

Negotiating in Industrial Business

In the wild world of business, successful negotiating is the key to all transactions that leave both the buyer and seller feeling good about conducting business in the future. Isn't that the goal of a successful business, especially in the industrial world? The seller gains business, a trusted ally, and frank information. The buyer gains the product(s) that they need, a trusted ally, and a source of future support. Both the buyer and seller can continue to prosper from such a relationship. However, these relationships can only be forged by successful negotiating while conducting business between one another.

Now, everyone involved in business has a theory regarding negotiating. What you should do, what you should never do, what you should say, what you should never say.....the list goes on and on. Naturally, I can be no different. I can only share my opinion along with some information that I perceive as valuable. So let's begin our discussion about negotiations.

Understanding the Players Involved

No negotiation can be successful without a clear understanding of what each person involved hopes to gain. The seller, often a sales representative for equipment or other vendors, must understand what each person at the plant level wants. The project manager wants the products delivered on time and he/she wants the project completed under budget. The purchasing manager wants the best price...period. The process engineer wants only a product that will do its job and help he/she avoid down time that they will be responsible for explaining. The process engineer is typically interested in future support for maintenance and technical issues that may arise. That being said, a well-prepared seller should be prepared to address all of these issues.

The buyers must recognize that the seller, obviously, has two major objectives: gain the business at the highest possible price and secure future business. Buyers should also recognize that a seller who is continually subjected to what I call "strong arm" tactics will not serve as a good source of future information or service.

It's clear that obtaining a win-win negotiation is to everyone's advantage. If the buyer receives a fair market price and the seller supports the buyer well, a business relationship can be forged and will be profitable for everyone in the long run.

The Value of Trust

Just because a local sales representative is a.....sales representative, buyers should not assume that they know nothing about what it is they do in their plant. Industrial sales people are often degree carrying engineers and those who have been around for awhile can be a very valuable, and relatively inexpensive resource to help you make your process better.

While doing business with anyone for the first time can be considered risky, the ice must be broken at some time. As a buyer, if you're about to do business with a seller for the first time, try to limit your exposure by starting small if possible. Perhaps by purchasing an item that is not considered "mission critical" to your operation. This will allow you to get a feel for how the seller conducts themselves and their business. Use this opportunity to find out if they're responsive, honest, and knowledgeable. Chances are that if a seller meets these criteria on a relatively small project, they'll perform even better when the stakes are higher for you as a buyer.

There is a certain amount of risk for a seller to engage in business with a new buyer as well. They have no payment history to use to form an opinion of a new buyer. Will the new buyer make payment in a timely fashion? Will the buyer make payment at all? Each time a seller begins to conduct business with a new company, they commit time and resources to that potential buyer. For a seller, keep in mind that their time is as valuable as money. Many of them make a living on a commission basis, so if they don't make a sale, they don't get paid.

So, if a seller works on commission, they're only interested in selling you something as a buyer. But, do they really care if the product performs well? Absolutely! Remember, an unhappy buyer will not be a buyer the next time that they need something. The seller is just as concerned (if not more) as the buyer about their products performing well. Put yourself in the seller's place. Would you want to begin to gain a reputation for selling "junk". If you do, your business is finished!

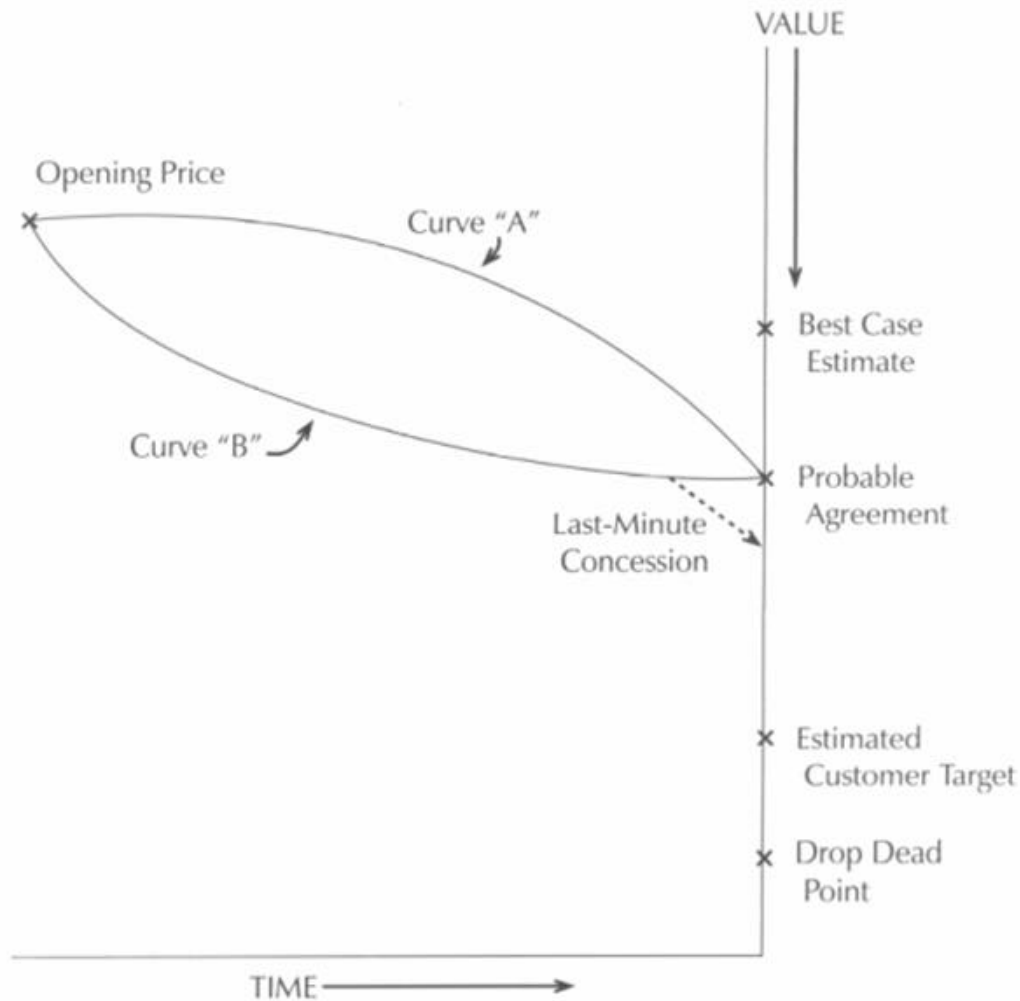
Avoiding Misunderstandings

Even with the most trusting seller and buyer preparing to conduct business, a simple (or complex) misunderstanding can quickly undo much of the hard work and time invested by both parties. Open, honest discussions about all aspects of the business transaction will help avoid misunderstandings. Start these discussions early. If you know, as a buyer, that your company insists that all vendors agree to your commercial terms in order to conduct business, give a copy of these terms to the seller at the introductory meeting. This will achieve two goals: first, it will allow the seller the opportunity to review the terms prior to sitting down at the negotiating table and secondly, it will immediately show respect for the seller's time. Image that the seller spends hours on a buyer's account, then learns that they simply cannot agree to the buyers terms! You have a seller who feels like he was just "strong armed" or forced into agreeing to the terms. This is not the way that you want to begin a business relationship, but it's a very common occurrence.

A seller should openly discuss product limitations, expected maintenance costs, and commercial needs at the start of the sales process. This will help avoid a feeling of resentment when the buyer calls later to get replacement parts and sees a price tag that is twice what they had expected. Now, the buyer is feeling "strong armed" into paying too much for parts. All of these feelings of resentment can slowly (or in some case, instantly) destroy a business relationship.

Sitting Down at the Table

When a properly executed sales/buying cycle is coming to an end, there's often still the matter of sitting down at the negotiating table and hammering out the final details. Recall that the seller and buyer each have their own interest that they're seeking to serve as a result of the negotiations. Below is a graphic representation of a "concession curve":



While I loosely referred to the figure above as a "concession curve", it should really be known as a "negotiating curve". The "Best Case Estimate" is where the seller would like to ideally gain the business. Then there is the "Estimated Customer Target" which is where the buyer would like to make the purchase. Also on the y-axis, we see the "Probable Agreement" point and the "Drop Dead Point". The drop dead point is that point where the seller can no longer accept an order. A common mistake made by sellers is that they enter a negotiation having no idea where their drop dead point resides.

The two curves "A" and "B" both begin at the opening price and both end at the transaction price or "Probable Agreement" point. This is to show that a negotiation is a buffet rather than a recipe. There is no set plan. It is a give and take procedure and both parties should understand this. For example, if the buyer asks for a 10% discount, the

buyer should be prepared for the seller to request additional volume, future business, better payment terms, or some other concession in return. As important, the seller should remember to actually ask for something in return rather than simply discounting the price.

Remember, the buyer is trying to pull the "Probable Agreement" point closer to their target point and at the same time, the seller is trying to raise the "Probable Agreement" price to their best case point. This is the essence of negotiating. Through a series of exchanges where the seller and buyer both keep everyone's needs and wants in mind, the final sell price arrives.

Distinguishing Between a Good and a Bad Trade-off

The buyer requests a 20% discount and the seller counters by offering a 10% discount on the price. What was just achieved? Was this a trade-off? Not really, the seller just said to the buyer, "My opening price was not realistic at all, so here's where I'd really like to start, now I'm ready to negotiate." The buyer thinks, "This guy is trying to rob me, and if I would have let him, he would have succeeded." Not a good tone to set! That's a bad trade-off. The buyer asks for a delivery that is half the time that was originally discussed, but explains that their schedule has changed and the reduced delivery is crucial. The seller agrees to meet the new schedule and requests 50% payment up front instead of 25% as was originally discussed. The buyer happily agrees. This is a good trade-off right? Not really....at this point, a good buyer recognizes that meeting the new delivery just costs them very little in terms of money. What's more, after investigating the overtime hours that are going to be necessary to meeting the delivery, the seller later realizes that the cost to produce the product just increased by 15% and these costs were not recovered.

The request for a better delivery should have been investigated during a break in negotiations so that its impact in the sale could be estimated. Once the seller realized the impact, he/she could have agreed, but instead of requesting better payment terms, they would have explained the actions necessary to meet the delivery and ask the buyer to cover the additional costs involved. This is what most buyers would expect from such a request. Again, these are all reasonable actions and requests. Sellers have to remember that the buyer has customers too, and think about how they would react to a similar request from their customer.

Summary

While there's an entire science behind conducting negotiations, people who continue to succeed are those that conduct themselves properly, understand the parties needs and situations, and are always prepared to address requests. Conducting business in the industrial world can be a pleasure or a nightmare and the difference is almost always dependent on the people involved. If you're involved in conducting business, remember these two things: build trust and be reasonable. With these two principles being applied, sellers and buyers can negotiate win-win scenarios every time that they sit down together.