Turning Negotiation Into A Corporate Capability

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Many companies view each negotiation as a separate situations. But companies that take more coordinated approach are making better deals and forging relationships.
Four Broad Changes in Practice in Perspective

• Build your firm’s negotiation capability by:
  – Creating a negotiation infrastructure.
  – Broadening your measures of success.
  – Distinguishing between the deal and the relationship.
  – Learning to walk away from the deal.
Four Broad Changes in Practice in Perspective

• Build your firm’s negotiation capability by:
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  One negotiation’s outcome should not hinge solely on an individual negotiator's skills. Instead, give all negotiators better and more information, including lessons from past negotiations and corporate priorities.
Four Broad Changes in Practice in Perspective

- Build your firm’s negotiation capability by:
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<table>
<thead>
<tr>
<th>Steps in the Negotiation Process</th>
<th>Situational View</th>
<th>Institutional View</th>
<th>Examples of Tools and Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining Objectives</td>
<td>• Case-to-case basis</td>
<td>• Larger Corporate Goals</td>
<td>• Deal and relationship scorecards</td>
</tr>
<tr>
<td></td>
<td>• Negotiators seek to maximize personal compensation</td>
<td>• Separate goals are established for the deal and the relationship</td>
<td>• Negotiation instruction template</td>
</tr>
<tr>
<td>Preparing for the negotiation</td>
<td>• Proceed in an ad hoc manner</td>
<td>• Preparations are well structured</td>
<td>• Database of past negotiations</td>
</tr>
<tr>
<td></td>
<td>• Often there is no time for preparation</td>
<td>• Negotiators draw on prior corporate experience</td>
<td>• Manager’s checklist for BATNA review</td>
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| Conducting the Negotiation       | • Negotiators act as lone wolves with little supervision  
                                      • Success or failure is seen to depend on personal ability |
|                                  | • Managers play an active coaching role  
                                      • Colleagues share a negotiations approach and vocabulary |
|                                  | • Training programs for negotiators and their managers  
                                      • “Yellow Pages” that enable efficient consultation with experienced colleagues |
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<td>Reviewing the negotiation</td>
<td>• Reviews are done sporadically</td>
<td>• Reviews are performed systematically to capture information so it can be applied to future negotiations</td>
<td>• Structured review questions that focus not only on outcomes but also on the process</td>
</tr>
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<td>• Focus is on cost reductions and percentage of deals closed</td>
<td>• Focus in not only in the results but the way it was conducted</td>
<td>• Debriefing forms that feed into best practices database</td>
</tr>
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<td>• Reviews extract lessons rather than blame or praise</td>
<td>• Training in constructive debriefing.</td>
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• Build your firm’s negotiation capability by:
  – Broadening your measures of success.

  Don’t judge negotiations only by financial measures. Evaluate other key benefits as well – eg better communications with suppliers, fresher solutions and more workable commitments. Then, explicitly link those measures to negotiators’ incentives.
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<tr>
<td>RELATIONSHIP</td>
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<tr>
<td>Does the negotiation process help build the kind of relationship that will enable us and our clients to work effectively together over the project’s life cycle?</td>
</tr>
<tr>
<td>COMMUNICATION</td>
</tr>
<tr>
<td>Do our negotiations help create an environment in which both parties can engage in constructive conversations aimed at solving problems?</td>
</tr>
<tr>
<td>INTERESTS</td>
</tr>
<tr>
<td>Have we crafted a deal that satisfies our interests well at the same time that it satisfies our client’s interest to at least an acceptable level and the interest of any relevant third parties (government regulators, environmental groups etc) to at least a tolerable level.</td>
</tr>
<tr>
<td>OPTIONS</td>
</tr>
<tr>
<td>As part of the negotiation process, have we searched for innovative, elegant and efficient solutions that might offer joint gains</td>
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<td><strong>LEGALITY</strong></td>
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<td>After brainstorming a variety of options, have we used objective criteria to evaluate and choose an option that could be justified by both sides?</td>
</tr>
<tr>
<td><strong>BATNA</strong></td>
</tr>
<tr>
<td>Have we measured the proposed deal against our BATNA and we are confident that it satisfies our interests better than our BATNA does?</td>
</tr>
<tr>
<td><strong>COMMITMENT</strong></td>
</tr>
<tr>
<td>Have we generated a set of well planned, realistic and workable commitments that both sides understand and are prepared to implement?</td>
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Distinguishing between the DEAL and the RELATIONSHIP

• Broadening Performance Measures has the effect of engendering the dichotomy between a one-off deal and the whole client-seller relationship.
Distinguishing between the DEAL and the RELATIONSHIP

• Pitfalls of the Deal – Relationship Tightrope

✓ Pushing hard on the DEAL jeopardizes the company’s ability to do business with the other party

✓ Paying too much attention on RELATIONSHIP may mean giving in too much and ending up with a lousy deal.
Distinguishing between the DEAL and the RELATIONSHIP

• Deal – Relationship Cycle

• Traditional Approach

- Confirm Suspicions and Perceptions
- Reduce Risk Taking and Creativity
- Create Low Value Deal
- Underinvest in Relationship
- Restrict Information Flow
Distinguishing between the DEAL and the RELATIONSHIP

- Deal – Relationship Cycle
- A Better Approach

- Improve Mutual Understanding
- Expand Scope of Discussions
- Create Valuable Options
- Improve Trust and Communication
- Share Info About Interests
Distinguishing between the **DEAL** and the **RELATIONSHIP**

- Kodak and IBM

  - Kodak wanted to reduce cost, IBM wanted to increase revenues
  - Both recognized that the goal is to have a healthy long-term RELATIONSHIP
  - Developed a list of DEAL ISSUES and RELATIONSHIP ISSUES
  - Agreed that any problem from issues arising on one list could not be resolved by exacting concessions on issues from the other list
Deal Issues

- Retirement and Replacement of Hardware
- Use of Third Party Software
- Service Levels
- Ease of Communication
- Record Storage, Maintenance and Security
- Pricing
- Terms of Employee Transfers
- Termination and Return of Data Center Operations to Kodak or Transfer to Another Party

Relationship Issues

- Reliability
- Giving Each Other the Benefit of the Doubt
- Absence of Coercion
- Understanding each other’s Objectives
- Timeliness of Consultations
- Mutual Respect
Learning to **WALK AWAY** from a **DEAL**

- NEVER-LOSE-A-CLIENT
- CULTURE
Learning to **WALK AWAY** from a **DEAL**

• The Context
  ✓ Investment of Preparation
  ✓ Investment of Time
  ✓ Investment of Financial Resources

• The Curse
  ✓ It puts the negotiator in a bind
  ✓ It pushes the negotiator to accept the lowest deal just to compensate for lost resources.
Learning to **WALK AWAY** from a **DEAL**

- **The Challenge**

  - Negotiators should know their BATNA

  - What is BATNA?
Learning to **WALK AWAY** from a **DEAL**

- **BATNA**
  - Best Alternative To Negotiated Agreement

- A term coined by Fisher and Ury in their 1981 bestseller, *Getting to Yes: Negotiating Without Giving In*

- The alternative action that will be taken should your proposed agreement with another party result in an unsatisfactory agreement or when an agreement fails to materialize
Learning to **WALK AWAY** from a **DEAL**

- **BATNA**
  - In short, BATNA is your walk-away position
  - Anything that is less than your BATNA is ROBNI

  - **Replacement**
  - **Offer**
  - **But**
  - **Not**
  - **Interesting**

  - Burgess and Burgess have EATNA (estimated alt)
Learning to **WALK AWAY** from a **DEAL**

- **Tips and Tricks**

  ✓ Always define the best alternatives to closing a deal

  ✓ Think them through before you begin negotiating

  ✓ Carefully evaluate the proposed negotiation against the best alternative

  ✓ If the alternative is better, walk away