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Concessions

How to respond to demands for concessions during negotiations

Question:

Whenever possible, I am dedicating time to preparing before I engage in a negotiation. However, I find myself struggling in preparing myself for concession demands. Are there some guidelines that I can follow?

Answer:

Knowing how to give or get a concession and when are critical success factors that differentiate somewhat successful negotiators from those who are very successful. There is no one right strategy.

Concession strategies are predicated on the unique nuances reflected in each negotiation situation. The following factors all play a role in determining your response to concession demands:

- Who are the players?
- What do they want?
- What do they need?
- Have you negotiated with them before?
- What are their “hot buttons”?
- Do they know your “hot buttons”?
- How badly does the other party need what you have to offer?
- Can you afford to walk away?
- What is your walk-away point?

Your responses to concession demands will determine how someone will approach you in negotiations. For instance, if the other

party sees you cower under pressure, you can expect that person to use a variety of strong-arm tactics to get what he or she wants. If, on the other hand, you respond by presenting alternative options or by taking things off the table, the other party learns that pressure tactics are not effective. Like you, the other party is always assessing which strategies works to his or her advantage.

Here are four strategies for giving and getting concessions:

1. Give yourself room to make concessions. As a general rule, don't go to the bargaining table with your best offer upfront. Most people expect to negotiate the terms and conditions of a contract. They feel it is their obligation to get a better deal. Therefore, prepare in advance what you are willing to take off the table based on different concession demands or how to reconfigure the terms and conditions of your proposal so both parties can be successful.

Consider, for example, representatives of a company that specializes in building technologically advanced equipment. They know they must pass through several quality-control evaluations before they are approved for production with this specific customer. Upfront, they build in a generous profit margin to offset any unexpected costs during this approval process.

They also know that once they gain approval to go to production, “cost-downs” (price reductions) will be expected. Having done their homework by talking with other manufacturers, they know that the expected cost-downs will be 20% over a two-year period. Therefore, they build that margin in on the front side so down the road they are

heroes.

2. Determine all demands before making concessions. It has become general practice for customers to spread their concession requests out over time. Why? Because they gain leverage. Eventually they end up with a lot more in their pocket than if they had grouped all their requests together upfront.

It's smart psychology. They know if they present all their wants upfront, they end up with less. However, by spacing their demands, each one by itself doesn't seem so significant. Therefore they gain more in the end. Initially they expect you say to yourself, “Well, in the scope of things, this is really no big deal.”

Around the third or fourth request, they expect you to catch on. Again, this works to their advantage. They now hope you just want to get the negotiation over with and feel too invested to back down or change the rules. They then present one or two more concession demands and close the deal.

After the contract is signed and the concession requests are totaled, it becomes startling apparent how they together erode your bottom-line profit.

To counter that strategy, I recommend responding to a concession demand with a the following question: “In addition to XYZ, is there anything else that is important to you?”

So let's say the first demand was for a 10% reduction in price. You respond by saying, “In addition to a 10% price reduction, is there anything else that is important to you?”

While some may argue that you are opening the door for unplanned concession

requests to emerge, it has been my experience that such is not the case. The risk is worth the reward. You are certainly better off finding out as much information as possible upfront. Knowledge is power in a negotiation. The more you know, the better you can strategize options that work in both parties' favor.

Also, your credibility with your own company is improved by having a complete list of concessions early on in the game. If you keep coming back to management with yet another concession, you risk being perceived as someone who doesn't have a handle on the account. And, of course, they are right. You are not in control, the customer is.

3. Don't make the first concession on a major item. When you make a concession on a major item, your customer quietly thinks to himself, "Well, that was easy, I wonder what else can I get?"

By holding back on giving a concession on a major item, the other party perceives that you place a high value on that item. That works in your favor. Sensing your reluctance to relinquish your position lowers the other party's expectations of what he or she thinks can be obtained.

4. Give away what's not important to you but of importance to the other party. While this may seem common-sense, the reality is that few people define what they want and need before entering into a negotiation. This results in giving in to concession demands that they soon regret. By not preparing a list of the concessions upfront they fold under pressure.

Don't let this happen to you. Determine in advance what you want from the negotiation. Then determine what you need (this is your walk-away point). The difference between the two is how you determine what you will and will not give away in response to concession demands.

While it is impossible to be prepared for every concession demand that is presented, it is certainly to your advantage to anticipate what they may be and plan your response. This will eliminate the chance that you will be flustered and will make concessions that you wish you hadn't.

In Part II of this article, in the May 10 issue of *Small Business Times*, we'll discuss these points:

- The best time to get a concession is when you give one.
- Make people work for their concessions.
- Keep concessions small.
- Don't make a counter-offer to an unrealistic offer.

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.