

“BARGAINING” FOR RESULTS

- Bargain in Any Situation
- Get Better Results from Better Bargaining Techniques
- Handle the Opposition from the Start

John Winkler

BARGAINING FOR RESULTS

John Winkler



Facts On File Publications
New York, New York • Bicester, England

BARGAINING FOR RESULTS

Copyright © 1984 by John Winkler

Originally published in 1983 by William Heinemann, Ltd., in conjunction with the Institute of Marketing.

All rights reserved. No part of this book may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval systems, without permission in writing from the Publisher.

Library of Congress Cataloging in Publication Data

Winkler, John.

Bargaining for results.

Includes index.

1. Negotiation in business. I. Title.

HD58.6.W56 1984 658.4 83-20606

ISBN 0-87196-848-7

Printed in United States of America

10 9 8 7 6 5 4 3 2 1

Preface

In the often violent and disturbed conditions which are going to prevail in the world's economies in the next twenty years, one aspect of management which is going to receive greater attention is the skill of bargaining effectively.

Managers of all kinds have to bargain their way throughout business. They do deals with key customers, they buy up companies, they land big contracts, they handle trade unions, they battle with government, they buy materials. Managers even bargain with other managers in their own companies.

When one manager who knows how to bargain faces another who does not, then the first one wins the best part of the deal. The second one gains only a fraction of what he could have gotten if he had bargained properly.

The literature, researches, practices, and customs of high level executives in seventeen countries have been studied to provide the basis for the material in this book. Perhaps two-thirds of the concepts described are unique in the sense that these ideas have not been published beforehand or described in this way.

This book is designed for a worldwide market to show the strategy, tactics and plays involved in the bargaining process. It is written with the practical manager in mind; it has case histories, practical tips, self-development questions, learning programs and game-play advice.

It will show the reader how to cope with the manipulative negotiator, how to deal with bribery, how to cause and to break deadlock, how to go to the courthouse door, how to handle pressure tactics and how to close deals.

A major influence in this book has been the experience of running over 300 seminars on management subjects all over the world. Audiences have included general managers, marketing and sales managers, finance managers, and personnel managers. Their skills and experience have contributed greatly.

Effective managers are nearly always effective bargainers. There are many books about effective management. This is one of the first about effective bargaining.

John Winkler

Contents

<i>Preface</i>	vii
1 The Exploration of Power	1
2 The Top Ten Principles of Bargaining	6
3 Laying the Foundations for Results	21
4 Bargaining Behavior	34
5 Mobilizing Bargaining Power	47
6 Setting Up the Deal	68
7 Probing and Presenting	91
8 Resistance and Pressure	107
9 Handling Price	119
10 Demands, Concessions and Movement	137
11 Conflict Bargaining and Disputes	151
12 The Settlement	169
<i>Answers to Questions</i>	183
<i>Index</i>	195

The Exploration of Power | 1

In February 1979, shortly after the Chinese New Year, a Singaporean businessman, Chang Soo, received in the mail a letter and a proposal from a large American company. The company was seeking an agent in Southeast Asia. Already established in Hong Kong, the company had not had a good experience in Singapore. Previously they had sought to sell directly into the market and to use a small agent in Singapore whom they could dominate. They were offering international marketing and management services.

But big business in Singapore depends, as it does everywhere else, on whom you know and how good your standing is. Their small agent could only give them access to small business contacts. He did not move in big business circles.

In deciding with whom we should do business, there is always this fundamental question to resolve. Should we go for someone small, whom we can dominate fairly easily? We can insure that he will do what we tell him.

Alternatively, should we go for one of the big companies, whose power is such that they can dominate us if we are not careful? Each market situation will be different. Two good rules of business apply and seem to run counter to each other. The first is, "Fish where the fish are," meaning that if they've got the power in the market then use them; but also, there is the other rule, "Whatever you do, dominate something." So the answer, as ever, is going to be a compromise.

Chang Soo knows about the exercise of power. He can elevate it to an art form. For him, the vigor of the Western negotiators is too crude. We lack patience, and we lack grace. The Chinese negotiator seldom says "no." What he says instead is "maybe." Chang Soo runs one of the best consultancies around the Pacific area and represents a number of international service companies.

The Pacific area manager of the American company had surveyed the possibilities in Singapore and thereby had made the first correct move in the process. He knew that Chang Soo was his best man.

Asking around the market and the trade and collecting the data and all available evidence about the other man and the alternatives for him provides one party with an enormous initial advantage. Here is the first guide towards successful bargaining:

You should start bargaining before the other man knows he's involved.

His second move was good too. He asked a friend, who was well respected by Chang Soo, to provide him with an introduction. The friend did so, and Chang Soo was ready to hear the proposition with an open mind.

That's the second guiding hint for successful bargainers:

*Pre-condition the other party to have an open mind;
he should respect you before he meets you.*

Probably the most valuable technique in this early stage is by word-of-mouth. If others speak well of you, you have a head start. If the other man's interest is aroused beforehand so that he comes to you initially, then you have a huge advantage from the outset. The person who makes his service scarce—the factory with very limited capacity—the dominant market leader—the company which does not need the business—they all have power at their elbow. This is because they seem to need nothing. They are strong.

Have you noticed how a salesman can always sell much, much more when he has not sufficient stock of the product? But as soon as the company builds extra spare capacity to manufacture more, then a peculiar thing happens. The salesman suddenly finds it harder. Here is a hint for successful salesmen:

*Don't let your management
expand your factory capacity.*

The area manager no doubt would have preferred Chang Soo to approach him first, but this was not possible. So, about to make the first error, the director decided to produce an outline proposal for Chang Soo to consider. Knowing correctly that the proposal itself and the way it is written, typed and presented seep into the consciousness of the other party, he made certain that it looked good. The quality of the bargainer's background is measured in such terms before the parties meet.

The proposal explained the circumstances of the company services, and outlined the benefits of the two organizations working together. It showed how the market should be tackled, what needed to be done. It outlined the role that Chang Soo's company should play, allocated tasks between the two organizations, and proposed fair and equitable financial arrangements.

Chang Soo saw before him a superb presentation. An extraordinarily thorough proposition. The logic could not be faulted. Indeed, an American company, a German outfit or a British company of any quality would have snapped it up immediately. But not an important Chinese businessman in the Far East.

That is not the way business is done there. The businessmen there are very sensitive to social relationships. They have grace, tact, and patience. They are self-effacing in their manner. Their egos are as strong as any in the Western world but it is part of their art to disguise it. The Chinese do not like open displays of strength. They want to discuss and conciliate.

Bargaining is a social exchange involving a power relationship. Before any deal is done, one party or the other sees himself as the more dominant. During the various stages, power changes from one side to the other, and back again.

THE EXPLORATION OF POWER

Every issue negotiated is a gentle struggle for control. One team falls *back while* the other presses; then they pick up the initiative and move on to the attack. There is no time limit in the game. Indeed, the entire process might be over in seconds, while other—bigger—games take a long time and move through many stages.

When they finally shake hands on the deal, the power at that one moment is equal between the parties. Immediately after the deal is finalized, however, the power relationship changes again, often rather dramatically as one party relies on the other to make good his commitments.

Here is the next tip for successful bargainers:

Don't think it's over when the deal is signed.

The struggle might be just beginning.

Chang Soo decided to select one of the most valuable strategies in the armory of the successful negotiator. He appreciated the thoroughness and quality of the approach by the American company. He accepted that they were courteous and deferential. But the proposal was locked up too completely. It did not allow him to have his say. The Americans might be important in their own territory, but the Far East is where Chang Soo is important in his line of business. Chang Soo acknowledged the proposal courteously and then deployed his chosen bargaining strategy.

He did nothing. He just waited.

Power in the bargaining situation is relative. It cannot be measured in precise terms. It cannot be quantified sensibly, although factors can be weighed up and relative power can be assessed. The idea of power lies in the mind of those involved in the bargaining. One man might see his position in one set of negotiations as being very weak. There may be a lot of competition for the deal, for instance. But in another similar case his position might be much stronger. For example, he may have done business with the other party before and with a successful conclusion.

Power lies in the mind of the bargainer and it is relative to the assumed power of the other party. Here lies the next important tip for the negotiator:

*The other man's mind can be altered;
but only early on.*

The whole risk, the great thrill, and the immense danger of breakdown are encapsulated in this one single idea: that the expectations of the other party can be changed. But when you do it—and do it you must—you can expect to be taking a ride on an emotional roller-coaster. The trouble is that they are trying to alter your expectations at the same time. That is where the contest lies.

The American company ended up doing business with Chang Soo, and both sides were, and still are, pleased with the relationship. When Chang did nothing, the American managing director was forced to weaken his position by coming after him again. He was forced to show that he was keen to do business. Chang Soo remained non-committal for some time. The managing director asked for

his views on the proposal and asked if there were alternative arrangements which would suit Chang Soo better. They agreed to a revised deal which Chang Soo proposed. It gave him better terms than are usual for the company's other associates in the world. And the American company knew it could not run Chang Soo in the way it can run the others. On the other hand, the company does better business in the Far East than it could otherwise expect, because of Chang Soo's strength in the market. As the American managing director says, "I would rather have him working for me than against me." Which leads on to another tip for the bargainer:

*The man nearer the market place always has the edge.
Ask any oilman to tell you the story of Rockefeller.*

A bargainer's power can be increased by building up his own strength, his status, the benefits he conveys with his proposition, and the reassurance he provides in the eyes of the other party. This is the route of selling, persuasion, and education.

THE BARGAINING PROCESS

- Information Gathering
- Diagnosis of Situation
- Assessment of Bargaining Power
- Setting Objectives
- Developing Strategy
- Structuring their Expectations
- Exploration of their Needs
- The Opening Moves
- Obtaining Movement
- Reviewing Objectives
- Tactical Plays
- The Settlement Area
- Closure
- Documenting Agreement

But he can also build up his relative power by weakening his opponent's position. He might become a little critical, he might point out the disadvantages to the other party of not doing a deal with him. This is the route of coercion and force. This requires even greater skill and care. It takes courage to walk away from the other party. It is much easier to walk towards him. And if we do use force on him, then he will use force on us in a later round of bargaining. He will be teaching us a lesson. Better not to use force unless there is no alternative.

The exchange of such pressures, the application of power, requires subtlety. Passing information about one's position to the other side, and the application of pressure, are usually carried on implicitly in the way something is said rather than in the words themselves. Crudely expressed at the wrong time, explicit pressure will be construed as an attack and will draw a counterattack or withdrawal. Certain things cannot be said out in the open, although their meaning

may be clear to the parties involved. Bargaining requires a good deal of guesswork. It requires sensitivity to the position of the other party. Signalling by the use of hints is a very important part of the bargaining process. You must convey signals to them. And be ready to receive their signals to you.

Here, then, lies one further tip:

*When you apply your power, do so with care,
so that they hardly notice what you are doing.*

In bargaining, the strongest dictate the terms. But skill in bargaining situations, experience and knowledge, and the understanding of the other party all contribute to a bargainer's strength, quite apart from the kind of deal he is offering. That is what makes the interplay of this power relationship so interesting—and necessary.

SUMMARY

In any bargaining situation consider the power relationships involved. In relation to the other party will you be dealing from a position of strength or from a position of weakness? Try to find a way of building up the power of your position beforehand—for example, your power is increased if there is a good alternative for you in the event of a breakdown.

The power relationship will ebb and flow during the bargaining sessions. The tactics will include silence and stalling; and a sense of timing is very important to the power relationship.

Power can be improved through research. The more thoroughly prepared and rehearsed, the more powerful the bargainer.

The Top Ten Principles of Bargaining | 2

Before reading each chapter, you should fill in your answers to these questions in the left-hand column. Do not look up the correct answers at the end of the book when you have done so, but read the chapter first. When you have done this, come back to this questionnaire and complete it again. The changes you make show what you have learned from the chapter. Now you can look at the correct answers. Score your original answers and compare them with the second answers. That is how much you have learned.

- Q.1** *Your job is to train sales engineers in an earth-moving equipment company. Whom should they call on first in any prospective purchaser's company? (a) The purchasing agent; (b) the general manager; (c) the drivers of the existing equipment; (d) whomever the receptionist suggests; (e) the shop steward.*

Score

Score

Before reading chapter.

After reading chapter.

- Q.2** *You are disputing part of a supplier's account. He has charged you for services which were either inadequately carried out or not received at all. Do you: (a) hold up payment of the total account; (b) hold up payment of that part which is disputed; (c) offer to settle the disputed total on a fifty/fifty basis; (d) ask them for their "offer"?*

Score

Score

Before reading chapter.

After reading chapter.

- Q.3** *You are the company shop steward. You do not like your full-time union area representative. Management knows this and has begun to bypass you occasionally by going directly to the area representative. You want to bring them to heel. How do you do this?*

(a) Find an issue and pull the men out on a strike over it; (b) go less far than that, but threaten to do so if management does not behave; (c) complain to the area representative's union boss; (d) have some of your friends cause three or four little disputes to break out, causing production losses, without your being involved except in sorting them out.

Score

Score

Before reading chapter.

After reading chapter.

Q.4 When you cost a project for approval, do you prefer to:

(a) itemize every detail, estimate it, and cost it; (b) accumulate the items together, detail them, and provide grouped costings; (c) provide several alternatives, a kind of shopping list; (d) cost those items which can be specified accurately and provide lump sum figures where doubt exists; (e) get away without costing it at all, giving only a broad total indication?

Score

Score

Before reading chapter.

After reading chapter.

Q.5 You are a market research manager in an advertising agency which handles one very large account. However, your studies show that the advertising campaign is simply not working. There is a major flaw in the creative work which is putting people off. The agency is your employer. Do you:

(a) tell the agency and the client openly at a meeting; (b) let the agency executives deal with it; (c) analyze the figures in such a way that the result is not exposed; (d) simply fake the results?

Score

Score

Before reading chapter.

After reading chapter.

Q.6 You are the industrial relations expert. The union has asked for a 20% wage increase without any strings attached, on the grounds that that is what a comparable union has just been awarded. Inflation is running at 11%. You

want to settle at 9% if you can, but no more than 12% at the outside because the industry is running down and in a state of decline, so profits are poor. What will your first offer be?

- (a) 3% (b) $8\frac{1}{2}\%$ (c) $7\frac{1}{2}\%$ (d) $7\frac{1}{2}\%$ with a productivity deal.

Score

Score

Before reading chapter.

After reading chapter.

Q.7

Some portable Japanese generators have fallen off the back of the proverbial truck. Normally they cost \$400 each. You have paid only \$50 each for them. This trade prospect wants to know how much they'll be if he takes 200 from you. His business also is of dubious legality. What do you say to him?

- (a) *Tell him of the quality and ask him to make you an offer;* (b) *to him, \$100 each, but that's the first and last offer—they'll be gone tomorrow;* (c) *tell him the guy down the street is selling them for \$360 each, and what would he say to \$180 each if he takes the lot for cash;* (d) *\$360 each, less 50% if he takes the lot for cash.*

Score

Score

Before reading chapter.

After reading chapter.

The Top Ten Principles of Bargaining | 2

1. IF YOU DON'T HAVE TO BARGAIN, DON'T BARGAIN

Ronald Stephenson is an associate professor at the Graduate School of Business at Indiana University. With two other colleagues he made a study of over 100 companies in the American Surgical Trade Association. What he wanted to find out was whether a salesman was likely to sell more if he was given bargaining freedom to offer discounts and to vary the prices for each customer. Our logic tells us that this must be so; salesmen who have to stick to their published list prices must lose out to salesmen who are free to undercut them. (On the other hand, if the world were run according to logic, it would not exhibit the signs of incipient madness which make it so enjoyable a place to live in.)

Of the companies concerned in the study, 29% gave their salesmen absolutely no discretion on price. They had to stand on list prices, and that was that. Another matching sample included salesmen with great latitude on price. They were free to do deals with whomever they chose, their only constraint being that the more discount they gave away, the less commission they would earn.

About 40% of the total sample were given some latitude on discounts but were heavily controlled on the amounts.

The researchers thought that the salesmen with the wide authority to deviate from the list prices would sell most. They did not. They sold the same amount.

What did happen was that their companies earned least profit. Their companies' return on capital was the poorest in the industry. Their contribution to overhead and their gross profits were the poorest of all.

The salesmen with highest personal sales, but still not much above the average, were those with some latitude, but not much, on discounts.

The companies earning the highest profits and achieving very good sales per man were those who insisted that their salesmen had no leeway in the matter of price.

Other evidence shows that the price discounters create trouble for themselves. Buyers seek them out; and these are the buyers who want only to buy on price. Some people, not the majority, want low price deals. So they search for the suppliers whose sales forces have discretion in the matter. Then they squeeze them—hard.

These sales forces then return to their managements and complain that the company's prices are too high and that they would sell more if the prices were

lowered. They, and their management, have selected the rod for their own backs.

Here is a tip for negotiators looking forward to a long and happy lifetime ahead:

*Don't do business with people who don't do
nice business. Life is too short.*

And so to the first great principle of bargaining. Try to get into a position where you don't have to bargain. If you can get all that you want without bargaining, and if you are certain that it is all that you can get, then name your terms and hold out for them. Never betray by the merest twitch that you are willing to trade. And if you are willing to trade, make sure they realize that it is only on the minor issues, not on the central issue. Your posture, if you are selling, should be that true gentlemen do not discuss price. Your posture, if you are buying, should be that the lowest price is the only thing that matters to a businessman. Try to hold these positions for as long as you can.

Remember that you are setting up deals for the future in the way you bargain now. If you are too strong, show too much power, and you stand firm for too long, then next time they will get you. They will use force to coerce you into movement. You have taught them how to deal with you.

It is easier to say than to do. In many situations both parties expect to bargain. It may be necessary to go through the motions of bargaining and to allow the other party to win concessions which you had already planned to give away. Generally, you should only bargain if you have to.

2. BE PREPARED

Get into play before the other side. Deals are often won or lost in the first fifteen minutes of the approach even though several sessions may be involved covering many hours of debate and argument. They might not be closed in the first fifteen minutes, but that's when the structure is set up. And that, in turn, means that someone must be prepared in advance.

The bargainer who researches and prepares thoroughly—who knows where he is going and who can set up the other party's expectations—starts with enormous power. And if the other party does not know the game, or does not know he is involved in negotiations when he is in the middle of them, then the weakness of his position is extreme.

The next time you want a loan from your banker you could try nipping and squeezing instead. Asking is the nice way, the recommended way. But ask only when you know his answer will be "yes." The engineer in the following story knew beforehand that if he asked, the answer would be "no."

A large Chicago bank had a branch office downstate. One customer at the branch office was a company owned by a fairly tough engineer who had a habit of living rather well in the good years and not plowing much back into the company in the bad years. The people in Chicago had cautioned the local branch

manager against providing extra overdraft facilities, although the company had been in business for some years and was sound enough.

The engineer wanted a loan for the purpose of helping to get another business started. He knew he would not get it by presenting the case, nor by any form of persuasion. He momentarily considered using a new technique, begging, but decided that it was not his style, and that the manager had probably heard it all before.

So he decided to weaken the branch manager's position. He made his accountant raise several complaints as if they were the bank's fault. The bank had been a bit slow, and the chief clerk telephoned the accountant to apologize. There was another delay by the bank in obtaining foreign currency which led to another complaint. Further complaints concerned long lines at the counter when cash was wanted, and so on. This time the manager himself apologized to the accountant. By making his accountant complain, the engineer was trying to force the bank into compliance. Then he had a stroke of fortune. The bank made a serious error in failing to credit a check to the engineer's personal account. The engineer telephoned in a towering rage. He listed all the previous bank errors and asked for a written explanation.

Two weeks later he moved in for the "Sting." The branch manager, expecting the worst, took another personal call from the engineer. He was asked what his normal charges would be for a personal loan extending over two years. Having expected another blast, he quoted the interest rates with some relief. The engineer persisted, and asked if these were likely to be the best rates on the market. "Yes," said the manager, as far as he knew, they would be. The engineer explained that he was going to make a purchase and was deciding between several different means of financing it. He took it for granted that should he come back to the bank for the money, there would be no difficulty with the loan on his personal account, given the usual guarantees. The manager agreed. Later the deal was done.

The branch manager was called on the carpet by the Chicago people for allowing the customer's total indebtedness to increase. As the manager said in his own defense, it was either agreeing to that, or facing the possibility of losing the account altogether.

He had been cornered by a customer who was well prepared, who had weakened the branch manager's position by his criticisms—the check paid into the wrong account was a final slice of luck. The engineer had been negotiating with the manager for several weeks, without the manager knowing it.

But there is another sting in the tale. The engineer made one bargaining mistake that was so disastrous that ultimately the bank manager called in the overdraft facility at a particularly bad time for the engineer. Raising the finance from other sources gave him sleepless nights. It was very expensive because some of his funding came from high interest rate sources and he was forced to give up some portion of his equity in his own company. The mistake he had made was to accept an invitation to luncheon from his bank manager at Christ-

mas. He got a little drunk and revealed what he had done to the manager. The manager said little, but seethed with anger and determined to destroy him if possible.

Here is, therefore, one further tip for the successful bargainer:

*Never, ever, show triumph.
Let them appear to win.*

It is very important to conduct research beforehand. Find out as much as you possibly can about the other party, what are his circumstances, what are his problems. Find out who makes the decisions. Bargain only with the decision-maker; not with his juniors. But complete your research before you meet him.

3. LET HIM DO THE WORK, NOT YOU

It pays to stick to your guns if you can, particularly on major concessions. The earlier you can dig in for the battle the better, because it stops the other party from winning a mass of concessions from you later. In order for your line to be held, however, the other man's interest must be high. Otherwise he will walk away from your rigid position and you will have to weaken yourself by going after him.

When running management seminars to develop bargaining skills, an exercise is often used where one person must sell a second-hand car to another. The person with the car to sell is told that the car is falling apart and will become a liability (but he does not disclose this information to the buyer). Equally, the buyer is told that he must buy the car because it is the only model of its kind on the market (but the seller is not told this). Both parties must do the best deal they can.

It is as clear as it could possibly be that the advantages flow to the person who fights hardest over the first main issue. The buyer usually tries to hammer down the price at first and the struggle goes on for some time with the buyer refusing to commit himself to buy. Nervous that the deal might not be done, the seller is usually happy to concede new tires and the stereo unit, provided that the buyer eases up a little on his price demand. The value of these concessions adds up usually to a greater cost than the difference in price.

On the other hand, if the buyer finds himself with a seller who is intransigent on the price and who is being very difficult indeed, then if he manages to win some concession he becomes very reluctant to press very hard for other concessions, later in the negotiation. He settles, perhaps, for a fifty/fifty split on the cost of the tires and stereo.

Successful bargainers should note:

*People derive more satisfaction from things they have
worked hard to get. Give the other party this
satisfaction.*