
CHAPTER

1

The Need for Negotiation

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THE NEED FOR NEGOTIATION

Negotiating opportunities surround us.

—R. J. Laser

Conflict in Our Lives

Conflict is inevitable; therefore, negotiation is a survival skill. From the sandbox to the Sinai, every Dick, Jane, Mohammed, and Moshe needs a method to reach workable agreements or suffer the consequences of unresolved conflicts. Whenever one individual's needs, wants, and desires conflict with another's, we have the potential for negotiation. For most of us, 90 percent of the resources we need to do our jobs and live our lives are owned by someone else. Pick up any newspaper and, on the front page, there are numerous examples of conflict situations. To begin, let's define the terms *conflict* and *negotiation*:

Conflict: A situation where two or more parties have interests or perceptions that differ.

Negotiation: A process of exchange to resolve conflict and reach a mutually beneficial agreement.

Consider the number of conflict situations any person experiences in his or her life. From early childhood, we recognize conflict as a part of life:

"I want that."

"No, it's mine."

"I want to ride on Daddy's shoulders!"

"But it's my turn!"

"I want the window seat!"

"So does your sister."

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Later, conflict may involve disputes about being included in peer groups or competing to be captain of a team. In adulthood, we want to purchase houses, cars, and other items to meet our needs; and many conflicts arise with the significant other in our life. If not handled well, relationships deteriorate and couples divorce. Without a doubt, we encounter many conflicts throughout our lives.

How do we resolve these conflicts? As we grow and mature, we learn to share, compromise, or suspend fulfillment of our needs. We often turn to reason as a method to resolve differences. We reason with the neighbor about the barking dog or overhanging tree branch, but often discover the limits of logic and try to compromise, usually resulting in an unfulfilling solution. Even though these are ways of solving the problem, none involves truly getting our needs met.

In some instances, we depend on the skills of others to help us resolve conflict. When we lack the skills, or the parties involved cannot resolve the conflict, we engage others to explore the issues and reach agreement. These methods have names that include the “-tion” words: *mediation*, *arbitration*, or *litigation*. In the end, the parties expend time and money, and become aggravated, before finally settling a dispute. At that point, the relationship between the parties is often strained or destroyed. To both meet our needs and sustain relationships, *negotiation* becomes the preferred method for reaching agreements. Especially when the exchange is friendly, we may not even realize that we are negotiating as we solve everyday problems, ask for what we want, and make group decisions.

Why is negotiation the preferred method? First, both parties maintain control of the process. Second, if done well, the negotiation can strengthen the relationship between the parties and lead to a deeper understanding and respect—especially, if a long-term relationship is desirable.

Negotiation involves continued interaction and dialogue between parties to find a solution with maximum advantages to both. By negotiation, mutual interests are met and the most satisfactory solution is achieved. However, a negotiation is not a negotiation

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when one of the parties is powerless, politically, psychologically, or physically, to say no. If you can't say no, call the situation hopeless but don't call it a negotiation.

Conflict inside Organizations

One of the most significant arenas for generating conflict is the workplace. As organizations become less hierarchical and more cross-functional, managers as well as individuals are under increased pressure to resolve conflicts. Interdependence and collaboration are increasingly important issues of nearly everyone's work life. Despite the benefits that accrue from working together, one problem that emerges is the increased likelihood of conflict. Interdependence between individuals and departments with diverse interests and points of view can lead to better results precisely *because* it forces us to deal with the conflicts.

Other trends in business such as lean manufacturing, downsizing, and increased competition for resources also contribute to the increasing frequency of conflict.

Nonproductive Reactions to Conflict

How do people in organizations react to conflict? Some adopt a strategy of denial, choosing to ignore the conflict or pretend that it doesn't exist. They assert that conflict shouldn't exist in organizations because we all share the same goals and objectives. After all, aren't we on the same side?

Most people don't enjoy dealing with conflict, so another common reaction is escalation to a higher authority. Let someone else resolve it. Still another reaction is to capitulate and give in whenever conflict arises. This occurs when someone values peacekeeping more than his or her own needs and desires. One of the most insidious reactions is the passive-aggressive response, where the conflict goes underground. The person or group tacitly *agrees* to a change, yet continues to operate as usual—all smiles, no commitment.

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Ignoring the conflict, escalating to higher authority, giving in, and responding passive-aggressively are not productive ways to deal with conflict. The underlying issues aren't resolved, relationships are usually strained, agreements aren't honored, and time is wasted. In this book, I explore some productive ways to deal with conflict. If you acknowledge that conflict is inevitable, then learning how to manage conflict well is critical to your success. New leaders especially need negotiation skills: "New leaders fail at an impressive rate. That's because many don't know how to negotiate what they need to improve their odds for success."¹ The challenge for managers and employees involves learning how to resolve conflict, not to minimize or ignore it. This requires negotiation.

Conflict with Customers

Conflict in the arena of sales, and the relationship between the supplier and the customer, deserves special consideration. Most salespeople tend to think of themselves as good negotiators because they have numerous opportunities to negotiate with customers. In workshops with salespeople over the years, their classic dilemmas usually involve two questions:

1. When do I stop selling and start negotiating?
2. How do I avoid giving away too much to make the sale?

The answer to these questions is not simple. Throughout the sales cycle, the supplier and customer have different expectations. As the salesperson works to manage the expectations of the buyer, conflict often arises. Figure 1.1 shows the typical sales cycle.²

Consider each of the boxes as a milestone in the sales process. Getting the customer's *attention* requires expending marketing resources. Once the customer has enough *interest* in the product or service to spend some time exploring possibilities with a salesperson, we engage in selling. During the selling process (i.e., determining needs and presenting benefits), the salesperson and customer determine whether there is a good match between needs and product or service.

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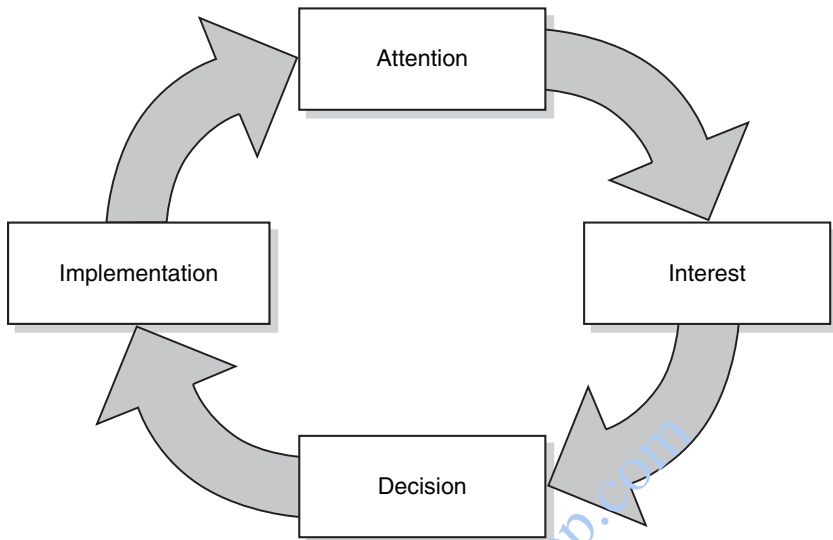


FIGURE 1.1 The Sales Cycle

The ideal outcome is a *decision* in favor of the supplier and a commitment to draw up a contract or agreement toward *implementation*.

Conflict arises in several areas. First, the customer has competing demands for his or her *attention*. Second, the customer wants the supplier to start making concessions early (i.e., between *interest* and *decision*), while the supplier attempts to hold firm until after the *decision* has been made and other suppliers are eliminated. We hear salespeople complain:

“The customer really holds all the cards.”

“I know my customers pit us against our competitors. I feel like we have to say yes just to stay in the running.”

Finally, conflict surfaces in customer situations that involve the interaction of the salesperson as an advocate for the customer with his or her company. This phenomenon is best represented by the equation:

$$1\text{External negotiated agreement} = 3\text{Internal negotiations}$$

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For every external negotiated agreement with a customer, count on at least three internal negotiations required to make the deal work. Picture this: You've just made a deal for a major piece of business with a new customer. Now you have to fight for the resources to make it happen, such as pricing, delivery, credit and payment terms, technical support, and others. Once the deal is done with the customer, the salesperson's internal negotiating has just begun. Chapter 11 covers specific techniques to handle internal negotiations.

Process of Exchange

In the earlier definition of negotiation, I used the phrase *process of exchange*. In the varied ways we exchange currencies for goods and services, negotiation is only one of several processes of exchange. Figure 1.2 represents a hierarchy of the exchange processes based on level of power.

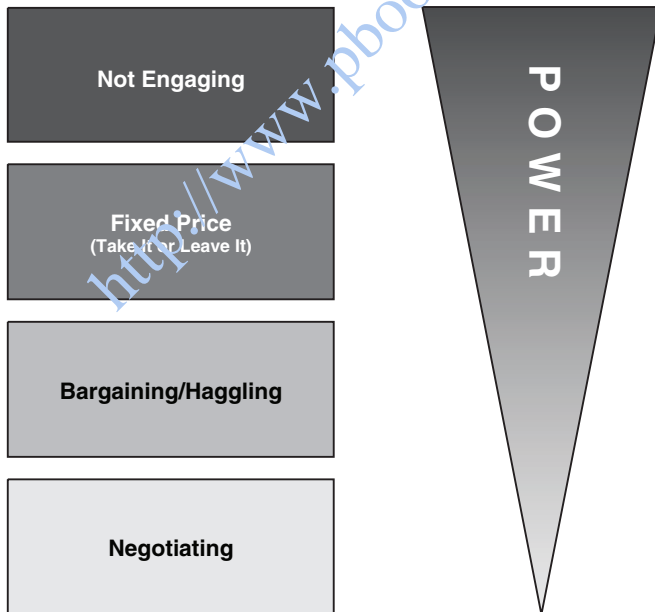


FIGURE 1.2 Process of Exchange and Power

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At the top of the power scale, the *not engaging* strategy involves a refusal to even open the negotiation. Consider the example of a person who owns a beautiful art object with so much value or meaning to the individual that it's not on the market. Along comes a buyer willing to pay such an outrageous price that the other party is stunned into at least consideration of selling. However, the power lies with the person who owns the object and does not want to sell.

Consider the folksy story of the driver who comes across a beautiful seaside home. The home owner is working in her garden as the potential buyer approaches.

POTENTIAL BUYER: Good afternoon. What a beautiful house you have here.

HOME OWNER: Why thank you, it's been in my family for generations.

POTENTIAL BUYER: Is it for sale?

HOME OWNER: No. There's no way I would ever sell this house.

POTENTIAL BUYER: I would give you \$500,000 for it. (Close to market value.)

HOME OWNER: Perhaps you didn't hear me the first time. It's not for sale!

POTENTIAL BUYER: I could increase my offer to \$1 million.

HOME OWNER: I wouldn't sell this house for \$10 million!

POTENTIAL BUYER: Would you consider \$20 million?

HOME OWNER: Well, I guess I'd be foolish not to *consider* that offer.

As you can see, the initial strategy of *not engaging* may be overcome by an overwhelming offer from the other side. However, the home owner displays a very high power position by her unwillingness to engage. The home owner has no *need* to sell, representing a high power position.

The next exchange option is *fixed price* (i.e., take-it-or-leave-it). Most American retail trade is based on this process. The price is established and customers are faced with the decision of whether to

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buy. This is considered a relatively high power position because the seller has more options (other customers), who are willing to pay the listed price. The advantage of such an approach involves efficiency. Can you imagine what would happen if every person shopping for groceries engaged in a negotiation for each item in the store? The produce would go bad and the ice cream would melt even before they loaded it into the car. The level of power is contingent on the retailer's belief that "if you don't buy it, someone else will." This stance represents a knowledgeable assessment of the number of potential buyers willing to pay the retailer's price. Retailers do run sales in which they discount from the list price; however, this discount represents a unilateral approach to all buyers, rather than a negotiation with a specific individual.

I first learned about negotiating from my father and uncle in Boston's famous Haymarket. With the wide variety of sidewalk vendors selling the same produce, we could often pit one against the other and get better prices. Our other strategy involved waiting. As the Saturday afternoon sun began to set, we could push prices down even further as the number of customers dwindled. Fixed price depends on the pressure that other buyers are willing to pay the asking price. Consider what happens in a gas crisis when prices are high and supply appears to be low. Drivers will pay the high price believing they have no choice or that prices may rise even further. Couple this with the occasional dwindling supply and anxious consumers will pay dearly to ensure a full tank.

Bargaining, a third process of exchange, involves two parties arguing or haggling over a single currency, usually price, as in the following example:

BUYER: This copy machine looks like it will meet my needs.
How much is it?

SELLER: That machine is \$5,000 with a one-year warranty on parts and service.

BUYER: That's more than I have budgeted. How about \$3,500?

SELLER: That just would not work for us. Let's say \$4,500.

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BUYER: How about we split the difference—\$4,000?

SELLER: Done!

Most of us are familiar with bargaining and consider it negotiating. But the real distinction between the two involves the use of multiple currencies in negotiating. Let's take the copy machine example and change the dialogue slightly:

BUYER: This copy machine looks like it will meet my needs. How much is it?

SELLER: That machine is \$5,000 with a one-year warranty on parts and service.

BUYER: That's more than I have budgeted. How about \$3,500?

SELLER: Tell me more about your budget. Have you considered the operating costs in that figure? There's paper, toner, and other supplies. In addition, our maintenance contract is 10 percent of the initial price per year.

BUYER: I hadn't really considered paper, toner, maintenance, or other costs. What can you do for me on that?

SELLER: How about if we offer you a two-year warranty and free toner for a year. In addition, we'll give you the maintenance contract free for the first year, if you pay full price.

BUYER: That's better for our budget. But it still won't work at the \$5,000 price.

SELLER: Given your budget constraints, how about leasing the machine for two years and we'll give you a buy-out provision so you can purchase it at the end of the lease. Will that help with your budget?

BUYER: That might work very well. Let's work up the figures and get this going.

Besides price, the seller introduced several other currencies—extending the warranty, free toner, lease versus buy option, and maintenance contract. Once additional currencies are on the table, the parties are freer to mix and match to make the deal more interesting, as well as to meet additional needs for both sides.

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Negotiation is the process of exchange that provides the highest likelihood of satisfying the needs of both parties. As in the previous example, the seller was able to generate revenue by leasing the machine. The buyer gained by paying less initially while maintaining the right to purchase at the end of the lease. The other issues of paper, toner, and maintenance fees would be worked out in the negotiation, but consider how much more there is to work with at the end of that meeting than at the beginning.

Introduction to Planning and Executing the Negotiation

This book is organized into two major sections (1) *Planning the Negotiation* and (2) *Executing the Negotiation*.

Overview of Section One: Planning the Negotiation

As a result of reading Section One, you learn to:

- *Identify and satisfy the underlying needs of both sides:* Identifying and satisfying the underlying needs of all parties is at the very heart of good negotiating. Many times, people fail to distinguish between wants and needs. In Chapter 2, you learn more about the distinction between wants and needs, and become more skillful at identifying and satisfying underlying needs—both yours and the other party's.
- *Develop negotiating objectives and establish a position:* Successful negotiators are not only aware of their wants and needs, but also use this information to develop their objectives and plan their position. In Chapter 3, you explore how to distinguish between *business* (or substantive) objectives and *personal* objectives. By converting these objectives into a *position*, you can then build a *settlement range* that includes

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your opening position, desired settlement point, and walk-away point.

- *Become more skillful and creative at using currencies and concessions:* The concept of exchange—the give-and-take of various currencies or resources—is an integral part of the process of negotiation. After the underlying needs and interests of all parties have been identified, the next step is to explore and exchange currencies or resources that will satisfy the needs of each. Chapter 4 opens your eyes to a plethora of possibilities that make the process of negotiating more interesting and enriching for both parties.
- *Assess your power in negotiation situations:* Many people faced with a negotiation situation underestimate their power simply because they are not aware of their options. Consequently, they may adopt a one-down position and be too willing to make concessions. Others may overestimate their power, act aggressively, and face a lose-lose outcome. The simple rule, “Power is a function of alternatives,” will provide you with an easy method to assess and increase your power in negotiating.

Overview of Section Two: Executing the Negotiation

As a result of reading Section Two, you learn:

- *A model for the process of negotiating that has stages and critical tasks:* Although every negotiation is different, successful negotiators tend to follow a certain road map through the three stages of negotiation: (1) opening, (2) exploring, and (3) closing. In each stage, the negotiating process involves critical tasks and behaviors. In Chapter 6, each stage is explained, detailing what you can do to improve your competence at executing each of the critical tasks. As with any model or technology, *simplicity ensures accessibility*. What’s

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the benefit of a complex multiple-step process if you can't remember it or follow the process easily?

- *To identify your negotiating style and become more flexible in using various skills:* By taking a brief survey in Appendix A and analyzing your results in Chapter 7, you can determine your negotiating style and explore ways to become more flexible. In addition, certain communication skills such as questioning and listening, or being more direct and assertive, will serve you well in negotiating. You identify not only your present style but also skills to broaden your repertoire of responses and improve your success in negotiating.
- *To select and use tactics conducive to a win-win outcome:* Many books, articles, tapes, and other materials have been published espousing a win-win philosophy. However, most don't provide specific tactics and techniques to achieve such an outcome. As you see in Chapter 8, the specific tactics and behaviors that ensure the best chance for a positive outcome are fully explored.
- *To respond to adversarial situations and difficult people:* Sometimes people play dirty and use adversarial tactics to gain an advantage. Chapter 9 provides a comprehensive treatment of what these tactics look like and how to respond and counter difficult tactics used by the other party. Since each negotiation is different, it is critical to select the most appropriate tactics for a given situation. Chapter 10 offers a systematic method to determine the tenor of the negotiation, whether it is collaborative, neutral, or adversarial.
- *To plan and prepare for real-life negotiations:* Chapter 11 deals with specific situations such as buy and sell, internal negotiations, negotiating with your boss, and team negotiations. All of the previously described skills and knowledge are linked into a simple yet effective planning process throughout the book, encouraging you to apply these concepts to real-life

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situations. Chapter 12 walks you through an annotated *Negotiation Planning Guide*.

Audience for Practical Negotiating

Throughout this book, we explore three main areas of negotiating:

1. *Personal situations*: Individual consumers with purchases large enough to warrant negotiation as the technology of exchange such as buying a car, house, or property.
2. *Organizational situations*: Managers and employees who perform standard business functions such as creating a budget, making purchases for their company, negotiating for resources in the company, and so on.
3. *Customer situations*: Selling products and services where a long-term relationship is appropriate.

Most readers encounter at least two of these three situations on a regular basis. When considering negotiation, regard it as a process, not a game. In most cases, the issues and relationship are too important to treat the negotiation as a lighthearted interpersonal romp. Working together, we can develop a better way to plan and execute negotiations and reach more win-win outcomes.

KEY POINTS

- ☞ Conflict is inevitable. Negotiation is a survival skill.
- ☞ Conflict is a situation where two or more parties have interests or perceptions that differ.
- ☞ Negotiation is a process of exchange to resolve conflict and reach a mutually beneficial agreement.
- ☞ Methods for resolving conflict include mediation, arbitration, litigation, and negotiation.

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- ☞ Negotiation is the process of exchange that provides the highest likelihood of satisfying the needs of both parties, while maintaining the relationship.
- ☞ Conflict exists in many venues (e.g., in organizations or families; with customers).
- ☞ Power determines the choice of which process of exchange to use (i.e., not engaging, fixed price, bargaining, or negotiating).

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