Face-to-Face Negotiation Strategy

This guide has been written to provide you with some tools to assist you with the preparation and conducting of face-to-face negotiations. The guide highlights simple strategies and tactics to help structure a face-to-face negotiation and to quantitatively evaluate different suppliers so that you maximise your chances of success.

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1. Face to Face Negotiation

1.1 Introduction

At Market Dojo we understand that Online Negotiation Events aren't right for every situation.

This might be decided at the outset during the category assessment or decided later during the tender process. The reasons for using face-to-face negotiations over an Online Negotiation Event depends on many factors such as: inability to create a universal Service Level Agreement (SLA), unclear specifications, time constraints, or a lack of market liquidity.

Sometimes these issues can be overcome to enable an Online Negotiation Event. For instance you could start with a Request for Proposal to help define market-wide acceptable SLA's or carry out an in-depth analysis of the market to increase liquidity. However even these approaches may not be sufficient.

Thus we would like to provide some tools that will assist you in the event that you need a face-to-face negotiation. This guide will highlight simple strategies and tactics to help structure a negotiation and to quantitatively evaluate different suppliers.

1.2 Negotiation Phases

A negotiation can be broken down into three main phases: 'Preparation', 'Discussion' and 'Review'. These are summarised below. We will examine the 'Preparation' and 'Discussion' phases more closely in the following sections. The 'Review' phase is straightforward and does not require further explanation.

A. Preparation

The preparation phase of a Negotiation is where you:

- Assess relative positions
- Set objectives and negotiation margins
- Decide strategy and tactics

B. Discussion

The discussion phase consists of three elements:

Opening:

This is where you declare your objectives and opening positions. This should obviously be a position from which you are prepared to move and thus should be a relatively high, yet sensible, list of demands.

Probing:

Here you will gently probe each of the negotiation issues, gaining an overall understanding of the position, without making any commitments.

Bargaining:

This is the critical point. At the end of this phase you will either have the makings of a final agreement or negotiations will break down.

1. . Face to Face Negotiation

1.2 Negotiation Phases cont...

C. Review:

The review is where you will work out the next steps, which will either be obtaining a signed agreement or looking at alternative options.

It is also a good time to understand what went well, what didn't, and what could be done next time to improve.

2. Negotiation Phase 1 - Preparation

2.1 Assess relative positions

Assessing relative positions and analysing each issue is critical preparation. The relative position is understanding how each party is placed with respect to the other. For example: who is in the stronger position? Who holds the power?

Carrying out a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis for each negotiation issue or objective is a well-structured approach to this.

You will need to examine the justifications for each issue and the respective levers that could be applied. Also by scrutinizing each issue from the perspective of the other party will help give you some insight into the arguments and counter-arguments that will arise.

When analysing the category, there are many attributes you should take into account. For example:

- Current market situation
- Performance and price history
- Existing relationships
- Competitive advantages
- References
- Cost structure
- Financial situation
- Relative importance of the parties to each other
- Urgency and importance of the various topics to each other
- Previous negotiations
- etc....

[Many of these overlap with the questions highlighted at in our Guide, 'Market Dojo Category Evaluation Questionnaire', which helps decide if an Online Negotiation event is suitable.]

2. Negotiation Phase 1 - Preparation

2.2 Set objectives and negotiation margins

Objective setting for each negotiation issue can be very difficult and they need to be set at the right level. Too high and your negotiation might stall, too low and you may limit your success.

For each negotiation issue, you should set a:

- 'Least Acceptable Agreement': This should be based on what is essential.
- 'Most Desirable Outcome' (MDO): This will be based on your most (reasonable) desirable outcome.
- 'Best Alternative To Negotiated Agreement' (BATNA): If you don't achieve your LAA, then you will need to understand what position you will take, the BATNA. This may simply be to accept the options and to sign a short term contract. However the BATNA may be more unwavering and dictate that you will immediately go out to tender if your LAA's are not met.

You should also set a weighting to each objective which will affect the overall scoring (see table 2).

These strategic decisions determine the tactics that will be employed.

2.3 Strategy and Tactics

Your strategy and tactics need to be thought through on each issue. This relates to how you open the discussion, how you present your points, when you give concessions and which points to focus on.

On each issue there will be resistance points, arguments and counter-arguments. These should to be thought out before the discussion and you ought to have a secondary wave of defence at the ready.

Try to gain some knowledge about how the other party feels about the negotiation, what they may be looking for. Gathering as much information before a negotiation will strengthen your position.

The following table (table1) gives an example of some possible negotiation issues and a brief summary of the strategy. This can be used as a worksheet for your own negotiations.

Finally, before you enter the negotiation make sure that you're aware of everyone's position in the team; who will lead, what roles you will play, how time will be distributed and what tactics will be employed. You will need to carefully co-ordinate to set the right atmosphere and appear cohesive. Follow the agenda to guarantee you can get through all the points during the meeting (Don't forget to send out the agenda to the other party beforehand!). You should be aware of who is attending and make sure you have the right people in the room who are able to make the decisions and who understand your timescales to implement any deal. Also consider what location should be used to give you the most advantage.

Table 1:

Negotiation issue	Objectives	Justification	Main Messages	Anticipated Reply	Counter reply
Price per Unit of Measure	LAA: 10% reduction MDO: 20% reduction Need to achieve market price.	With current market, sales dropping and energy costs increasing, need to reduce other costs to stay in business.	Prices went up by 20% last year despite increases in volumes by 20% and raw material indices dropping in the last 6 months.	We cant reduce prices further, we are also being hit by spiralling energy costs.	Other quotations from the market and a should cost exercise indicate you are above the market price. If LAA not met, possibilities of a open tender.
Index linking	LAA: None, but fixed prices for 1 year. MDO:Monthly review and adjustment based on Index movement.	Index linking will allow a lower price due to reduced risk.	This is a fair method which protects both parties.	Too complicated and onerous.	It is a standard activity which is carried out by your major competitors. We will help form a template.
Volume rebate:	LAA: 2% rebate on total business for 100% increase in volume. MDO:1% rebate on total business for each 10% increase in volume.	Volumes may increase if we win new order, and need to take advantage of that.	With increased business you will buy more efficiently and we want part of that reduction in your cost base.	Our fixed costs will increase.	You have already stated you have capacity and your competitors offer this rebate.
Lead Time	LAA: Stays at existing 4 weeks lead time. MDO:2 weeks lead time.	Our customers are pushing for lower lead times.	The market is changing as well as company expectations, and you are part of our supply chain.	We cant reduce lead timers further due to already high lead times on raw materials.	We buy the same raw materials in higher volume with a lower lead time, you can use our suppliers but we would also require the benefit of any further cost down.
Quality - Rejection Rate	LAA: 0.1 % rejection allowed. MDO: 0.01 % rejection allowed.	Quality failures in the supply chain are estimated to cost us £xx per part in terms of delays and management. This not does include the harm to our reputation if one makes it though to the customer.	Our company objectives are to reduce rejections of our parts to .01%. To achieve this we need to reduce quality failures in our supply chain. Also failures need to be fixed quickly and a penalty for poor quality from our supplier base will be applied.	Our current policy is accepted by our other customers. Most quality failures arise from poor engineering diagrams from your side.	Improving quality is becoming paramount in increasing our brand reputation. Quality failures harm this and cost time and money. We can work closely with you to locate reasons for quality issues and implement fixes. We will place one of our quality engineers on your site for 2 days a week for 6 weeks.
Quality - Replacement lead time	LAA: Replacement in 3 weeks. MDO: Replacement in 1 weeks.				
Quality - Penalty clause for parts rejected over allowed rate	LAA: Penalty of 10 % on Unit Price for each part rejected over allowed rejection rate. MDO:Penalty of 30 % on Unit Price for each part rejected over allowed rejection rate.				

3. Negotiation Phase 2 - Discussion

3.1 Opening

The opening to the negotiation should have been thought through before you arrive at the meeting itself. This should be a well-prepared and rehearsed speech or presentation which highlights the people, agenda and process, current situation, opportunity and your expectations. This initial presentation should not be negative as negotiation is about being collaborative rather than confrontational. Make sure everyone agrees on the purpose and objectives to create the sense of unity which should follow throughout the meeting.

3.2 Probing

The probing phase is be an opportunity to test the water, see how the other parties respond to various issues and to get everyone talking. You have many types of question at your disposal such as: open, closed, direct, indirected, information seeking, investigative, barometric questions (how do you feel?), solving questions, and finally probing questions - all of which help obtain information, clarity and, importantly, the decisions.

During this phase you should be paying close attention to the mood in the room; how people are sitting, who is taking notes and so on. Try to judge where you will meet your expectations and where you will have difficulties. This will be of great assistance during the next stage. A skilled negotiator will understand how people are feeling, will notice a change of attitudes, will know when to be flexible or to be assertive, and, most crucially of all, will recognise the reasonable points beyond which you do not bargain.

3.3 Bargaining

This is the crux; negotiating on the various issues and reaching either an agreement or an unsuccessful conclusion.

Your opening bids (MDO's) may already be on the table from the opening presentation. If not, then this is the time to mention them and it pays to get them in first. They should be made without reservation or apology and do not justify your bid or make concessions until the other party has replied and you know what they will give in return. Your preparation here will become invaluable, especially if the other party hasn't done theirs.

Remember that this is bargaining, which relies on mutual concessions. Never give anything away immediately and your first stance must always be no. When you concede, only give the minimum (large concessions lose credibility), stress the cost to yourself and the value to the other party and only ever take your hands off it once the other party has agreed to what they will give in return. Hypothetical questions can be very useful here, for instance: 'If I was to increase the quantity, would you be able to lower the price?'. Throughout the negotiation you should be referring back and making a show of all the concessions you have made.

Making concessions is part of the game. There are unwritten rules that both parties will follow and you should make a point if you feel they are not 'playing the game'. Though never push people into a corner. Always leave a get-out clause which will help to maintain the flow and to let them concede without losing face.

3. Negotiation Phase 2 - Discussion

3.3 Bargaining cont...

Two of the most effective techniques in any negotiation are: **listening** and **logic**.

By listening you will show respect for the other party, focus on the discussion at hand and fully understand your position at all times. It is not just listening to what is said, but also what is not said.

By using logic rather than emotion, it makes your position far more powerful and defendable. However, don't forget that you will need to persuade the other party. It is similar to a sales meeting where you need to understand their position, objections and objectives in order to make your proposals attractive. This applies to both a personal and professional perspective, so in other words consider that the party might have personal goals as well as corporate ones.

Knowing when you are nearing the end of a negotiation is a skill unto itself. Research has shown that it is rare that either side is pushed to their absolute limits (unlike an Online Negotiation Event which more often then not finds the true market price). As you approach the final stages, you will start to hear the repeated 'no', the concessions get smaller and the preparedness to move is less. Obviously the art of negotiation is to convince the other party that you are at your limit. Thus the final offer should be clean and free from any form of qualification. Qualifying your offer would be seen as weakness that you are trying to convince yourself and it will still be seen as a position to be negotiated further.

If at any time the other party brings out an issue that has not been planned for or drops a proverbial 'bomb shell', do not be shy in asking to reconvene at a later date. This is always more preferable than reacting hastily and without due consideration.

Bargaining, even though the theory is straighforward, can be quite complicated when there are many issues at play. These can vary greatly but will commonly include: price, quality, quantity, delivery, responsiveness, flexibility, servicing, features, payment, contract length and specifications. Normally a seller will use any other variable to protect their price. The following table (table 2) is an example of how you can structure your negotiation based on your previous preparation and note what is decided upon during the negotiation. It will help you to quantitatively assess how the negotiation is progressing and will let you compare the results from discussions with many other parties fairly and easily. Don't forget to recap the main points and outcomes at the end of the negotiation.

Negotiations can take many different forms but we hope you have found this a useful guide to structuring your negotiations in an organised manner. For any further information, please contact the Market Dojo team.

You should also find our Guide 'Strategic Price Negotiation' very useful as it will help focus on the complexity around pricing negotiations

Table 2:

Factor	Supplier A - Incumbent, current quotation for next years supply	Best Supplier known	Least Acceptable Agreement (LAA) [Score 1]	Most Desirable Outcome (MDO) [Score 5]	Position after Negotiation	Weighting	Score
Price per Unit of Measure	Quoted an overall reduction of 5%	Overall reduction of 15%	Overall reduction of 10%	Overall reduction of 20%	Over all 12% reduction	x2	2
Index linking to main raw material	None	Monthly review, with 30% part cost linked to raw material index. ICIS LOR index to be used	None, but fixed prices for 1 year	Monthly review and adjustment based on Index movement.	Quarterly review, ICIS LOR indices	x1	4
Volume rebate	None	5% rebate on total business for 100% increase in volume	2% rebate on total business for 100% increase in volume	1% rebate on total business for each 10% increase in volume	10 % rebate on total business for 100% increase in volume	x1	4
Lead Time	Quoted existing lead time - 4 weeks	3 weeks lead time	Stays at existing 4 weeks lead time	2 weeks lead time	3 weeks lead time	x1	3
Quality - Rejection Rate	0.1 % rejection rate allowed.	0.05 % rejection rate	0.1 % rejection rate	0.01 % rejection rate	0.05 % rejection rate	x1	3
Quality - Replacements lead time	Replacement in 2 weeks	Replacement in 1 weeks	Replacement in 3 weeks	Replacement in 1 weeks	Replacement in 3 weeks	x1	1
Quality - Penalty clause for parts rejected over allowed rate	Penalty of 10 % on Unit Price for each part rejected over allowed rejection rate	No Penalty clause given	Penalty of 10 % on Unit Price for each part rejected over allowed rejection rate	Penalty of 30 % on Unit Price for each part rejected over allowed rejection rate	Penalty of 30 % on Unit Price for each part rejected over allowed rejection rate	x1	5
						Total:	24

BATNA (if score not greater then 21)	Sign short term contract and engage with other suppliers for an Online Negotiation in one year with defined Service level agreements (SLA's)

[Notice price score added twice due to higher weighting]