

Negotiating a sale



Negotiating a sale can be a daunting challenge or an exhilarating opportunity to exercise your ingenuity and judgement. Unless you are doing it all the time, it is always likely to involve emotions as well as logic.

Nobody likes to lose a sale, but making the wrong sale can be an even worse option.

This briefing covers:

- Understanding what the customer wants.
- Setting your objectives.
- Selling at a higher price.
- Finalising the deal.

1 Know the customer

Understanding and working with the customer's needs is the key to successful sales negotiation (see **Negotiating a purchase** and **Purchasing** for the view from the other side of the table).

1.1 Know what the customer **wants**.

- Do you understand what the customer is asking for?
- Does the customer need all the features?
- What extras will he or she value?
For example, free stationery deliveries will mean a lot if the customer is an out-of-town printer.
- What are the customer's purchasing priorities (eg delivery or price)?

1.2 Learn what you can about the customer's **position**.

- What alternatives does the customer have?
- How much can the customer pay?
- How urgently is your product needed?

1.3 Work out the **value** of your product to this particular customer, at this particular time.

The same product may be worth more or less to different customers.

- Does the customer have a problem your product can solve?
- What money will the customer save by buying your product?
Your negotiating power will be increased if the saving lets the customer direct money to other important areas of their business.
- What other benefits can you offer that the customer may be happy to pay for?

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1.4 Find out what the **competition** is doing.

Your competitors are your customer's alternative suppliers.

- What can they offer that you cannot?
- What are they charging?

2 Know your own position**2.1** Set your **objectives**. These may include:

- Price — the price you are aiming for, and the lowest you will accept.
- Volume — you may be ready to make concessions in return for a larger order.
- Timing — you may value an order that will bring in quick cash, or that will cover a quiet period.

2.2 Decide which areas are **negotiable** (see 5).

- Think about what you can offer the customer that means little to you but a lot to him or her.
- Cost out negotiable areas and decide a pricing policy.
- Consider the implications. For example, what would happen if you offered all your customers the same discount?
- Find out in advance what is possible for your suppliers and business partners.

No budget?

If you are told the company you are talking to has no budget for what you are selling, you need to find out what this means.

The phrase 'no budget' may refer to several different situations. Once you know which one you are dealing with, you can begin to devise a way round the problem.

- A** The individual you are negotiating with may not have **budget authority** ('sign-off') for the level of spending you propose.
- Consider breaking the sale up into several smaller deals.
- B** There may be **no budget left** for this financial year.
- Find out if there is scope to strike a deal that would fall into next year's budget.
- C** There may be no money under a particular **budget heading**, so think about recasting your proposal.

- Know where you will draw the line in the negotiations — and be ready to walk away.

2.3 Decide how **important** the deal is to you.

- Establish the likelihood of repeat business, large orders or immediate payment.
- Estimate what the implications of the deal might be, for example, for your cashflow.

2.4 Work with any **special circumstances**.

- If you are selling abroad, business assumptions, cultural attitudes to negotiating and laws may all be different.

3 Your negotiating strategy**3.1** **Develop** your strategy.

Much of the detail may only come into focus when you write it down.

- Decide the overall approach you will adopt.
- Be clear about the type of deal you want and the priority you will give it.
- Know what your strengths are and how you plan to use them.
- Work out how you will defend the weaker aspects of your proposition.
- Give a written copy of this strategy to anyone negotiating on your behalf.

Stick to your strategy until the deal is done.

3.2 Get the right negotiating **team**.

- Where possible, match the seniority and style of those you are negotiating with.
- Use a specialist to negotiate in areas outside your expertise.
For example, use a surveyor to negotiate your office lease or an agent to act for you in a new market overseas.

3.3 Aim for a deal that works for you, while keeping the customer **happy**.

- Even if negotiations are going your way, keep emphasising the benefits.
- Do not wring every last penny out of customers you value.

4 Controlling the negotiation**4.1** Establish what **points** you are negotiating and how the negotiations will be handled.

- Give the customer your terms and conditions when you make your offer to supply.

“Do not make statements that will alienate the person you are negotiating with. If you say 'Only a fool would miss this opportunity' and the truth of it is not self-evident to the other side, you risk appearing patronising, or even offensive.”
Maggie Stonor,
MS Training

- For a major deal, propose written heads of agreement, setting out the key points of the deal you are proposing.
- If appropriate, ask the customer to itemise the areas in which he or she wishes to negotiate. Write these down to avoid last-minute sticking points.
- Agree ground rules with the customer that recognise that nothing is final until all the elements of the deal are agreed.

4.2 Do not **reveal** your negotiating position.

- For example, if the customer asks what your minimum price is, say it depends on the size of the order.

4.3 Ask a lot of **questions** and listen carefully to the answers.

Tricks of the trade

If both sides know what is going on, their negotiating ploys are effectively cancelled out.

Do not play games, but do be aware of the techniques and approaches that can help you get the deal you want.

A Be **cool**. Do not appear too keen.

- If it is apparent that you need this deal, you will be seen as a forced seller and the price you can get will go down.

B Use **deadlines** to your advantage.

- Encourage movement by setting a false deadline for completing negotiations. Be ready to shift the deadline if necessary.
- If the customer sets a deadline, test it. Ask if there will be any point in talking after the deadline has passed.

C Invent a **partner** or **adviser** you need to consult, to gain time or convey your reservations.

- If the other side does this, suggest the adviser should attend the next meeting.

D Refuse to deal in **aggression**.

- Do not threaten. But also make it clear that you are indifferent to threats.
- Ignore hostile or 'wounded' body language.

4.4 Ask for a **break**, if you need time to think before agreeing a point.

4.5 Confirm **understanding** each time a key point is settled.

- Summarise the state of the negotiations, before and after each meeting.

4.6 Be aware of common negotiating **tactics** (see box).

5 Making concessions

Concessions should only be made to help you get the things you value. For example, immediate payment or large orders.

5.1 Do not indicate at the **start** that you are ready to concede.

- For example, do not offer a starting price of '£X or near offer'.

5.2 Do not make concessions **too easily**. You need to test how badly the customer wants them.

5.3 **Link** the deal. Make a concession on one deal in return for getting another deal settled. This puts the other side under pressure to settle both deals.

5.4 Use **discounting** carefully.

- In some industries, trade discounts are the norm and cannot be avoided.
- Do not give discounts just to buy goodwill. The customer will soon regard the discount price as normal and other customers may become resentful.
- Beware of giving discounts for immediate payment. Some customers will claim the discount and delay payment anyway.
- Encourage larger orders with bulk discounts.
- Offer retrospective discounts so customers concentrate their purchases with you.
- Be prepared to refuse a request for a discount if you know the customer really wants or needs your product.

6 Getting a higher price

6.1 Pitch your **opening price** high. Only make concessions that work to your advantage.

- Show the customer that he or she is getting good value by detailing the component parts of the deal.

“Keeping regular customers informed provides them with real benefits. Just knowing there will be no nasty surprises — in terms of price or supply difficulties — makes budgeting and planning a great deal easier and more certain.”
Paul Hunter,
Compaq

“How you say things can be as important as what you say, so choose your words with care. Use positive words, such as 'fair' or 'reasonable', to describe the deal you're looking for, and 'better value', rather than 'cheaper', to describe your product.”
Anton Gayton,
Morse Group

- Charge a psychologically attractive price. Some people see £99 as being more than a pound less than £100.
- Put additional products together and charge a package price — but only if this costs you less than dropping the price.

6.2 Build in value by giving the customer **non-price concessions**.

- Offer better payment terms, out-of-hours delivery or customised specifications.

6.3 Offer a low headline price and charge for **extras** separately.

- Be reasonable. Do not alienate the customer.
- Decide whether you are going to provide extras free, at cost or at normal margins. The danger of charging for extras separately is that the buyer picks them off during negotiations, leaving you with your low headline price and no profitable extras.

6.4 Don't get drawn into an **auction**.

- Normalise the price. Link the price to the industry standard and let the customer know that other customers have paid it.

7 Finishing up

7.1 Do not volunteer **unnecessary concessions** at the last moment.

- If someone has agreed to buy your premises, do not throw in the carpets free. Offer to sell them separately.

7.2 **Summarise** the agreement that has been reached.

- Make sure you both agree on all points.
- Confirm the key points in writing there and then, even if only by jotting down the details in your notebook.

7.3 **Shake hands** on the deal.

- Nobody likes going back on a handshake.

7.4 Deal with any **last-minute changes**.

- Stay calm and keep negotiating.

8 Contract issues

A contract exists whenever two parties agree to a deal. Verbal contracts are legally binding, but difficult to prove in court.

8.1 If the deal is important, consider taking **legal advice**.

- Get a free quote from a solicitor. Balance legal costs against the value of the deal.

8.2 If you have a **written contract**, make sure it expressly refers to your terms of trade. Get the customer to agree to your terms and conditions at the start. Common clauses include:

- Details of price, payment dates, payment method and delivery.
- Guarantees covering a limited period.
- A clause allowing you to retain legal ownership of the goods until fully paid for.
- A clause giving you the right to delay delivery due to circumstances beyond his or her control.
- Clauses limiting your liability (taking into account the buyer's statutory rights).

8.3 **Document** each stage of the negotiations.

- Even if there is no written contract, notes you made at the time may be acceptable as evidence if you have to go to court.

9 Regular customers

9.1 Consult your own **sales records** and correspondence to build up a picture of your regular customers' views and concerns.

9.2 Give your customers **information** that may affect future negotiations, such as your forecasting information.

- Offer key customers regular meetings. Go over areas of concern and show that you are giving a good deal.
- If the customer mentions a cheaper competitor, point out the risks of starting again with an unknown supplier.

9.3 Consider different types of contract for **regular customers**. You could:

- Guarantee a fixed price for a year, subject to continuing volume orders.
- Define, in advance, how the price will change if your own costs change.

Expert contributors

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Further help

There are other Directors' Briefing titles that can help you. These briefings are referred to in the text by name.

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