

SMALL Business Times

Reprinted from *Small Business Times*, August 2, 2002

Power base

Here's how to determine your leverage when going into a negotiations process

Question:

How can I determine the leverage I have when going into a negotiation?

Answer:

Leverage is anything that can be used to create a perception of strength on your part in the other party's mind. Leverage comes in many different forms, and will vary from negotiation to negotiation.

When negotiating, your intent is to minimize your limitations and maximize your strengths. You want to influence the other party's decision process by your negotiation strategies. That doesn't mean making a power play over the other party to get what you want. Rather, it means holding firm to your position with a calm effectiveness and having the justification for doing so.

Here are some common leverage points to consider when preparing for your next negotiation:

Risk: Can you afford to walk away and let this negotiation fail? If the answer is "yes," then you have risk leverage. By not being confined to a single option, you signal to the other party that your position is real and can/will be exercised.

Many customers like to use the multiple-option strategy when negotiating with suppliers. It is common practice to leverage one supplier against another in an effort to drive down costs and enhance options. By having more than one supplier available (even though all suppliers are not created equal), the customer can walk away and choose another option.

Knowledge: The more knowledge you have, the greater your negotiating power. There are three categories of knowledge.

The first is called Topic Knowledge. This is how knowledgeable you are about the topic. Recently, when working with a client who was negotiating a contract with a customer, the customer demanded aggressive price concessions. The supplier refused and the customer threatened to move his business. That was a big

mistake, as the customer failed to realize that the supplier was the only manufacturer in the US that had the tooling to make the needed part. It cost the customer dearly.

If you are in sales, knowing your product's capabilities and how it will improve the customer's situation can enhance your leverage. Having documentation to support your position reinforces your credibility. Printed information including printed product spec sheets, price lists, regulations and case studies are examples of supporting evidence.

The second type of knowledge is called Negotiating Knowledge. This is your knowledge and skill at the bargaining table. Have you defined your walk-away point? What concessions are you willing to make and request? What happens if the other party changes negotiators and a difficult person takes over? Having prior success at the bargaining table, especially regarding the specific topic you are addressing, gives you leverage, especially if the other party knows it.

The third type of knowledge is called Other-Party Knowledge: Knowledge of the other party gives you insider's information to effectively leverage your position. Knowledge of the other party's negotiating styles — their needs, wants and pressures; their timelines; and decision-making ability — assist in developing your position and strategizing your moves.

Legitimacy: What credibility do you have? What is your track record? What authority or influence do you have that will influence the other party's opinion of you?

For example, consider the account executive who was facing the hardball tactics of a new product manager who was trying to make his mark. The account executive informed his VP of the tactics. The VP has had a close relationship with the president of the other company for a number of years. The VP instructed the account executive to tell the product manager that "as much as he wanted to do business with him, his company was unable meet the requested terms," and then walk away. Five days later, the VP received a phone call from the president of the other company, wondering what happened. After explaining the situation, and the hardball tactics, a meeting was scheduled with all the players and a contract signed.

The account executive leveraged his VP's knowledge of the customer, and leveraged the company's performance track record with the supplier to secure a mutually favorable outcome.

Policy, regulation, or law: Are there policies, regulations or laws that limit your ability to do certain things? Knowing those in advance, and having strategies to counter demands, gives you leverage. Use responses such as, "While we understand that this approach would enhance your situation, such-and-such regulation prohibits us from doing it that way. Have you considered doing it this way? Or how about that way? If so, I am confident that we can accommodate you." That keeps the door open and positions you as an expert resource.

The key to having leverage is to understand your strengths and your limitations as well as the other party's strengths and limitations. Often those are not readily apparent. Some behind-the-scenes questions will reveal a great deal. For example, have internal champions such as engineers or product development managers expressed a strong preference for your product over the competition? Is the customer under time constraints, which limits its options and causes it to pursue the path of least resistance? What is your level of expertise? What alternative options do you have available? What relationships are in place to help you?

Taking time up front to define your strengths and weigh them against the customer's limitations will pay dividends. You will have greater self-confidence and better reasons for holding your position.



Christine McMahon is the owner of Christine McMahon & Associates, a training and coaching firm in Milwaukee. She can be reached at 414-290-3344.

Small Business Times readers who would like a negotiating situation addressed in this column can send a fax to 414-290-3330, or e-mail her at: ccm@christinemcmahon.com. Her column appears in every other issue of SBT.