

NEWDAWN BRIEFING

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Why are Services Businesses So Vulnerable when it Comes to Negotiation?

Negotiation can be a tough-enough confrontation for anyone. But, some businesses are particularly vulnerable. Take the Services Sector Businesses for example. Renowned for having some of the brightest and most innovative minds around, and equally renowned for being 'soft' in negotiation. You will probably recognise the scene: The weight of expectation sits heavily on our shoulders – “Do not lose this opportunity” the boss said as we left the office. It's been a tough Quarter and the team is under pressure. This deal would alleviate a lot of that. Now, we've made our best pitch, submitted our best proposal and beamed our best smile. It's that defining moment.

One of two things can now happen:

- The moment that we inwardly dreaded as we hear the words “You're too expensive”. Suddenly, we are in the nauseous and icy grip of failure.
- Or we hear the glorious news “Congratulations, we have decided to move ahead with your company, all we have to do is sort the commercials next week”. Celebrations begin early as the deal is in the bag.

"I was tasked to look at a well-known organisation for some advanced negotiation training whilst NewDawn were running a pilot Profitable Relationship Management (PRM) programme. We commissioned a programme from the other provider and I attended. Although it was good, I learned more in the first half day of the NewDawn programme than I did in the 2 days on the other programme.

This PRM programme is tuned to our needs, and delivered by people who truly understand the dynamics involved in negotiating in complex relationship situations. They have been able to deal with any live situation we have raised with them during the programme.

We will be standardising on this programme and I will be pushing all businesses within the group to put their client facing people through it."

CFO Global Advertising Group

But, perhaps all is not quite as it seems!



In This Issue

- Services Businesses— Vulnerable in Negotiation?
- Preconditions weaken their position
- Lack of commercial information and acumen
- A preponderance of unassertive behaviour
- Poor persuasive communication skills
- Inherent failure to learn from mistakes



The Preconditions Weaken their Position.

The odds are often stacked against the seller and a really good result from the outset by their management. First, whilst they have been trained up to their eyeballs in selling and account management techniques, nobody has prepared them for the negotiation. So, we have a great account plan and enormous internal pressure to win at all costs, but no strategy and plan to close the deal. The result – too much value is often given away too quickly. Second, the targets and incentives they work to do not reflect the real business needs. Often the target is revenue, when profit would be the appropriate measure. As the old saying goes “Revenue is vanity, profit is sanity, but cash is king”. Consequently, we often see sales people chasing high revenue / low margin opportunities at all costs because, apparently, that is what their bosses want them to achieve and that is what they will be rewarded for. And, do those wily foxes in the customer’s procurement team know this? Will they manipulate this to their advantage? You may rest assured that any half-decent procurement manager will know this and will develop their strategy to chip away at the supplier’s margins whilst simultaneously dangling large revenue numbers. Finally, when senior management is brought in to close the deal, as often as not, they will make concessions and compromises they did not need to because they are just as timorous at negotiation. Nobody coached or trained them in negotiation – and so they find it hard to coach their own teams. Consequently, they are more vulnerable than their teams, as they have the authority to make even bigger concessions. Indeed, most professional buyers welcome the arrival of the Sales Director as this represents an even bigger savings opportunity.

What has really happened here?

Let’s be absolutely clear, in both scenarios, the deal not been closed! We have simply been invited to negotiate. In the first example, the buyer has not said “No”. He has laid down the invitation to negotiate as a challenge. In the basic terms, this is the negotiating battle ground; the buyer arguing on price and the seller selling on value. But how good at it are we? In the latter, the sales person is vulnerable to celebrating victory before the battle is won, and the buyer in all likelihood knows this and will use it to their advantage when the real negotiation begins the following week.

Many business development and sales people are vulnerable when it comes to negotiation.

Let’s now be brutally frank, negotiation is more often than not an Achilles heel , particularly in service industries and related businesses. In our work with countless businesses, both buyers and sellers, we have identified some common themes that contribute to this vulnerability;

- The preconditions are stacked against the sellers
- There is a lack of commercial information and acumen
- There is a preponderance of unassertive behaviour
- Many sales people exhibit poor persuasion communication skills when under pressure.
- There is an inherent failure to learn.

Client Relationship Manager

“I applied the negotiation guidelines you suggested and persuaded a client that a new piece of work was not part of the retainer, which it would normally be, and should be a separate project for which we will get paid, thank you”

Lack of Commercial Information and Acumen.

Some sellers often do not understand their own commercial model properly. They are given a price target and some small room for manoeuvre, and are then floored by a competent buyer who understands their cost model infinitely better than they do and starts to unpick the prices. This is not to say that a cost-plus model is the right one, but some understanding of the real costs when defending value-based pricing is an essential. Whether this lack of knowledge is inexperience or laziness on the part of the seller, or deliberate fogging by the senior management, does not really matter. The fact remains; they don't know their own commercial model well enough.

“Value”

This situation is compounded by a half-baked value proposition in which the ‘value’ is not clearly defined nor enumerated. In some cases, the value proposition is just a sequence of product or service features with little or no evaluation of what this means to the customer.

Differentiation

Even worse, the ‘unique selling proposition’ is exactly the same as the competitors’ and should better be labelled the ‘common selling proposition’. When this is the case, the buyer is able to play the suppliers off against each other on price. And why not?



Dawn from the summit

A Preponderance of Unassertive Behaviour

In many commercial negotiations, the balance of power is tilted firmly in favour of the buyer due to a psychological phenomenon related to the balance between the importance of the relationship versus the importance of the commercial outcome. Whilst the relationship is often very important, many sellers are too often enthusiastic, accommodating, ‘lose to win’ deliverers, who are soft on people and the problem and hence prefer to avoid confrontation. They are often seeking agreement in a friendly way so as to protect the relationship at all costs. We like them and they want to be liked.

Commercial Outcome or Relationship?

Contrast that with the traditional or tactical buyers; someone who is confrontational and demands concessions as a condition of the relationship, who is hard on the people and the problem, whose goal is victory in a ‘win / lose’ contest and who will fight opportunistically for the commercial outcome with little or no regard for the impact on the relationship.

In this scenario, ask yourself who will make the concessions first, and keep making them to protect the ‘relationship’? This psychological imbalance is compounded a lack of confidence and belief in their pricing strategy, and tendency to be overly subservient to the customer (‘the customer is always right’). This is a major factor in not only soft negotiating styles, but also the preponderance of scope creep in Services Businesses. The ideal negotiator is driven by the importance of the relationship but also the importance of the outcome, and is prepared to be highly assertive when sticking to their goals.

Senior Client Relationship Director

“I used it straight after the programme in a recent negotiation and it worked really well – I believe I got an extra £20,000 out of the client which I would not normally have charged for. Thanks NewDawn”

Poor Persuasive Communication Skills

You would think that the seller would have well-honed and polished persuasion and communication skills. Generally, they have – particularly in the warm and cosy environment of the sales pitch where well-rehearsed scripts flow with Oscar-winning perfection. But, take them off-script and add some pressure and you will see a very different picture. Suddenly, stress kicks in and clouds their thinking. It wasn't supposed to be like this – or was it?

“TCUP”

Thinking clearly under pressure (TCUP), persuasion and communication skills are essential weapons in any negotiation unless you want to give away value. Furthermore, they are skills which can, and need to be learned and practised especially under pressure. Without practise, most sellers show a strong tendency for concession and compromise too quickly and easily, especially when under stress.

Free or Expensive Persuasion Styles?

Those long forgotten and under-used free persuasive styles, positive or negative emotion and logic, need to be practised and individuals need to overcome any inhibitions about their use. Our analysis shows that the buyers are highly adept at using free persuaders (emotion and logic) and sellers have a distinct preference for using expensive responses (concession, compromise and trading). In these circumstances, who is giving value and getting little in return, and vice versa? The combination of a lack of confidence and belief in the pricing strategy plus poor persuasion is a deadly cocktail which will leak value. In the heat of the moment during a difficult negotiation, these traits will impede their communication skills and open the door for the uncompromising and opportunistic buyer.

It Won't Fix Itself!

OK, we should declare an interest here. For the last 10 years, we have spent a huge amount of time teaching and coaching people about the art and skill of negotiation. And, in so doing, we have watched and observed how sellers can make life really difficult for themselves at the negotiating table.

Believe it or not your customers need you to get better at recognising where you genuinely add value and protecting it, otherwise they risk failing to improve their own businesses. That's their problem too.

It doesn't have to be like this. You can get better at negotiation as an individual and a business, and the rewards will be huge – not just in monetary terms (although that will be significant) but also in terms of reputation, customer respect, trust and relationship building. It needs planning and investment; it won't fix itself.

Inherent Failure to Learn from Our Mistakes.

Very few companies have any detailed understanding of why they were not successful in negotiations, and how they can improve their performance. Most companies quickly focus on the next sales opportunity or negotiation, rather than completing the sales cycle on the last one and gaining an understanding why they were not (or indeed were) successful. We all accept the value of learning from our “mistakes”, but very few companies put this into practice by undertaking win/loss reviews. Even those that do invest time in this, usually get the seller to undertake the process – a school-boy error. There is a natural bias for any seller to attribute losses to uncontrollable factors (such as politics or price) and to protect their own position. Furthermore, the buyers will rarely, if ever, reveal the full story to the seller involved – even they have a heart! Those who possess the courage and discipline to conduct proper win-loss reviews and see them through will not only improve their likelihood of success, but will also send a broader message throughout their organization that performance matters and that constant improvement is valued. This isn't just about negotiation, but a cultural mind-set.

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