IF YOU'RE GOOD AT IT, DON'T DO IT FOR FREE

PETER COLMAN presents the sixth article in his series on behavioural economics in sales management – reacting to biases to grow profits. Nowhere are biases more pronounced than in negotiations…

"We're all aware of the long list of potential concessions that can be given away for free or too cheaply in the heat of negotiating"

During the classic negotiation scene in the Batman film *The Dark Knight*, Heath Ledger's Joker is asked by a mob boss, "If it's so simple, why haven't you done it [killed Batman] already?" His deadpan response, "If you're good at something, never do it for free!" is a lesson to all negotiators.

Back in the real world, we're all aware of the long list of potential concessions that can be given away for free or too cheaply in the heat of negotiating: price reductions, more favourable terms/conditions, free samples, waivered services, the list goes on and on. In many cases, it has become so prevalent that it's just expected by buyers.

For example, a few years ago we were asked to pitch to the divisional management team within a large corporate for a consulting project. After running through our approach, suggested scope and the likely range of return on investment, we asked if there were any questions. The divisional head told us that the proposal made sense and that if we conducted the project in his division as a "pilot" (ie. for free as a loss-leader), he would introduce the other divisions of the company to us. Like this article's title, we believed we would create significant value and wanted to be rewarded for this – "goodwill doesn't pay the bills". His considerable surprise when we politely declined his offer suggested to us that this wasn't just a negotiation gambit and that many of his previous suppliers must have worked on this basis.

Fortunately, through reframing the negotiation back to value (return on investment) and by showing that we were prepared to walk away (ie. we weren't suffering from loss aversion) we were able to secure the contract in close to the original format proposed and also sell on further work into other divisions at the end of it.

As a topline focused consultancy, we at Simon-Kucher conduct thousands of commercial excellence programmes every year. In previous articles we've covered a range of topics, including incentives, sales strategy and tooling. This time we'll focus on how sales leaders can ensure that their salesforce prepares in a professional manner for customer/channel partner negotiations, by making them aware of the most common behavioural biases and how they can either counteract or deploy them depending on their situation.

#1 "HOW LONG DO YOU SPEND PREPARING FOR NEGOTIATION?" (FRAMING)

Let's just say the answers from the floor surprised the chief sales officer who decided to sit in on the negotiation training session that we were running with his team. Considering that they were often negotiating seven figure deals, to receive numbers back with "minutes" rather than "hours" or even "days" as the units of time spent surprised us a little, as they were a pretty sophisticated salesforce in most other respects. For all the key performance indicators (KPIs) that were monitored by their customer relationship management (CRM) dashboards though, these numbers were invisible to management, as this information is hard to track, and it wasn't observed either, due to the "lone

wolves" culture of this particular salesforce.

Our task in these training sessions is to reframe the thinking about the size of the deal and sophistication of the procurement team, rather than just the length of the actual meeting. We like to see the majority of the time spent on the deal coming from preparation rather than just the execution. In another company, with a similar exercise and with similar answers, this sort of thinking was nicely captured in a quote by another sales leader who asked participants "OK team, so are we amateurs or professionals?"

"Professionals!" shouted the team in reply.

"How many professional sportspeople do you think succeed through just winging it?" was his response – "We must practise, practise, practise!" As part of that intervention, we put in place a deal-desk to allow the participants to have some actual negotiation sparring with us on a specific deal they were working on before they went to the pitch.

> **"How many professional sportspeople do you think succeed through just winging it?"**

#2 "IS IT WHAT THEY REQUESTED OR WHAT THEY NEED?" (COMPROMISE EFFECT)

In many of the companies that we see, their negotiations with customers aren't just around a price tag but rather they are around the scope of the actual proposed solution as well as the budget. In other words, it is down to the company to create a bespoke or tailored solution that best meets their customer's needs, often off the back of a request for proposal (RFP) or specification document.

Rather than creating an offer that "meets spec", we often find that their returned proposal has a single offer quite a bit above spec. This is often for good reasons (eg. having done it numerous time you are in better position than the customer to know what they actually need). However, if not managed well, this can easily come across as over-engineering, or worse still gold-plating, when compared to the more stripped down and substantially cheaper offers that they have received from lower-cost competitors whose submitted offers just met spec.

One way around this conundrum is to submit multiple offers at different price points. For example, the basic offer might just meet spec, whereas higher tier offers allow a natural upsell path. Ideally, with three offers on the table, the compromise effect will kick-in, steering them to pick the middle one.

#3 "I KNOW THEY ARE THE MARKET LEADER, BUT THEY STILL NEED US" (SUBSTITUTION BIAS)

In many situations we see organisations being too submissive to the other party in a negotiation, particularly when that company is much larger or far more established. Firms have a natural tendency to underestimate their own power and overestimate the other side's power in a negotiation.

As mentioned in previous articles, substitution bias is when we swap a hard-to-answer question for a similar but much easier-to-answer question. Effectively, what we are doing is swapping the hard-to-answer question of, "What should we do in this specific situation?" for the easier-to-answer question of, "What were we forced to do last time we negotiated with such a big player?"

Why is this a problem? Well, it clouds judgement and makes salespeople give in too early and discount too readily. What they need is an accurate assessment of the specific situation to set negotiation objectives and plan persuasion strategies.

How to fix it? Taking a systematic approach to assessing the balance of power of that specific deal will decrease this risk, help assess the situation objectively and improve confidence. We used this approach with a client as they planned a large deal with a huge corporation. As we assessed the situation, it was clear that their customer had no other alternatives and needed our client's solution urgently. Whereas previously they'd been on the back foot in deals with this customer, being pushed to grant increasingly large discounts, this time the negotiation took a very different path resulting in much smaller discounts being agreed and therefore much better margins than usual.

#4 "WE'LL TAKE IT" (ANCHORING)

While most people love the words in this answer, the tech entrepreneur on the opposite side of the table realised later that he'd left a large amount of money on the table because the buyer hadn't even negotiated. The entrepreneur had created a wonderful piece of software to manage risks and was talking to investment banks about the various

CASE STUDY: "WE'RE GOING TO KEEP ASKING UNTIL YOU SAY 'NO'!"

I remember hearing an amusing case where, a long time ago, the managing directors of two firms were having their teams negotiate a deal. After each meeting, the supplier's sales rep came back after the negotiation to ask their boss for more concessions.
After about three rounds of this, the supplier MD was fed up, so called the buyer MD directly to ask what was going on. The buyer MD replied, "Look, I know we're friends, but each time my guy asks for a discount, your guy gives it, so what do you expect him to do?" He laughs about it now, but the supplier MD has never forgotten the lesson.

scenarios in which it could help. He was expecting the first meeting to be just about capabilities and had yet to carefully understand the value the customer would receive, let alone the commercials and revenue model.

His mistake became apparent while participating in a workshop with us where we were discussing how the first number given creates an anchor in the negotiation. In his eagerness to sign a first deal he'd undermined his negotiating position by opening with a price (his anchor) that was way too low.

Having an initial anchor offer set too low is a very common issue. We advise our clients to plan out their initial offer, target and walkaway price before they set foot in the room. It is also important to realise that price is not the only factor buyers consider. While on many procurement scorecards it will be the biggest single factor, the sum of the other factors together will often far outweigh this and largely decide which suppliers are shortlisted. In other words, the value for money of the solution is more important than the price.

#5 "GREAT – NOW, JUST ONE MORE THING..." (RECIPROCITY BIAS)

Nibbling! We've all had this happen to us, I'm sure. You think the deal is done and then suddenly they're asking for 60 days end-of-month payment terms rather than the 30 days in the proposal. How do your salespeople react to such concessions?

Very few companies that we meet have their concessions carefully planned out. Salespeople need this guidance on what they should and should not do. Without it, the salespeople often don't realise the knock-on effects of their decisions. For example, certain damages and liabilities within contract terms can be extremely risky for the company and are just as, if not more, important negotiation items than the price itself.

Also, do they ask for anything from the buyer in return? Reciprocity bias is a very powerful human tendency to want to return a favour to someone if that person has done something for us. In this case, salespeople should use this bias in their favour when they come up against nibbling. Our studies have shown that when discounting, typically two-thirds of salespeople don't ask for anything in return. Without these requests, why would a buyer stop asking for more concessions?

#6 "LET ME SHOW YOU HOW IT'S DONE!" (EGOCENTRIC BIAS)

Now, this one always gets a smile from the salesforce in our workshops. One of the frequent barriers to a good deal can be top executive involvement, ie. involved too early, too often and ill prepared. Once they step through the door, the procurement team know that the negotiation guardrails have just widened and that the executive will have to demonstrate to their staff that they can close the deal. This is gold dust for the buyer.

A much better strategy is to have the executive involved in the preparation and in particular underwriting the walkaway point. This gives a clear signal to the salesperson that they have their back if the deal margin would mean that it no longer makes sense to continue.

When was the last time you praised one of your sales team for not closing and for walking away from an unprofitable deal? This is just as important a signal to the rest of the salesforce if you expect them to have a margin mindset.

TO SUM UP: REMEMBER THE 7Ps

While the cases discussed are often business-to-business, they involve human beings and are therefore no less prone to irrational behavioural and cognitive biases than the consumer arena. The antidote? When it comes to negotiations, there's a lot to be said for the British Army adage known as the 7Ps, namely that "Proper Planning and Preparation Prevents Piss Poor Performance!"

PAM = PREPARE, ANTICIPATE, MASTER

What do these four professions have in common: doctor, nurse, pilot and astronaut? They all use checklists. This is not due to a lack of skill or experience (they all have long qualification periods and rigorous testing). Rather, it comes from the realisation that complex activities involving high risk deserve extra care and attention. For example, a World Health Organisation study of hospitals around the world found that there was a 36% decrease in major complications for surgeries after introducing checklists for hospitals' surgical procedures.

How is sales any different? Well, it might not be life or death, but it certainly can be a high complexity, high risk environment. Consequently, we strongly advise putting in place processes based on checklists, tools and workflows to manage the various stages of the negotiation. We abbreviated this to PAM, which stands for Prepare, Anticipate, Master – as outlined below:

Prepare	Assess the balance of power in the negotiation	✔ Prepare your side in the balance of power ✔ Prepare your arguments and evidence ✔ Prepare your value and benefits story
Anticipate	Assess the likely pushbacks and challenges	✔ Anticipate comparison to competition ✔ Anticipate likely objections ✔ Anticipate your fall-back position
Master	Rehearse and execute based on that rehearsal	✔ Master the buying process ✔ Master negotiation tactics

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