welcome any revisions by _____</i> |

Lesson 20: Closing the Deal

The final lesson of a long course is like the final stages of a negotiation: you can see the finish line, but you are not there yet.

It's tempting to let up, but *you don't have a deal until you have a deal!*

There's an expression in business that an arrangement doesn't matter until the "ink is dry" on the contract, and that's an excellent reminder that you must get written agreement on any substantial negotiation. The written agreement must contain all of the important details of the transaction, for two reasons:

- to help both parties remember
- to hold both parties accountable

When considering what details need to be captured in writing, look backwards and forward to create your list:

| Looking Back | Looking Forward |
|--------------|-------------------------|
| E-mails | Total Amount to be Paid |
| Notes | Taxes, Extra Fees |
| Proposals | Delivery and Timing |
| Revisions | Changes |

The goal in the final stages of negotiation is to eliminate any surprises. By clarifying past information and making sure both parties are on the same page moving forward, many potential issues can be avoided.

Of course, not every deal will have a written contract, but the majority of your larger deals will include a written contract. There are certain items that every written contract should contain. The list below is not comprehensive, but it does provide you with a good baseline to build upon.

Contract Items:

- Pricing – complete costs (*You might even ask for a sample invoice to make sure you know what to expect before the real one comes!*)
- Features
- Delivery
- How changes are handled
- Termination Fees and Timelines
- Risk (Limitation of liability and indemnification)

If you have any question about the terms in the contract, seek both legal and business counsel.

One way to reduce risk is to have agreements that are relatively simple, and business arrangements that clearly benefit both parties. The legal obligation to perform should be a last resort.

Remember

- You don't have a deal until you have the deal! It is important to make sure that you have all important details in writing.
- Having the contract in writing is important because it will help you and the other party clarify and remember what was decided upon.
- Thorny legal proceedings and heavy contracts are usually a symptom of a low-surplus transaction. Before pushing through, make sure the contract has clear value for both sides.

Contract Elements

Contracts should include the following:

- Value for both sides
- Future business with you
- Referrals
- Fear of the negative
- Last Resort: Litigation

We can avoid the “last resort” by reviewing the contract in its entirety before agreeing to the contract’s terms and conditions. In addition, make sure the contract has value for both sides. Finally, make sure the contract aligns with previous conversations and areas that have been agreed upon.



Homework

Continuing Education

Throughout this course you have learned many important concepts and techniques for successful negotiations. Your long-term homework is to practice and keep learning!

No negotiation is perfect. It is okay to get burned and lose sometimes; you can learn more when things go wrong, and that learning will help you succeed in the future. How you apply your education is up to you.

In this exercise, reflect on your most important lessons from negotiating, and decide how you will apply those lessons.

| Item | Notes |
|---|-------|
| Key Lessons from past Negotiations | |
| Biggest Take-aways from Negotiate Value course | |
| Three things I ALWAYS plan to do when negotiating | |

If you care to share this homework, I would be very interested to see what you wrote. I'm also eager for any input about this course. Send it to me by email: Jack@JackQuarles.com.

Thank you for taking Negotiate Value, and for faithfully sticking with it until the end! I wish you greater benefit and lower costs. Warm regards, Jack.

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