



The Psychology of Negotiation

Negotiation is the communication between two or more individuals or groups who meet with the intent of producing a cooperative agreement.

Each group has conflicting interests and must shift position or change the threshold of acceptance to reach a mutually beneficial agreement

The single most important objective of any honestly negotiated agreement is to ensure each party feels they have won relative to their priority negotiation interest objectives.

Achievement of this objective requires that some basic psychological constraints and guidelines are followed during the process. These constraints and guidelines assume that the fundamentals of negotiation are in place - i.e., honesty willingness, shared and conflicting interests, room to maneuver, and authority to maneuver.

The Attitude of Negotiators:

When a negotiation fails it is generally attributed to several key issues, but the most common mistake is that people become emotionally involved, take a position and treat the other party as if they are the enemy.

The very best negotiators seek a mutually beneficial outcome, thus avoiding taking an unyielding position. They are able to divorce themselves emotionally from the process and focus on what both sides can accomplish together. Successful Negotiations have two parties who understand Win – Win outcomes, and approach the negotiations from an abundance mentality versus a scarcity mentality. That is, both parties see an abundance of opportunity as opposed to a scarcity of opportunity before them. With this in mind they are both willing to approach the table with an earnest desire to satisfy everyone's needs as best as possible, and do not see the solution as scrambling and competing for precious little. So a successful negotiation begins with an attitude and understanding that both parties must win. I want you to think back to a past negotiation in which you felt wronged. You felt you gave up more than your "fair share", a negotiation in which you felt you lost. Conversely, think of a past negotiation in which you took advantage of the other party. In the end what occurred? Did the agreement cause hard feelings? Did the relationship suffer? In the end who really "won."

The inescapable conclusion is that BOTH parties must feel they achieved a fair outcome given their realistic expectations at the outset.

Negotiation preparation: Currency and BATNA

The most critical tool in negotiations is knowledge. The more you know about your position vis a vis your competitor, the better outcome you can achieve. Knowledge will not insure your success, but lack of it will certainly place you at a significant disadvantage. As you head into a negotiation you must understand the currency of both parties. Negotiations currency is comprised of the concessions that each party has, and the relative value of each of those concessions. For example, a client may desire exclusivity and you might seek a certain volume of business. The relative valuation of these concessions and interests are critical. If your prospect places a high value on exclusivity and you do not want to concede exclusivity readily, perhaps you can offer that concession if the prospect commits to a high volume of business for that territory. Unless this is considered prior to the start of the negotiation, you may end up giving exclusivity without fully realizing your objectives.

You must predetermine your best alternative to a negotiated agreement, also known as BATNA. This is effectively the point at which you elect to walk away from the deal as opposed to accepting the offer. Consider this to be your bottom line; and it consists of a complex mixture of concessions given and received that comprise your bottom line. Once this threshold is crossed, the deal becomes intolerable and you must disengage. Anything above the line is acceptable, to some degree. Obviously, the more you achieve the better you feel, so you must also establish some realistic goals for the negotiation.

Some of the strong interests you have are relatively less valuable concessions for the other party. We call these compatible interests because the outcome does not offer a great deal of conflict. The more valuable you can make these compatible interests to your customer, the more leverage you gain as possible concessions to counter the customer's conflicting interests.

Competing interests are those that cause an impasse because both parties place a large value on their requirements and are relatively difficult to move off their requirement. Compatible interests rarely cause a negotiation to fail. The greatest conflict results from competing interests and an inability to build the value of your compatible interests in the eyes of your counterpart. This leaves you very little leverage where you need it most; in the competing interests. Thus there is a strong need to predetermine the value of and manage concessions.

I have compiled some of the Top Negotiation mistakes I have witnessed (and committed) over the years:

- Lack of Trust
- Value proposition is not understood
- “Giving” without “Getting”
- Inability to check your emotions at the door
- Focus on Position vs Outcome
- Lack of preparation

If one lacks the ability to build rapport and establish a trusting relationship the negotiation will fail because trust is the cornerstone of all business relationships. Prior to jumping into negotiations you must understand your counterpart's behavioral style and adjust your approach accordingly based on their risk aversion and power orientation. Most negotiations fail not because of the issues at hand but because of an inability to deal with the tactics and emotions of the participants. You must maintain an objective and principle-centered approach to the engagement as opposed to allowing emotions to dictate decisions.

Another very important yet overlooked aspect is establishing your value proposition. All too often one party to the negotiation will fail to establish the real value for their services, thus they sell on price and have nowhere to go in providing concessions other than caving on price. Many negotiators ASSUME that their counterpart understands and acknowledges the value of their services. Just because a feature or benefit of your product is obvious to you does not in turn mean that benefit is obvious (or will be acknowledged) by them. Focus on the TOTAL value of the relationship not just the acquisition cost of your products and to the degree possible attempt to establish real value for everything you do such as mean time to repair, freight, quarterly review, engineering support, etc.

Providing concessions too readily is also not a good practice in negotiation. In particular giving something without getting something in return is usually a fatal error as it establishes a poor precedent that is often difficult to reverse. Any concession, no matter how seemingly invaluable to you, must be hard fought. In addition you must mentally maintain a ledger of concessions to make sure there is a sense of fairness by both sides.

Managing emotions are vital to a successful negotiation. You may sometimes see fist pounding and shouting in a negotiation, but often times these are well crafted theatrical displays designed to have a particular affect. In reality, savvy negotiators understand the need to separate the people from the problem. They are sure to be soft on the people, but rigorous regarding the problem. They focus on interests, not positions and are always exploring mutual interests.

A good negotiator will focus on outcomes, NOT positions. Doing so will create unique solutions and expand the scope of the agreement which increases the probability of achieving agreement. A poor negotiator will approach the negotiation fixated on their position and will tend to be less flexible. They dig their heels in and become focused on maintaining a position versus creatively solving the problem. This results in a scarcity mentality versus an abundance mentality and causes both parties to choose sides and draw proverbial lines in the sand.

The final mistake is really a catch-all that can encompass some or all of the previous mistakes. Basically it is ineffective preparation and planning, which will almost certainly place you at a disadvantage. You must enter the negotiation with clear objectives, anticipating the tactics of your counterpart. You must also be well equipped with tactics and counter tactics of your own. Do you know how badly your counterpart needs to strike a deal? Do you know their options and their timeframe? Time is often the greatest leverage point in any negotiation. That is why many deals are struck in the 11th hour.

This brings to mind a powerful quote from The Chinese Philosopher Master Sun:

“So there are five ways of knowing who will win. Those who know when to fight are victorious. Those who discern when to use many or few troops are victorious. Those whose upper and lower ranks have the same desire are victorious. Those who face the unprepared with preparation are victorious. Those whose generals are able and are not constrained by their governments are victorious. These five are the ways to know who will win.”

- Master Sun

Constraints and Guidelines:

- Never accept the first offer (regardless of how good you may feel about it). Go through a process to make the other side feel good about the final agreement.
- Always ask for something in return for any concession offered and make a “big deal” out of any concession.
- Never “gloat” over a concession given to you. Instead congratulate the other side for hard bargaining to make them feel good.
- Never disclose your time requirements but find out their time constraints.
- When possible, invoke “The Power of the Pen” to record negotiation results.
- Play the “Reluctant” party by never appearing enthusiastic about trade-offs. Make the other party feel a win.
- Ask for far more than what you expect. Concessions will set it up for the other to win within your threshold. Apply flexibility to have a reason to continue.
- Concentrate on the real interests. Do not react to emotional behavior. Maintain a professional approach and stick to the real issues.
- Maintain a perspective. Don’t be greedy regardless of the power you may have.
- When you lack a power position, set up the concession to make the other party feel good. Do not just give away.
- Negotiate small deals before large ones.
- Keep the option open to walk away. Deal with minimum acceptable, not ego!
- Express in writing. Written words are often more believable than verbal.
- Offer reasonable concessions up front then follow with smaller. Create the feeling of being pushed as far as you can go.

Negotiation Philosophy; the starting point:

The negotiation is often times determined by the fundamental philosophy of the parties involved. Is the negotiation a contest which must be won, a contest in which you must squash the “adversary?” Or, is it an opportunity to seek synergy and allow both parties maximum gain? Another way to approach the negotiation is with an objective viewpoint, devoid of the impact of emotion. Each party to a negotiation has a philosophy they bring to the table. It is a fatal mistake to assume the other party shares your philosophy. In fact the only sensible approach is an objective measure based on independent principles. This allows you to negotiate on the merits of the agreement without the influence of emotions. There is a common element to all negotiations. The common element which can never be overlooked is that conflict to some degree will be present. You see some people’s behavioral traits cause them to be aggressive and overpowering, and they become quite active in a conflict situation. Other participants could be quite “people oriented” and seek a peaceful and cooperative solution, placing a greater value on the relationship versus the outcome of the negotiation at hand. The most successful negotiators are able to rise above the emotional aspects separating the people from the tasks. They are resolute in their quest for a mutually beneficial agreement but are able to assess and make decisions on the independent merits of the issues. These people are not un-emotional, they are merely adept at subordinating their emotions to the issues throughout the course of the negotiation.

The below excerpt from Robert Fisher and William Ury's work summarize this best:

<u>Problem</u> Positional Bargaining: Which Game Should You Play?		<u>Solution</u> Change the Game— Negotiate on the Merits
Soft	Hard	Principled
Participants are friends.	Participants are adversaries.	Participants are problem-solvers.
The goal is agreement.	The goal is victory.	The goal is a wise outcome reached efficiently and amicably.
Make concessions to cultivate the relationship.	Demand concessions as a condition of the relationship.	Separate the people from the problem.
Be soft on the people and the problem.	Be hard on the problem and the people.	Be soft on the people, hard on the problem.
Trust others.	Distrust others.	Proceed independent of trust.
Change your position easily.	Dig in to your position.	Focus on interests, not positions.
Make offers.	Make threats.	Explore interests.
Disclose your bottom line.	Mislead as to your bottom line.	Avoid having a bottom line.
Accept one-sided losses to reach agreement.	Demand one-sided gains as the price of agreement.	Invent options for mutual gain.
Search for the single answer: the one <i>they</i> will accept.	Search for the single answer: the one <i>you</i> will accept.	Develop multiple options to choose from; decide later.
Insist on agreement.	Insist on your position.	Insist on using objective criteria.
Try to avoid a contest of will.	Try to win a contest of will	Try to teach a result based on standards independent of will.
Yield to pressure.	Apply pressure.	Reason and be open to reason; yield to principal, not pressure.

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Roger Fisher and William Ury

Resources:

Start With No

Jim Camp

Getting to Yes:

Fisher & Ury

Negotiating Agreement Without Giving In

The Art Science of Negotiation

Howard Raiffa