

'An unputdownable
step-by-step guide to
successful negotiations'

Poitr Malita,
Commercial Capability Director,
Coca-Cola HBC

THE NEGOTIATION BOOK

YOUR DEFINITIVE
GUIDE TO
SUCCESSFUL
NEGOTIATING

STEVE GATES



CAPSTONE
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“Steve’s latest book provides an essential developmental tool for all our sales associates.”

John McGinty, Chief Customer Officer, Nestlé Purina

“Everything happens in negotiation for a reason. This excellent book explains the negotiation process and how you can secure the best total value. A must-read if you are to be successful.”

Ken McKnight, President, CRH Asia

“This is what I have been looking for. An intelligent and pragmatic guide to understanding and developing your negotiation skills in a dynamic and challenging world.”

**Claire Lenighan, Head of Trader and Supplier
Engagement, Asda Walmart**

“*The Negotiation Book* with interesting updated real life examples. Steve and his team from Gap Partnership has over the last 10 years trained over hundreds of my company’s executives and has helped to generate of millions of dollars of value. *The Negotiation Book*’s collaborative method of negotiation helps in gaining agreement that not only results in value for all parties involved but also enhances relationships. It emphasizes on the psychological and behavioral aspects of the negotiator, which is the one of the single most important factor in a successful negotiation. I hope that this book will inspire the readers to continually practice and train themselves to become a ‘complete skilled negotiator’.”

**John Lim, General Manager, Supply Chain & Procurement Asia Pacific,
Middle East and Africa, ConocoPhillips**

“An unputdownable step-by-step guide to successful negotiations. Essential for business professionals, it offers universally acceptable ‘around the clock’ negotiation methods supported heavily by easy-to-understand case studies. Very practical.”

**Poitr Malita, Commercial Capability Director,
Coca-Cola HBC**

“It just makes sense! If you fully absorb what Steve has to say, you should feel confident and fairly sure of the positive outcome of your negotiation before you even enter the room!”

**Simon Duncan, Director of External
Business, House of Fraser**

“The concepts and framework presented within this book are invaluable in helping you prepare and execute your negotiation strategy. This negotiation ‘blueprint’ will ensure that readers have every opportunity to secure long term sustainable agreements with their trade partners.”

Martin Porter, Sales Managing Director, Heineken

THE NEGOTIATION BOOK

YOUR DEFINITIVE GUIDE
TO SUCCESSFUL NEGOTIATING

Second edition

Steve Gates



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About the Author



Steve Gates is founder and CEO of The Gap Partnership, the world's leading negotiation consultancy. Since 1997 Steve has consulted with and supported global corporations from all business sectors facing the challenge of optimizing value from their many and varied negotiations. His interest in commerce, capitalism, and psychology continues to inspire his innovative flair and pas-

sion for greater insights into the art and science of negotiation. His home remains in the UK.

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I would like to thank an exceptional team of negotiators from across The Gap Partnership with whom I have shared so many experiences and drawn so much inspiration. They have committed their lives to pushing negotiation capability to a new level, which has allowed me to write this account of the Complete Skilled Negotiator – a philosophy based on the human challenges of negotiating today, which they have all helped build and which serves to inspire our clients around the world, every day.

Preface

I thought I would find you here. Curious? You should be. Negotiation is fundamental to your life and the way you distribute, create, protect, resolve, and manage anything of value. It is central to the viability of every business, for even non-profit-making organizations. It has delivered peace in war, resolved bedtime tantrums with our children, helped avoid millions of court cases, and has probably helped save a few marriages along the way too. It is how you resolve differences and form agreements based on mutually acceptable terms. It can represent the difference between viability and insolvency, profit making or loss, growth or decline; such is the power of the outcomes.

Great negotiators often go unnoticed. They are not interested in winning or glory. They have an attitude of mind that is focused on the hard work of building agreements and protecting this work through the necessary confidentiality that follows. However, great negotiators – and maybe you – recognize that the return on time invested is dramatic, perhaps in relationships, time saved, risk reduced, profit made, or even dilemmas resolved. No other skill offers so much value in return for competent performance.

This second edition is aimed at providing a modern, up-to-date guide to how to negotiate in today's world. I have set out to provide you with an insight into negotiation from a practitioner's perspective. It is not

prescriptive, but aims to help you to get better deals by being aware that it is you who are responsible for making decisions based on your own judgement. The amount of time people actually spend negotiating is very small in the context of their whole job and yet the consequences of their performance during negotiations will often distinguish how successful they are. The art and science of negotiation is an interactivity that is influenced by culture, ever-changing circumstances, expectation, capability, and personal chemistry. The Complete Skilled Negotiator is an individual who has both the skills and mindset to do that which is appropriate to their circumstances and the ability to maximize opportunity during each and every negotiation.

So why this second edition? Well, over the past decade there is not much that has changed about how people and companies negotiate. There has, however, been a rapid change around what they are negotiating over and the value attributed to time, risk, convenience, and information as the benefits of technology are realized in all our lives. I've taken a fresh look at some of these agreements and how, in some industries, information access has become as valuable as payment terms, or response service times as important as contract length. Technology is changing what is possible, what is expected, and what is traded, which is providing a new mix of variables featuring in all types of agreements. More negotiations are being conducted through multiple forms of communication. What used to be face-to-face, telephone, and email negotiations can now include video conferencing from your telephone, meeting rooms from anywhere round the world, online data rooms, online auctions, and the list goes on.

The abilities of the Complete Skilled Negotiator, however, remain the same. They are balanced in their thinking, have their ego in check and are focused on understanding the interests and priorities of the other party. They are chameleon like in their approach, in that they know how to be what they need to be depending on their circumstances, and are not burdened by personal values that wear away at their consciousness. Their ability to read situations, take the time to prepare, and have the capacity to think around the issues, as well as deal with the relationship dynamics at

the same time, helps them perform in a confident manner. Most of all, they focus on the potential of the deal rather than trying to win, understanding that being competitive will only serve to attract friction, which is generally counterproductive (unless used for a specific purpose).

It can be the most rewarding of skills to exercise and the most nerve wracking. Is it any wonder that to provide a standard that helps everyone to negotiate more effectively has proved such a challenge to so many in the past? Yet simple disciplines, proactive planning, and a clear, conscious state of mind can provide a significant uplift in what you can achieve.

So what do I mean by a standard? *The Negotiation Book* covers the traits and behaviors associated with the Complete Skilled Negotiator. I use the word complete rather than successful because who are we to judge if your performances are as successful as they might be? We will never know. The standard also refers to a clock face model that provides a way of differentiating the range of ways we negotiate in a dynamic, capitalist market. Importantly it also recognizes that, although the concepts of power, process, and behavior have much to do with performance, so do the psychology, self-discipline, and human interaction that make up the framework. The standard is not here to restrict but to empower you as a Complete Skilled Negotiator to negotiate that which is possible ... given those opportunities you are presented with.

The experience I have gained from practical hands-on involvement in having negotiated with some of the largest corporations on the planet, including P&G, Walmart, Morgan Stanley, Nestlé, GE, and Vodafone, has helped me to provide this account of the standard that has been adopted in the business world. I have also been privileged to work with dozens of highly skilled negotiation practitioners at The Gap Partnership who have negotiated with, advised, and developed hundreds of such organizations globally. It is this experience that has helped us to crystallize what our clients have come to call “the standard” for negotiating.

I am about to share with you a way of thinking, behaving, and performing, together with a standard for doing so. There is no magic formula or magic

wand, but there are principles that will help you to secure agreements with others who may not always see the world the way you do. This book is about *you* gaining more value from every agreement you're involved in, understanding what to do, when to do it and, most importantly, providing you with the inspiration to do it.

CHAPTER 1

So You Think You Can Negotiate?

“It is what we know already that often prevents us from learning.”

Claude Bernard

SO WHAT IS NEGOTIATION?

Negotiation is a necessity, a process, and an art. It evokes complex feelings that many seek to avoid and yet it is fundamental to how business gets done and takes place millions of times a day around the world. If you can take control of yourself, your values and prejudices, your need for fairness, and your ego, you may start to realize the best possible outcomes in your negotiations. The biggest challenge here is not in educating you in how to be a better negotiator, but motivating you to change the way you think about negotiations and yourself. Of the many thousands of negotiation workshops I have provided at The Gap Partnership, the greatest change I see clients make is that of self-awareness. Learning about negotiation is an exercise in self-awareness because understanding yourself and what effect a negotiation can have on you, enables you to accommodate the pressures, dilemmas, and stresses that go with it. Self-awareness helps us to recognize why we do the things we do and the effect this has on our results. It also helps us adapt our approach and our behavior to suit each negotiation

rather than trying to make one approach fit every situation, simply because it suits our personal style.

Why bother negotiating?

Just because everything is negotiable doesn't mean that everything has to be negotiated. The value of your time versus the potential benefit that can be achieved by negotiating is always a consideration. Why spend ten minutes negotiating over the price of a \$10 notebook when you normally make \$100 an hour? So you may save \$2 – that's 20 cents a minute! However, if it is your next car and a 5% saving could equate to \$1500, the time is probably worth investing.

There will be situations involving more important decisions where you are mutually dependent and yet hold different views. When an agreement needs working through, effective negotiation can help provide not only a solution but potentially a solution that both of you are motivated to carry through.

volume threshold

This term is used to determine a level at which benefits such as pricing, discounts, delivery, or other services become applicable.

There is no other skill set that can have such an immediate and measurable level of impact on your bottom line than negotiation. A small adjustment to the payment terms, the specification, the **volume threshold**, or even the delivery date will all impact on the value or profitability of the agreement.

Understanding the effects of these moves, and the values they represent to you from the outset, is why planning is fundamental to effective negotiation. The skill in building enhanced agreements through trading off against different interests, values, and priorities is negotiation. In the business context it is known as the skill of profit maximization.

So, effective negotiation provides the opportunity to build or dissolve value – but what does value *really* mean? It can be too easy and is too often a focus on price. The question of “how much?” is one, transparent, measurable issue and, because of this, is also the most contentious issue in the majority of negotiations.

Yet price is but *one variable* you can negotiate over.

variable

It is possible to get a great price and feel as though you have won and yet get a very poor deal at the same time. For example, because the item did not arrive on time, or it fell apart after being used twice, or it had no flexibility about it, and so on. (Ever heard the saying “you get what you pay for”?)

This can be a price or any term of condition that needs to be agreed.

In negotiation, your ego and your competitiveness might fuel the need to “win,” especially where you allow a sense of competition to become involved. However, negotiating agreements is not about competing or winning; it is about securing the best value. This means understanding:

- what the other person or party wants, needs or believes;
- what they do; and
- how that affects the possibilities.

pressure points

As a Complete Skilled Negotiator your focus needs to be on what is important to the other party: *their* interests, priorities, options, if any, their deadlines, and their **pressure points**. Try to see the deal as they see it. If you set out to understand them and their motivations, you may be able to use these insights to your advantage and, ultimately, increase the value of the deal for yourself. Being driven to beat the other party will distract you from your main objective, which is usually to maximize value from the agreement.

Pressure points are things, times or circumstances which influence the other party's position of power.

Proactivity and control

Your first task is to be proactive – to take control of the way you negotiate. To map out the issues, formulate an agenda which helps you to negotiate agreement in a way that will serve your objectives. Try to be honest with yourself when deciding or agreeing on what these are. Remember, *price is only one element of the deal* and winning on price may not result in your attracting the best deal. You may need cooperation to the point where the other party not only agrees to go ahead but is also prepared to

honor their commitment. There is absolutely no place for your ego in your negotiations. The single thing that matters is the **total value** over the life time of the agreement.

Becoming comfortable with being uncomfortable

The person on the other side of the negotiating table may well take up a tough position, which could make you feel challenged or even competitive. Becoming *more* comfortable with being uncomfortable in situations like this, where you are also likely to experience pressure and tension is one of the most important prerequisites of a skilled negotiator. Without this, our ability to think and perform can become compromised. So you need to recognize that, by negotiating, you are involved in a process and the people you negotiate with need time to adjust as part of engaging in this process. Typically this is when:

- any new risks, obligations, conditions, or consequences are presented; and
- any new proposals that you make, which materially change the value of the agreement.

EMPOWERED, INEXPERIENCED NEGOTIATORS REPRESENT A REAL RISK

The adoption of cloud-based technology solutions into organizations has created a fast-changing, complex environment where it's important not only to have technology specialists on your side, but a negotiator who can make sense of the variables featured in contracts.

PIC, a Paris-based consultancy business, were keen to invest in a new HR management system to help manage the challenges around managing their ever growing team. During their research they identified a solution which also offered an integrated Learning Management Systems (LMS). This is a platform for managing staff

development and also houses content for training purposes that staff can access.

People Technologies, the potential supplier, made a compelling pitch to PIC on the basis that their LMS system might also be used as a platform for servicing PIC's own clients. This meant that PIC would acquire not only a system that serviced its own business but a solution which could extend their service offering to their own clients.

The newly appointed technology manager sold the idea to the board of PIC who were impressed with his creative thinking. The annual license fee was twice the budget allocation but the client-facing provision was sold as a real opportunity to "provide a monetized technology solution to its clients," won the board over.

The board bought the idea and signed a 3-year contract. However, it soon became apparent that the venture was a first for People Technologies. Although a large business, it had never provided its service to a client as a resale facility. There were issues that had not been thought through, such as chargeable licensing and the fact that PIC would be liable for every one of its client users. Issues around integration and maintenance had not been fully understood or negotiated by the technology manager. The board had assumed his understanding of the interdependencies. Within weeks, the CFO having faced questions from the operations team investigated the implications of the contract and realized that the opportunity lacked coherence. It subsequently cost the company half the cost of the 3-year contract to exit and the technology manager his job.

So, even though the board had committed to a solution for twice the cost of their budget on the basis of it serving other client-based services, the ill suited solution had to be abandoned within months.

In business meetings, people can become frustrated, emotional, and upset if they feel that you are simply being irrational or unfair with your proposals. Some will even walk away before considering the consequences.

For this reason, the more experienced the negotiator you are working with, the less chance you will have of a deadlocked conversation. They are more likely to understand that they are involved in a process and that nothing is agreed until everything is agreed and sometimes the process can be frustrating. In fact, their experience can result in you attracting a better deal than when you negotiate with an untrained negotiator. Many of my clients insist that their suppliers attend the same training in negotiation as they do, as part of ensuring that both parties work towards maximizing total value rather than becoming distracted by short-term gains and/or trying to “win”.

THE NEED FOR SATISFACTION

Everyone likes to secure a bargain; to buy something at a better price than was available before. You only have to visit department stores on December 27 to witness the effect that securing a bargain can have on people’s behavior. Such can be the frenzy that it is not unknown for violence to be used where one person feels another has pushed ahead of them in the queue. Many people just can’t help themselves when there’s a good bargain to be had. In extreme cases people will buy things they don’t want or even need if the price is right.

In business, though, what is the right price? The answer depends on a whole range of other issues, which, of course, need to be negotiated. So how do you manage the other party’s need for satisfaction? That is, their natural need to feel as though they got a better deal than was originally available.

- Do you start out with an extreme opening on price?
- Do you introduce conditions that you are ready to concede on?
- Do you build in red herrings (issues that are not real, that you can easily, and you expect to, concede)?

The psychological challenge here is to provide the other party with the satisfaction of having achieved, through hard work, a great deal for *themselves*. In other words letting them “win,” or letting them have *your* way.

Negotiating versus selling

It is a commonly held view that a good “sale” will close itself and that negotiation follows only when outstanding differences remain. However, negotiation as a skill and as a process is fundamentally different from selling. To sell is to promote the positives, the match, to align the solution to the need. It requires explanation, justification, and a rational case. “The gift of the gab” is associated with the salesman who has an enthusiastic answer for everything. Negotiation does not. Although relationships can be important, as is the climate for cooperation (without which you have no discussion), the behavior of the Complete Skilled Negotiator also involves **silence**, where appropriate. That means listening to everything the other party is saying, understanding everything they are not saying, and working out their true position.

Negotiation involves planning, questioning, listening, and making proposals, but it also requires you to recognize when the selling has effectively concluded and the negotiation has begun. If you find yourself selling the benefits of your proposals during a negotiation, you are demonstrating a weakness and probably giving away power. It suggests that you don’t feel that your proposals are strong enough and that they require further promoting. The more you talk, the more you are likely to make a concession.

So, recognizing when the change from selling to negotiating has taken place is critical. You are now negotiating. It is simple enough to shut up, listen, and think, whilst exercising patience. If this silence feels uncomfortable, it is; because you are now negotiating.

silence

Silence offers you the time to think and contemplate before responding. It allows you to listen to the other party to really understand. It requires discipline and concentration. The unnerving consequence of silence is that the other party continues to talk and ultimately make unplanned concessions. At the very least they often provide you with more information than they intended.

PERSONAL VALUES

Values such as fairness, integrity, honesty, and trust naturally encourage us to be open. Personal values have their place within any relationship but business relationships can and often do exist, based on different value sets.

Values are usually deep-rooted and many people feel very defensive about them, as if their very integrity was being challenged. The point here is that they are not right or wrong. I am not suggesting that effective negotiators have no values – we all do. However, in negotiation, when you are involved in a process, what you *do* and what you *are* need not be the same thing. This is not about challenging who you are, but it is about helping you to change the things you *do*.

If you want to remain loyal to your values during negotiation there is nothing wrong with this. However, others may not be as faithful to theirs, which could leave you compromised. In other words, if you choose to be open and honest by, for example, sharing information with the other party and they decide not to reciprocate, guess who will gain the balance of power? And how appropriate is that?

Where natural economic laws, such as supply and demand, result in people doing business with each other, a cooperative relationship can help to create greater opportunities but it is not always critical. Trust and honesty are great corporate values: they are defensible and safe, especially when you have a business involving hundreds or thousands of people buying or selling on behalf of one business. They also help promote sustainable business relationships. However, in a negotiation, these values can be the root of complacency, familiarity, and even lazy attitudes that end up costing shareholders money. I remain a strong believer in collaborative relationships but with the emphasis on optimizing value whilst ensuring the best interests of *all* involved.

The case for collaboration

If you prefer collaborative negotiations it could be because:

- you need the commitment and motivation of the other party in order to deliver on what you have agreed;