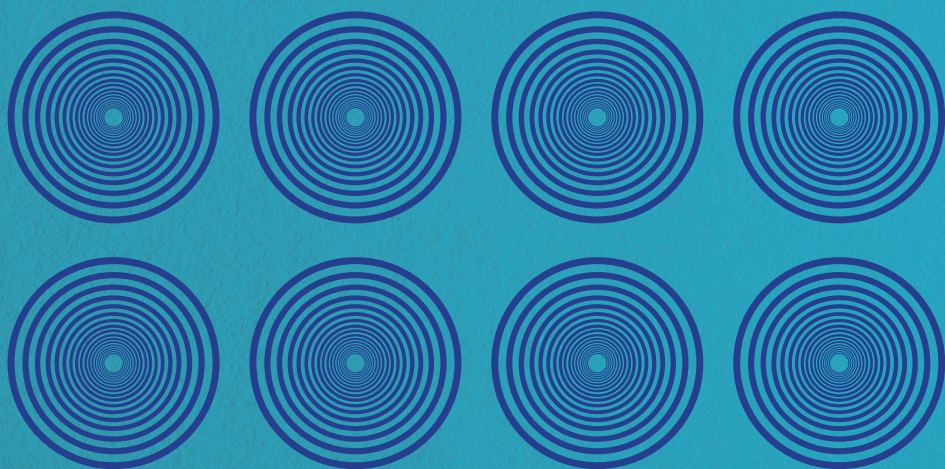




THE LEADER'S GUIDE TO **NEGOTIATION**

HOW TO USE SOFT SKILLS TO GET HARD RESULTS



SIMON HORTON

FT PUBLISHING
FINANCIAL TIMES

Praise for **The Leader's Guide to Negotiation**

‘Anyone, from novices to experts, will find essential advice here to enhance everything from their daily micro-negotiations all the way up to the mega-deals.’

Ashley Hall, Professor of Design Innovation, Royal College
of Art

‘Reading this book has made me think about how I negotiate, and I have learned a lot . . . If you want to benefit your relationships while improving your business, then this is worth studying.’

Simon Woodroffe, founder of Yo!

‘An entertaining, immediately useful book that goes beyond advocating for win-win - Simon Horton shows us how to get there.’

Adam Grant, Wharton Professor and *New York Times*
bestselling author of *Give and Take* and *Originals*

‘Negotiating is one of the key skills for a successful business career. In this book you will learn great insights and strategies that will transform your approach. I highly recommend it.’

Sean Finnan, Board Director and investor, ex-senior
European executive for IBM, HP, EDS

‘I’ve spent my whole career in buying and selling businesses and I know how important, but difficult, negotiations can be, in all contexts. This book has nailed it. Do yourself a favour and buy it.’

Kevin Uphill, Chairman, Avondale Business Sales and
Acquisitions

Therein lies your power. If this requires you building your cash in the bank, do so. But, whatever it takes, always be ready to walk away.

Now, *from that point*, start your negotiation. You will get a much better result from here.

J. P. Morgan once commissioned a pearl scarf-pin from a famous jeweller. The jeweller crafted it and sent it with a bill for \$5,000. Morgan sent him a box and a cheque for \$4,000 and a note saying, 'I like the pin but I do not like the price. If you will accept this cheque, please send back the box with the seal unbroken.' The jeweller was furious and tore up the cheque and sent the messenger packing. He opened up the box to take back his pin and found inside a cheque for \$5,000!

Indeed, invite a 'no'

Actively invite a 'no'. Say, 'Feel free to say no to this, but this is what I will need from this deal. If that doesn't work for you, that's fine . . . '

This is different from an ultimatum but it works in a similar way. An ultimatum often gets its result because people do not want to risk losing something. The downside, however, is that it can annoy people and they may not see it as negotiating in good faith.

Declaring your deal-breakers and inviting a 'no' still has the effect of potentially removing an offer from the table (which is likely to draw the other party towards you) but it does so in a rapportful way and people are actually impressed by the honesty. They go away feeling they know exactly where they stand.

And then be ready to walk away. They may well say, 'Thanks, but no thanks.' Fine. On the other hand, they may well say, 'Yes, we can do business with you.'

Knowing when to walk away from the deal

How do you know when to walk away? There is a simple answer to this: compare the deal to your Plan B.

Fisher and Ury, in *Getting to Yes*, call this your BATNA, which stands for Best Alternative To Negotiated Agreement, and it is a critical concept in negotiating. It is the basis of much of the power within a negotiation.

The BATNA is effectively what you would do if the deal fell through. In that instance, what is your next best alternative? In other words, what is your Plan B?

For example, you are at the market and you see a lovely vase. The seller is asking £20. What is a good price to pay and, conversely, at what point should you walk away? Well, let us imagine you have seen an identical one in a shop with a price tag of £15. This is your BATNA, your Plan B – if the deal falls through, you would go to that shop. You now have a very clear point at which you should walk away – if they accept £14.99 or less, you have a good deal; if they demand £15.01 or more, you walk away. Importantly, it gives you a guideline based on solid, real-world alternatives rather than a gut-feel of what seems reasonable.

It is extremely valuable for you to know what your other options are. It gives you a better idea of a fair deal and gives you greater power. To calculate an accurate idea of your Plan B, take into account any costs involved, too. For example, switching supplier may incur start-up costs.

And in the real-world the alternative is not always as clear as in the example above. You may have to be more sophisticated and consider your WATNA too. WATNA stands for Worst Alternative To Negotiated Agreement.

So, let us say you are in a dispute and should the discussions break down the alternative is to go to court. And let us say

should you win, they will have to pay you £5,000. This is your BATNA. However, what if you lose? It may be you have to *pay* costs of £2,000. This would be your WATNA.

To be even more sophisticated, you can put percentages against each scenario and this will give you an even better guide to your walk-away point. Since the alternatives are not always cut and dried, you may wish to have in mind trigger points at which you decide to call a halt in the deal and take time out to ponder.

Make sure your choice is a considered one. Do you have a naturally competitive nature and are quick to follow the route of litigation or force? Or are you a natural appeaser, quick to give in and stick with the status quo? These may both be valid Plan Bs, but make sure you are analytical in your decision and do not simply follow your natural automatic impulse.

Increase your power, cultivate your alternatives

It is one thing to know your Plan B, it is yet another to cultivate it. As Bazerman and Neale point out in their book *Negotiating Rationally*, if you are in the market for a house, never fall in love with one, fall in love with three! If you fall for just one, your negotiation room will be severely compromised.

Take the time, as part of your negotiation preparation, to cultivate your alternatives. Doing so will increase your bargaining position significantly.

Talk to several suppliers at the same time. Build a portfolio of clients and a pipeline of future sales. Look at the alternatives to this negotiation and invest in them. That investment will pay off in *this* deal.

Knowing your alternatives is an absolutely critical step to achieving your best deal. The US Navy Seals know that circumstances will never be exactly as you wish, so they plan accordingly. They have a saying, ‘Two is one and one is nothing.’ You can’t rely on the weather, so have a strong Plan B.

At what point will they walk away?

Of course, it works the other way, too. If they show signs of walking away from the deal, it will put pressure on you to make concessions. If they are simply not budging from their position and they are happy to sacrifice the agreement, it can seem that they hold the power in the relationship and you are the side that has to make the compromise.

If you know *their* alternatives, however, you may be able to call their bluff.

Often people walk away from a deal without fully thinking through the impact. So, again, it can be useful to do the thinking for them. A gentle reminder of the consequences of not coming to agreement may bring them back to the table in a more accommodating manner.

Again, be sure to look at the true cost of the alternative. They may threaten to move to a different supplier who is cheaper, but have they considered the switching costs? The quality issues? The learning curve? The risks? The new personalities involved? The new processes involved? Do the thinking for them and it can increase your persuasion power.

Knowing their Plan B will also give you a good idea of the most you are likely to be able to achieve from the deal. If you sell at one penny less, you probably have a sale; one penny more and you do not.

Their appetite for risk is important here, too. If the alternative is to go to court, say, there is an element of chance whether they win or not. Do they feel bullish about it or are they risk-averse? This is part of the equation.

Do the same for all the key players

Remember, negotiations are rarely one-on-one situations.

In the same way that we found leverage from identifying all the key players involved and recognising the bigger-picture interests of each, we can do the same with their Plan Bs.

For each key player, step into their shoes and ask yourself what they would do if this deal were to fall through and, therefore, in what way this deal is beneficial for them.

This will give you very useful information regarding how to influence them to support the deal.

Warn them before you walk away

Developing your Plan B is very much part of the strong win-win system. It strengthens your hand to make sure you achieve your best deal and at the same time it decreases the chances of them trying to take advantage of you. If they play a win-lose game, fine, just walk away.

If it gets to the point that you are about to walk away, warn them of this fact and, if the warning is credible, this may be what is required to break the deadlock.

As part of the warning, get back to basics. Remind them why everybody is there in the first place and what you are trying to achieve and what they are trying to achieve.

Tell them of your Plan B and if this is better than what they are offering, they will see that your threat to leave the table is credible.

At the same time, remind them of *their* Plan B. If what you offer is better than this, make it clear to them.

Let them know the consequences of the breakdown in talks. It may be that you will still be open to discussions should they ever change their mind, in which case let them know of the conditions for this to happen. On the other hand, if it means you signing a deal with another party and so this is last-chance saloon, let them know of that, too.

In other words, make it very easy for them to say 'yes' to the deal and give them one more chance to do so.

ACTION POINTS

Be prepared to walk away from this deal. Be prepared to walk away from *any* deal. Ask yourself:

- What is my Plan B?
- What is my WATNA, the worst-case scenario if the deal collapses?
- How can I cultivate more alternatives and make them more appealing?
- What is their Plan B and WATNA?