

Why Selling On Value and Negotiating On Price Does Not Work

By Grande Lum

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Like many account executives, I can look back on many training sessions in which I was urged to sell value. One of these courses that I attended had the descriptive (if not imaginative) title “How to sell at higher prices than your competitor.” While some of my professional development experiences were enjoyable and seemed highly valuable—at least while I was in the classroom—much training seemed ultimately irrelevant or ineffective when it came to my ‘real world’ challenges. There was something good and proper about account managers discussing value, but it got ugly when the discussion turned to “N” word—negotiation. Before you continue reading, let’s try to insert a bit of interactivity into your reading experience: please write down your answer to the following question before reading further.

“In my sales and account management work, I negotiate (fill in when or under what circumstances you define your work as negotiation).” Now hold that thought. We’ll come back to it.

A lot of traditional sales thinking holds that negotiation is all about reaching final agreement on price and terms. In order to get to that final agreement, you are supposed to use a combination of haggling, conceding and discounting, with the occasional manipulative tactic thrown in for good measure.

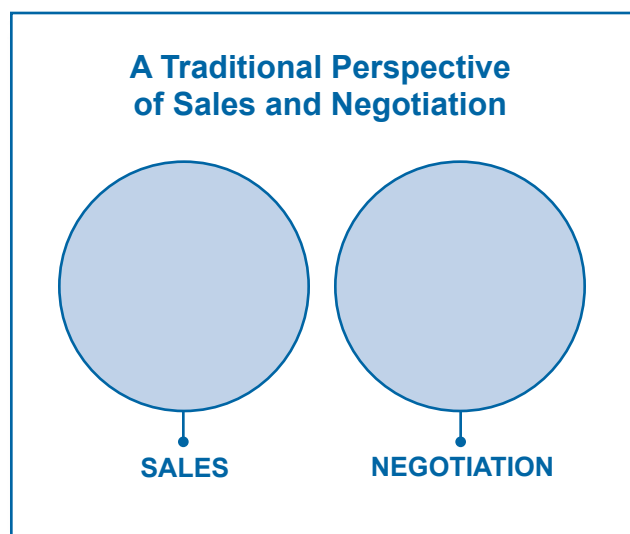
“We are all ready to sign this Master Purchasing Agreement today, and we want to thank you for having invested four months with us to develop the terms. Now, the only thing I need you to do for me is to discount the final contract figure by 10% and it’s a done deal.”

What’s your response to that time-tested classic? Seasoned sales executives know from long experience that haggling on price and terms can be a costly tactical and ultimately strategic error most of the time. And the most senior executives understand that this is true especially during economic downturns.

The “Us vs Them” Approach.

You might be saying to yourself (as many diligent account managers do: “Hey, during recessions and other slow sales periods, I still have lots of pressure to make my numbers. That’s when customers demand the most in terms of discounts and special treatment. With competition fierce, what are my choices?” Yet, there is often a paradox involved in selling during tough times: Focusing too much on price and terms can end up shrinking deal size, creativity, and ultimately, profitability. In addition, this type of selling behavior can actually hurt our most valuable customer

relationships. Some in our profession act as if there were an unwritten rule that accompanies our sales binders and portfolios. We can call it the ‘us versus them’ approach to doing business—with customers, suppliers, government agencies and the communities in which our businesses operate. Under pressure, people feel they have to be tough and ‘take no prisoners’.



Haggling Is Self Destructive

In our decades of practice and research, we’ve found that haggling can quickly become a self-destructive behavior for account managers. The most experienced among them consistently demonstrate that they understand how to avoid falling victim to a self-fulfilling prophecy: they know that if you assume your customer is an adversary, the customer will quickly become an adversary. Damaged relationships are certainly

not good for business. It’s hard not to assume your customer is an adversary when listening to comments like these that we’ve heard from our colleagues:

“This account will teach you all about dealing with adversity.”

“Whatever you do, don’t trust them.”

“If you can handle the people in this account, you can handle anyone.”

No doubt you have had the experience of having to take over damaged accounts from colleagues. When confronted with particularly difficult bargaining tactics, the easiest thing to do is simply to respond in kind. In early parts of our careers, rarely do we have the strategies or skills to match the seasoned purchaser. Thus, we resort to trying to convince our own companies that in order to get the deal done, we have to match the customer’s demands: a daily routine in corporate America and across our global accounts as well. Some of the following may sound familiar, either because you’ve overheard them, or because like us, the thought crossed your mind...or your lips.

“All they want is for us to extend the date of the contract.”

“We’re going to lose this account unless we give them a large discount.”

“Let’s just get this over with, we’ve been working on it for a year.”

The underlying assumption in these words, and the actions that come from them, is that as salespeople, our principal activity is to sell. At the end of our sales work, we ‘negotiate’, or rather, we haggle. We act as if there were a measurable gap between the two concepts. Worse still, our negotiations are not strategic or skilled, but rather reactive and tactical. After years of dealing with people in this way, one yearns for a different way of doing business. Check back to the definition you filled in above: Did you define negotiation as something you do apart from or related to your sales work? It is not surprising that many account management professionals define these as distinct, though somewhat related activities. How are they different or similar in your view?

When We Say Negotiate, Do We Actually Mean Discount?

As account managers we often complain that we do not have enough leeway to ‘negotiate’. What we really mean is that we want to be able to ‘discount’ more. Unfortunately, when sales people have this

freedom, it creates agreement discounts that are all over the map. This often reduces profitability without a commensurate gain in market share or other strategic goal. It can create arbitrary differences in client agreements, if discounts are provided haphazardly. Clients, in turn, can start becoming difficult simply in order to hold out for deeper discounts. A further danger is that—once word gets out—this creates peer envy. One well-known Silicon Valley company had a discounting scheme that went from 1% to 90% and everything in between. When customers began learning what the ‘best’ customers were getting, nearly all became unhappy with their deals, regardless of deal size, actual discount and other interests.

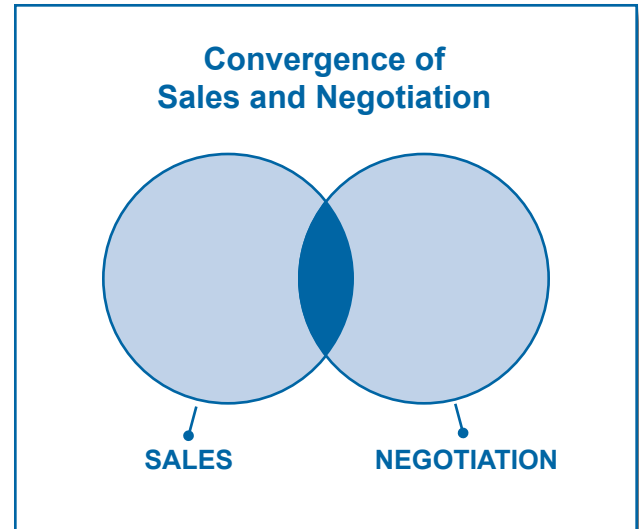
When Does Negotiation Start?

A robust view of negotiation is that it in fact it is something we are doing not only throughout the sales cycle, but beyond it as well. We are negotiating from the moment we speak with a prospect, to the moment we close a deal, and far beyond the close as well. This view of negotiating requires us to think about negotiation as any activity in which we are trying to persuade and influence the decisions of others. Certainly, there are more effective and less effective ways of influencing people and reaching joint decisions

with them. One way to look at negotiation therefore is that it is a problem solving activity—a way to explore and understand each other's INTERESTS in order to come up with creative solutions to ensure that all parties are truly satisfied from the outset of a deal, and continuing into the relationship that we create.

Transaction or Relationship?

The simple fact is that much of our traditional professional development work in sales not only gets the sales-negotiation link reversed, it also sees much of what we do as transactional—limited to a one-time or short-term interaction. As we all understand, our sales activities go far beyond contract price and terms, regardless of how complex a task it is to get closure on those (very important) things. When we begin to see that our sales skills must be aligned with a repeat-business and long-term strategy, we will find ourselves NEGOTIATING for a better business relationship, for improved communication with our clients, for those much-needed appointments, for broad access to others in the client organization. And for that strategic element in any business activity: information and intelligence. While we negotiate major contracts several times a year, we are negotiating every day as part of the sales process.

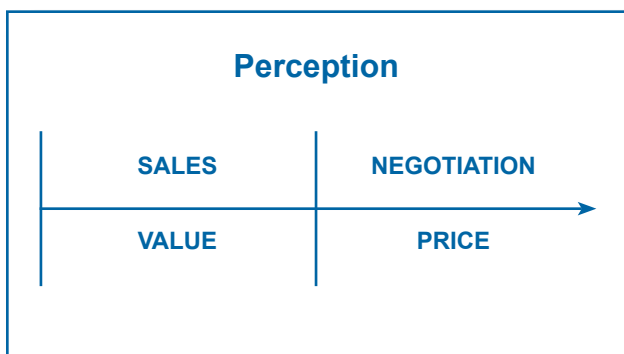


From an account management perspective, negotiation throughout the sales cycle is even more of a lynchpin to success. There is simply much more at stake. The deal cycles are long and the issues to be resolved are numerous. We have a limited number of accounts and they are the largest accounts – our company's most important assets. We find that, like any other activity that requires skill in order to succeed, you are not necessarily born with the right stuff. But you can master it if you obtain and hone the right skills. But how does it fit into what you do on a day-to-day basis? For many learning needs, there is often no single way to learn that is useful for all. In order to build your own repertoire of skills that are aligned with your professional and personal relationships, a strategically organized negotiation framework is a

key tool for success. The authors design and deploy strategic negotiation frameworks based on research from numerous fields gathered over many decades.

Since account managers cannot afford to damage business relationships, we cannot afford to use inadequate tools for gathering market data, measuring results. Similarly, we cannot afford to use inadequate negotiation concepts. In order to optimize the value of our business relationships, we need to be working on creating true alliances and partnerships with our customers.

Setting aside the traditional perception of negotiation, it becomes clear that we are not simply negotiating contract price and terms. Nearly everything is negotiated. Persuasion and influence are being used all the time. Sales and negotiation are in this sense, a seamless process. There can be no disconnect between them, if our goals are to maximize the value of our client relationships.



Changing Perspectives On Negotiation

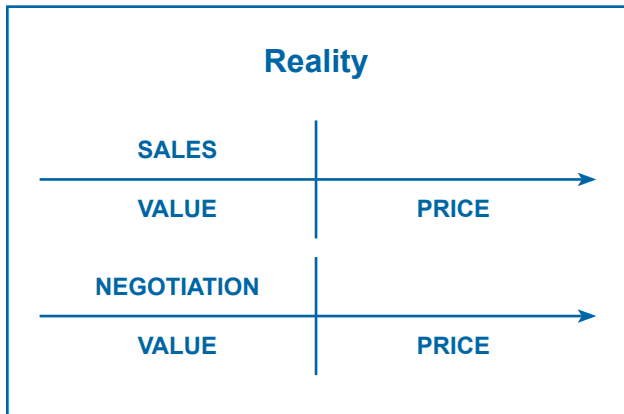
Changing our perspectives on negotiation is no simple task however. When we realize that we are negotiating up front and throughout the life of our relationship with the customer, it can seem like a very weighty obligation. For that very reason, our negotiations are also a source of great value. Beyond price, there are issues of scope, risk, staffing, resources, scheduling and deadlines as well as substantive and people problems that have to be managed 24/7. Rather than seeing negotiation as a transactional, activity, we see it as transformational. This simply means that the way we sell can have a powerful impact on both the top and bottom lines.

If our sales activities are conducted with problem-solving, collaborative negotiation strategies, then we are pro-actively:

- 1) Improving damaged customer relationships and the business with those customers.
- 2) Taking outstanding customer relationships and moving them, and our business, to a higher level.

The classic dividing line between negotiation and sales becomes intentionally blurred in this perspective. We can't negotiate without strong sales and account

management skills. Conversely, we can't sell without strong negotiation skills. The two go hand in hand.



An Example Of Successful Negotiation

The question then becomes: "how do I, through my negotiations, improve damaged customer relationships and the business with those customers?" Andy had a customer who consistently canceled regularly scheduled appointments – not a few days in advance, but after he was seated in the reception area... following a two hour drive. And with this particular customer, on the occasions that his appointment was honored, he wasn't able to get anything accomplished. Ideas were shot down with a terse "it's not a priority." Six months of invested time and effort yielded nothing but frustration and paranoia.

Andy consulted with colleagues, friends and company trainers. He decided that his goal would be to transform

the relationship from poor to positive. Instead of trying to 'sell' on his next call with the customer, he decided to 'negotiate'. He shared with the customer his goal of changing their difficult professional relationship, and acknowledged that there were currently a lot of barriers to getting there. For one, he felt that he was wasting the customer's time. When he asked the customer for his view of where the relationship could potentially be in a year, he learned something critically important. The customer didn't think the relationship could develop because of a perceived misalignment of priorities. The customer's view was that Andy's success would negatively impact the customer's own metrics.

But Andy didn't stop with this. With further problem-solving discussion the customer even acknowledged that his perception was not an accurate one. Andy and his customer then discussed what a more positive working relationship would look like for both of them and their organizations. Andy discovered that the reason his customer often canceled appointments and was curt was due to the fact that he had a management staff meeting immediately following the scheduled time for those appointments. In other words, his mind was elsewhere. They decided to change the day and time of our appointments. With this simple fix, they began creating a productive,

positive working relationship that yielded additional business and higher customer satisfaction.

Andy deployed a negotiation framework that he used to identify and focus on the main issues at the time: improving the business relationship and access to the customer. He didn't try to sell anything or talk about his products. In one day, he reversed a three year history of account managers declaring that they "couldn't do anything" with this account. And the customer's reaction was:

"No one has ever spent the time to understand how I'm measured"

"I now see potential in this relationship"

Transforming already positive customer relationships may seem easier. However, it may come as a surprise to learn that we sometimes struggle to optimize and get maximum benefit from good, existing relationships. You may have caught yourself saying:

"We have a great relationship with this customer, but we could be doing a lot more with them."

What's interesting is that a year later, we're usually saying the exact same thing about the exact same customer. We've not done a lot more with them. There

could be numerous reasons for this. Sometimes we're afraid to shake things up at a top account. We all have fires to put out at other accounts. We may decide to just leave well enough alone. Ultimately, all of these excuses prevent us from achieving excellence and reaching strategic goals.

Transforming a relationship with a solid account can win championships. Phil Jackson spent an enormous amount of time coaching Michael Jordan. Why? A 10% improvement in Jordan yielded more championships than a 20% improvement in the bench. You end up having more to work with. These are accounts where you have relationships at multiple levels. You can take risks, and try new approaches to old challenges.

Andy experienced a certain level of frustration even with his best account. He had already secured a significant amount of business. He had broken many barriers to get that far and his customer relationships improved as he and his organization worked more closely with the customer. That account considers Eli Lilly as its most valued partner! In preparing for a meeting with the CEO and one of her VP's, Andy decided to frame out a negotiation that centered specifically around changing their business relationship.

He stated up front that while both organizations had benefited from our business relationship, they all had the ability to do more. He shared a one-page analysis with the customer, based on the negotiation framework and methodology. They all agreed with most of the information. The transformation came as a result of Andy listing options to enhance their overall business relationship. He had put forth a handful of options, or ideas, that he thought had the potential to take everyone to the moon. This led the CEO and VP to expand on Andy's ideas and present some of their own.

Ultimately, they all agreed to focus on two new projects that neither party had thought of before, bringing new revenues, value and relationships to the account. This advanced the business relationship to a higher level, and resulted in having Eli Lilly recognized at the customer's annual leadership retreat as an example of a 'best practice' for how the customer organization wanted to approach all of its business partnerships.

Transforming A Vendor Relationship Into True Partnership

Account managers focus on how to transform simple vendor relationships into true partnerships. Traditional 'give-and-take' approaches toward negotiation often result in just that; one party demands value, while the

other party gives it up. This is the drawback of the transactional orientation to selling and negotiating. Working relationships are either damaged or prevented from growing and yielding value to the parties involved. A transformational, problem-solving negotiation approach to account management breaks this pattern.

You can acquire the skills and strategies for breaking up patterns of conflict and creating strategic partnerships. Negotiation as a transformational tool is essential for sales executives as they manage their sales forces, as they manage internal negotiations with all business functions within their organizations, and as they manage the critical customer relationships we all seek to broaden, deepen and enrich.

About the Author

The author, Grande Lum worked closely with Miller Heiman to create the workshop, Negotiate Success®. Mr. Lum has worked with account managers, government officials, attorneys, business executives, educators, diplomats, and community leaders equipping individuals, teams and institutions for many years with negotiation methodologies and skills. He is the founder and Managing Director of Accordence.

About Miller Heiman

Miller Heiman has been a thought leader and innovator in the sales arena for almost thirty years, helping clients worldwide win high-value complex deals, grow key accounts and build winning sales organizations.

With a prestigious client list including Marriott Corp., Dow Chemical, Pepsi, Schwab Institutional and Wells Fargo, Miller Heiman helps clients in virtually every major industry to build high performance sales teams that deliver consistent sustainable results to drive revenue.

The company is headquartered in Reno, Nevada and has offices around the world. More information can be obtained by visiting the company's website at: www.millerheiman.com.