



NEGOTIATION REVIEW



Negotiating In An Uncertain Market:
Preparation and Planning

By Graham Stimpson



“These are days when many are discouraged. In the 93 years of my life time, depressions have come and gone. Prosperity has always returned and it will again.”
John D. Rockefeller

Negotiating in an uncertain market: preparation and planning

The undoubted truth of the current economic climate is that it will continue to demand change, and that some businesses will prosper both in recession and also during improving economic times. Those of us who identify the opportunities in adversity, or who adapt to the circumstances that create opportunity will survive, or per haps even thrive. In an uncertain market, there may be a place for creativity but it is no place for impulsiveness. As pro-activity and planning become ever more critical, the challenge of managing time and creating the space to think about new opportunities – and working as a team around the possibilities – becomes the number one priority.

After a long period of relatively sustained economic stability, the recent credit crunch has made it increasingly important to look creatively at how we negotiate agreements, re-examining all our relationships and re-negotiating where appropriate.

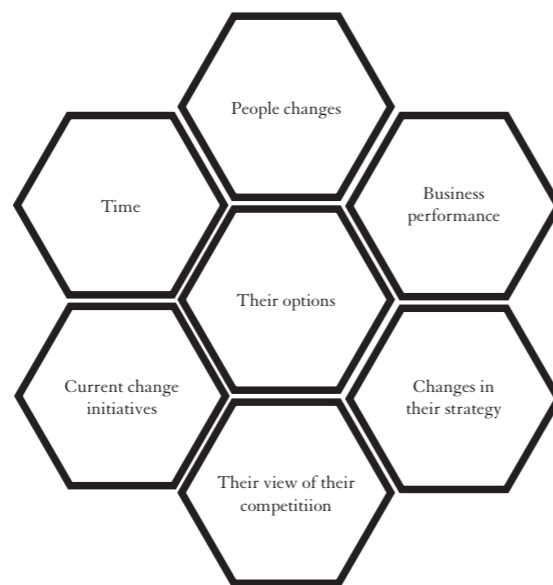
It’s generally accepted that creativity can unlock value for both parties in the negotiation process and result in agreements which are better designed to weather difficult times. However, when compliance and performance issues are placed under more strain through uncertain trading periods (usually resulting in shorter term agreements to protect risk), the need for disciplined planning across a broader agenda could not be more important.

In this article, I have set out to answer a number of questions relating to:

1. The importance of making the time to scope and prepare to respond to change.
2. Why curiosity and inquisitiveness can serve you well in an ever-changing market.
3. Why promoting the discipline and motivation across your team to prepare and plan is plain common sense.
4. The ‘Sat-Nav’ system to help negotiators plan and execute negotiations which already exists.

The importance of making the time to scope and prepare to respond to change.

Planning and constant re-appraisal is a continuous necessity if we are to navigate uncertainty. The role of risk, investment and scale, performance, compliance and results are each influenced by those characteristics we have outlined in the model of ‘blocks’ below:



Behind each of these blocks are facts that in some way will contribute to how negotiators regard their own position of power and, importantly, the power of the other party. With their finger on the pulse, they can read the climate and plan their discussions before they commence. Each should be understood and act as a check list. In short, if you do not understand or cannot articulate an answer to each issue featured in the blocks, you are probably operating with a blind spot.

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Effective negotiators are those who, amongst other things, are pro-active. People are generally re-active to change as there are always more important things to do. This one attitude to business results in more businesses sub-optimising opportunities than any other, through complacency and/or denial.

Investing time to re-appraise agreements, whether new or current, is like examining the fitness of your football team in preparation for your next match. You can’t wait until half-time to decide whom you want on the bench.

Most agreements have some provision for performance or compliance which are designed to protect the investments made and the integrity of the contract. Contract performance reviews will, as a matter of course, be planned in periodically as part of the review process. This common approach can be found in industries as broad as the petroleum, construction, retail and property industries and even between trade unions and management. The focus is on the performance versus the agreement. However, when the market around us changes, third party pressures can provide the impetus for new discussions.

Take the case

Spanish terracotta wholesalers, Sebeline, have a contract to provide a UK retailer with floor tiles in various sizes and finishes. The two have a strong relationship with good historical performances, both in growth in demand and supply quality which has underpinned the relationship. The UK retailer had grown to represent 30% of all Sebeline’s business.

During 2008/9 European Sebeline’s performance in France and Spain reduced, resulting in them being ever more dependent upon a struggling UK economy. Cost cutting exercises only resulted in less reliable supply to the UK. The UK retail business (let’s call them ‘Simply Tiles’) recognised that, although they were facing tough times, the opportunity to provide greater security to Sebeline, at a time when they were clearly vulnerable, could prove to be an opportune discussion.

The board of Simply Tiles took an entire 2 weeks out to scope a strategy which eventually resulted in them acquiring a meaningful stake in one of their main suppliers. However, the UK bank was reluctant to lend, and agreement would need to remain paper based in the short term. Within 3 months of discussion commencing in June 09, the retailer had secured a 49% stake in the wholesaler at a 70% discount.

Time and circumstances had a significant role to play in motivation; however, the time invested in scoping the opportunity had ultimately resulted in timely action and a well thought through strategy.

Think through the changing influences of the other party, what are their motivations, both for the person and for the business and recognise that they will be continuously changing.

Why curiosity and inquisitiveness can serve you well in an ever changing market

Questioning and listening may be key skills to the effective negotiator, but utilising these usually comes from our desire to be inquisitive. This in turn helps us to better understand the personalities involved and their pressures and priorities at any given time. The reason for this? To identify that which can be influenced or could provide scope during your discussions.

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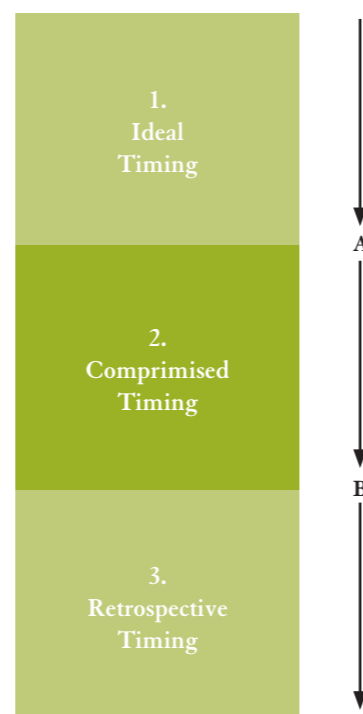
The motives of people and businesses are driven by different things depending on their personality, timing and circumstances. If we can gain insight into the specific way that a person might respond to changing circumstances, it allows us to plan more effectively around the possibilities. For this reason, relationships play a critical role in any account being managed.

Most negotiators take a very different approach to negotiating with someone who is naturally competitive and needs to be seen to win at all costs, than with a person whose natural style is to look for a fair or equitable outcome when doing business.

They focus on the motivations of the other party throughout the preparation process. This can be as simple as understanding the personal objectives of your counterpart in a negotiation. Our research and exploration should therefore focus on the changing circumstances of all three elements. Market – Business Performance – Personalities.

Trading teams working in stock exchanges around the world make their recommendations and decisions based on information, change and the market. They learn to sense and read the market. The market becomes almost animal-like in its behaviour, sometimes unpredictable. Timing becomes critical, decisiveness essential and nerve necessary. Although each of these attributes remains important in conventional negotiations, so does the human element of understanding people, personalities and the more subjective motives around why certain decisions, under certain circumstances, will be taken.

As children, our thirst for knowledge and information is boundless but, over time, this insatiable need becomes tempered by the realities of day to day life and the restrictions that others place on us. We need to re-ignite our quest and desire for information, to enjoy the process of asking questions and the tenacity to keep looking for the knowledge that is the foundation of all truly great pro-active negotiators.



Take the case

During the time that Simply Tiles had put aside to examine and prepare for the negotiation, James Sadler, Simply Tiles MD, had travelled to Spain and had a series of meetings with his opposite number at Sebeline, Jose Ramirez. His express purpose was to understand the position that Sebeline was in and to discover the best way to protect and develop Simply Tiles.

Prior to the time in Spain, Simply Tiles had been aware of the pressure that Sebeline was under from the decline in business in the UK, but they had not been aware of how much the French and Spanish markets had impacted upon them. They also discovered a passionate and determined management team that, given the right opportunity, could develop Sebeline into a successful business. Sebeline's over-riding issue was that they needed to gain an injection of finance into the business to invest in new technology.

Returning to the UK, Simply Tiles assessed the risks involved in a number of possible outcomes, looking at both tangible and intangible elements and applying a value to the intangible to enable them to make an informed choice. From this analysis, they started to develop a strategic and tactical approach as to how they could invest in the Sebeline business.

Simply Tiles took the initiative in the negotiation; they were pro-active, both in the preparation and in discovering the opportunity. They drove the agenda, taking charge of the negotiation process and created a long term relationship, taking advantage of the uncertain situation that Sebeline found themselves in.

Why promoting the discipline and motivation across your team to prepare and plan is plain common sense

As a lever in negotiation, time is one of the most powerful tools available when attached to terms. On a strategic level, it affects the balance of power and the opportunity to discuss issues on a 'level basis', compared with holding representing discussions following market or performance changes. The model above features points A and B. A: the point beyond which the level playing field exists, following which the agreement has been subjected to change in trading circumstances which has started to reflect in the contract performance.

Point B, following which the changes have become established as 'the way it is now', precedents have been established and re-negotiation difficult. This is the point beyond which conversations become retrospective and can be more easily dismissed.

Entering into zone 2 or 3 provides a compromise in power and opportunity. This illustration should provide all the necessary logic and motivation for pro-active planning.

This type of engagement is of special importance during re-negotiation. All too often we enter into negotiation believing that the status quo between us is as it always has been and that the other party's needs and pressures are as they were during our last dealings. If the current uncertain economic climate has highlighted one thing, it is that we must not allow past relationships to colour our current trades.

The objective of our exploration and research is to develop a more relevant understanding of the current status from both parties' perspective. Yet this can often only be achieved where there is some level of trust or collaboration in play.

Effective negotiators regard preparation as a vital part of the negotiation; they determine objectives that focus on the process of preparation, as well as the negotiation itself. "What do I need to qualify before I should have the first meeting?"

Commit the time to prepare in a structured way, and focus on identifying the opportunities that will unlock value in your trading relationships.

Think about the “What if?”; prepare and plan not single-level, but multi-level and multi-faceted stratagem. Be aware and attuned to the changes that may happen during the negotiation process; as highlighted before, it is the flux of the current uncertainty that can lead to opportunity.

Our process of planning needs to reflect the fact that we do not work in personal isolation, that businesses are founded on relationships across many levels and functions. How will these be impacted upon by our current plans? Who else should be conditioned or prepared prior to us engaging in the negotiations? We also need to recognise the hierarchy of organisations, and that the innate conflict that negotiations elicit will often necessitate some level of escalation. What will our response be to this – and are we prepared for the implications of any such escalation?

As we continue to find our way through the changing climate and the moving economic uncertainty that surrounds us, it is ever more important to recognise that our ability to prepare and plan for negotiations will influence the shape and future results of our commercial transactions.

Commit the time to prepare in a structured way, and focus on identifying the opportunities that will unlock value in your trading relationships. Challenge and have high expectations in both the way you undertake negotiations, and also in what you look to achieve. Focus on making these aspirations tangible and ensure that they form the background to all your interaction.

Take the case

On November 10th 2009, under increased political pressure to respond to calls for reinforcements in Afghanistan, Gordon Brown announced that he was examining plans to fast track a big order of Chinook transport helicopters for Afghanistan, effectively abandoning the government’s longer term procurement strategy. He was in the process of examining the cutting of low priority defence projects to fund the £1bn purchase of 30 helicopters, many to enter service within the year. The potential agreement with Boeing represented a significant shift from the usual tendering process which in itself created other political tensions.

Circumstances resulted in a need to source, and a change in short term dependency within the relationship followed. The balance of power tilted, motivations changed and normal protocol was ignored.

The question we now ask is – how will this change affect the way Boeing negotiate the lead time implications and had this potential change been factored in during earlier planning sessions?

**“It is not the most intelligent species that survive, it is the most responsive to change.”
Charles Darwin**

The ‘sat-nav’ system to help negotiators plan and execute negotiations which already exists

Stating that planning and preparation in negotiation is important is as obvious as suggesting that you would be well advised to work out your route in advance of travelling by road from one end of the country to the other. Unfortunately, we do not have the luxury of a Sat-Nav system. Well at least not in the form we would recognise in a car. But what if there was such a system which recognised potential hazards, routes that required toll payments, road works and even recent accidents.

The Gap Partnership developed its own system called ESP (Electronic Strategic Planner). ESP is used to provide a common way of planning, identifying the appropriate route based on power, process and people and pre-empting some of the challenges that your defined strategy will present. With more potential for hazards during uncertain times, ESP has become even more valuable as a negotiator’s tool box. Perhaps Sat-Nav does exist, or at least for those who make the time to plan a strategy.

ESP effectively helps define a route and then provides contingencies in the event that we ‘hit traffic’. ESP provides the strategy. As such we need to recognise that we will hit obstacles, objections, and even some failures to reach an agreement.

Like any Sat-Nav system, ESP provides a clear picture to all internal stakeholders detailing how the process will unfold, together with the micro detail, down to every last conditional proposal. Anticipating the objections, positions, moves and counter proposals that are to be faced in the negotiation are featured as part of the Potential Problem Analysis (PPA) consideration, this in the knowledge that most negotiation strategies require several contingencies as part of accommodating the most probable eventualities.