

EFFECTIVE NEGOTIATIONS

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WELCOME TO ISM INDIA'S WEBINAR

Effective Negotiations



Introducing the Presenter...

Manoj R. Yermalkar is a Thought Leader in supply chain with over 26 years plus extensive experience in supply chain projects

Currently, he is Head of Procurement in ACG Engineering and also a Pune Chapter of ISM India.

He has worked in Project, process, product and engineering industries and has an additional experience of establishing supply chains in South East Asia. He proudly states to be alumni of Symbiosis International University.

His is basically a Mechanical engineer, enhanced his technical skills to Materials Management and International Business.

He considers himself as fortunate to hold great supply chain & procurement roles that have allowed me to understand and contribute in different industries.

He invests his available time in online course creations, related to procurement and supply chain, which are available on platforms like Udemy.

KEY TAKEAWAYS- Effective Negotiations

01

How to Create efficiencies by developing a systematic approach to managing negotiations

02

What are the Strategies of effective negotiations

03

How to Negotiate effectively across borders & cultures

04

The Elements of effective negotiations

05

What is BATNA & WATNA (Best & Worst alternative to a negotiated agreement)

06

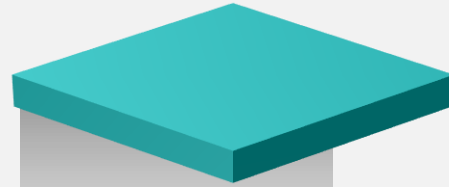
Future of negotiations with Artificial Intelligence

Negotiation Situations

- Two or more parties
- Conflict of interest
- Willingness to negotiate
- Need to seek agreement
- Better outcome through influence and persuasion
- Parties seeking to satisfy tangible and intangible outcomes

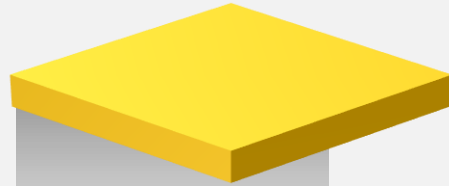
Where the following strategies are used: Interests, Options, Legitimacy, alternatives, communication, relationship & commitment

05



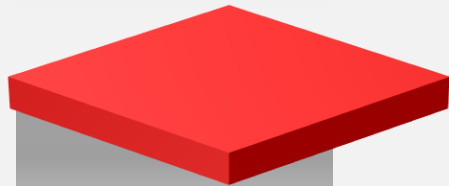
In effective negotiations, parties involved are aware about each other's vulnerabilities & how the opposite side may react

03



A method by which people settle their differences

01



04

Each party involved is aware at what level the other party may accept a particular demand

02

A process by which either compromise or agreement is reached while avoiding disputes/arguments

What is Effective Negotiation

Characteristics of a Good Negotiator

- ❖ **Listener**
- ❖ **Planner**
- ❖ **Sees Many Options**
- ❖ **Understands people**
- ❖ **Researches**
- ❖ **Sets Objectives**
- ❖ **Cognitive Skills**
- ❖ **Persuasive**
- ❖ **Emotional Intelligence**

Terms Used In Negotiations



THREE GOLDEN RULES

1. Always Start the Negotiations.

You must initiate the process because whoever controls the start of the negotiations tends to control where they end. If you let the other party start negotiations, you will be constantly giving up control, often without even realizing it. For instance, when you ask someone what his project budget is, you are allowing him to start the negotiations.

2. Always Negotiate in Writing.

I see so many professional salespeople make the mistake of discussing and working on the terms of an agreement without ever committing their ideas to a written agreement. But the purpose of negotiations is to arrive at a formal written agreement, not tell a story or spend time talking.

3. Always Stay Cool.

The negotiation table can be loaded with agendas, egos and emotions. Great negotiators know how to stay cool, providing leadership and solutions, while the rest of the room becomes insanely invested in personal agendas and useless emotions.

1. Preparation

stage involves researching pertinent information as well as analyzing all the data you collect to determine its utility. It is important to understand the issue at hand as well as all the potential angles involved.

2. Define Ground Rules and Exchange Information

primary focus is to establish the terms of the negotiation as well as exchange information to improve the chances of a successful negotiation.

3. Clarification

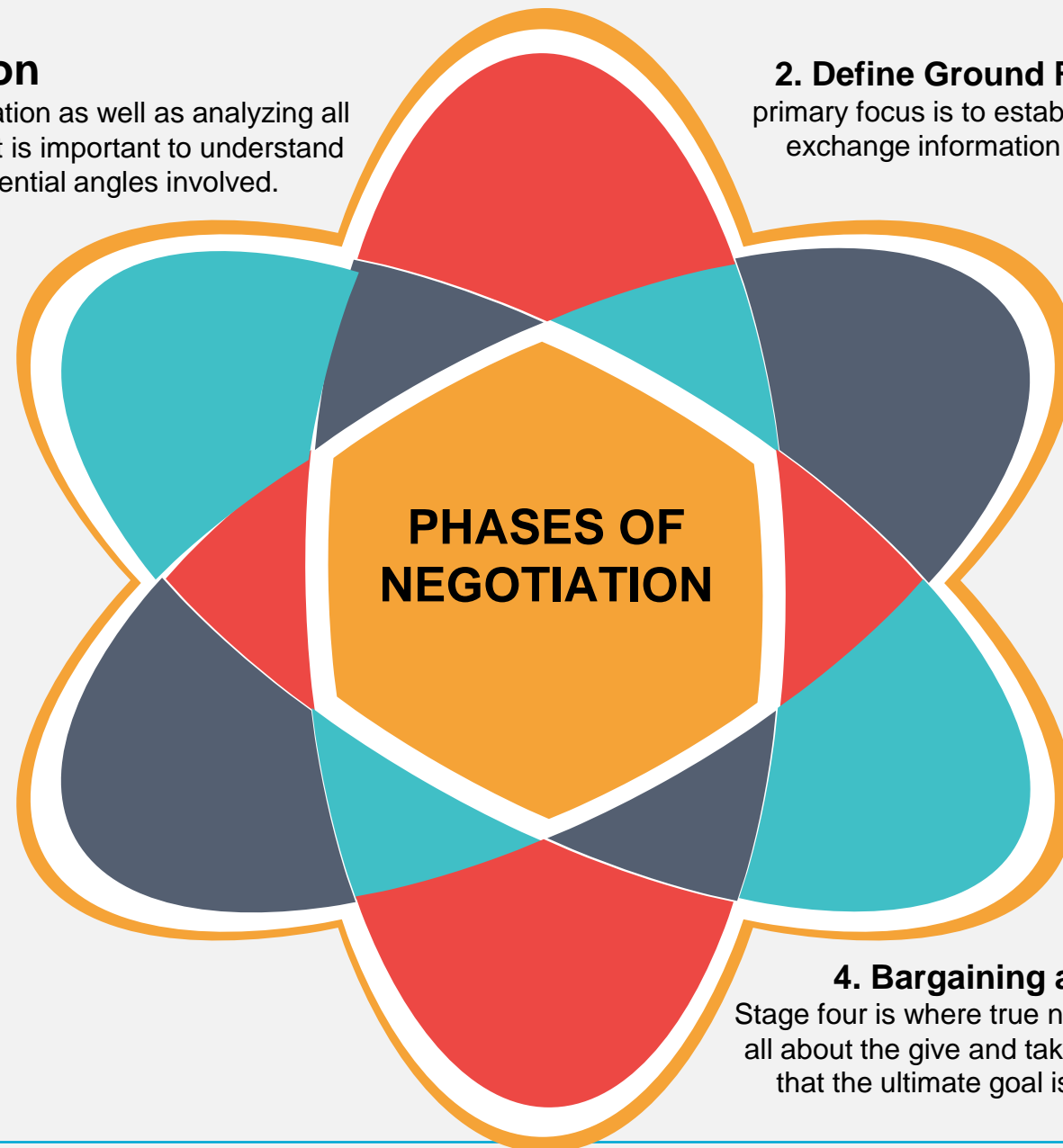
Stage three allows you the opportunity to seek any necessary clarifications from your opposition involving the issue itself, other parties with stake in the negotiations, the evidence provided, or even what may constitute a mutually agreeable outcome.

4. Bargaining and Problem Solving

Stage four is where true negotiation begins. This process is all about the give and take, so it is beneficial to remember that the ultimate goal is to seek a mutual agreement.

5. Conclude and Implement

At this stage, it is important to make sure that all essential elements to officially establish the agreement are in place. Thus, clarity is key to ensuring that everyone is on the same page before implementation begins. This stage can involve signing contracts or legally enforcing any other terms laid out during the negotiation process. Follow-up is crucial, ensuring that implementation brings with it the desired effects for both parties.



How to create Efficiency in negotiations

1. Follow the first rule of negotiations

It is important to understand the position and interests of the other side before beginning any negotiation. Ask questions and gather information that can guide the negotiation. Practice what you would like to say and rely on the facts you have collected to guide the conversation.

Reframe anxiety as excitement. The preparation stage of negotiation often comes with unpleasant side effects and seemingly overwhelming anxiety. It's common even for professional negotiators to feel nervous, but this state of mind can lead us to make costly decisions,

2. The negotiating process is continual, not an individual event

Good negotiating outcomes are a result of good relationships and relationships must be developed over time. Because of that, good negotiators are constantly looking for opportunities to enhance the relationship and strengthen their position. In some cases, the result of the negotiation is determined even before the individuals meet for discussion.

3. Think positive

Many negotiators underestimate themselves because they don't perceive the power, they have inside of themselves accurately. In most negotiating situations, you have more power than you think. You must believe that the other party needs what you bring to the table as much as you want the negotiation to be a success. Also, be sure that that positivity is visible during the negotiation. Be aware of the tone of your voice and non-verbal body language while interacting with the other party.

4. Develop a game plan before negotiations start.

Prepare a Game plan.

Write down as much as you know about the elements of game plan like BATNA, needs etc for the other negotiating party.

Figure out the significant questions you would like answered by the other party.

Stick to the game plan

5. Think about the best & worst outcome before the negotiations begin

Don't be upset if things don't go your way. In these instances, it's a good time to reevaluate all positions and return to the table. In most cases, as long as you know the highest and lowest expectations of each party a middle ground can usually be reached in the overlapping areas.

6. Be articulate & build value

This is a key negotiation tactic that separates the good negotiators from the masters. When you have a strong belief in what you're negotiating for, you will shine. Become a master at presenting your thoughts and ideas so that others see the value.

A tip on how to do that well:

- Be direct when presenting a situation. Be clear about what is expected. Discuss ways to apply how it can happen.
- Don't simply talk about what needs to happen. Discuss the consequences – how your solution will be beneficial to the other party.

7.Listen Carefully

You want the other person to feel heard. Their point of view is as valid as yours, so listen to what they have to say

8. Explore Other Possibilities

Being flexible is sometimes the only way to walk away with a satisfactory outcome.

9.Seek a Win-Win Solution

Look for the win-win situation.

10.Be Willing to Concede

Not every negotiation will go according to plan. Perhaps your business doesn't have it in the budget to agree the raise this year, but for the continuity of the business you had to agree the higher prices. It is the mark of a strong negotiator to absorb these setbacks, concede to the other party, and try a different approach next time.

11. Avoid common mistakes

- Poor planning. ...
- Unethical behavior. ...
- Accepting a bad deal or forgoing the win-win. ...
- Accepting a deal too quickly. ...
- Dismissing cultural differences.

12. Tap Into more power than you think you have

Power is “the ability to decide who gets what, when, and how”

Realize they are more powerful than you, not superior to you, It begins with your psychology.

Identify the problem and control the conversation by framing it.

MAIN NEGOTIATION STRATEGIES

- AVOIDANCE STRATEGY
- COMPETITIVE STRATEGY
- COLLABORATIVE STRATEGY
- ACCOMMODATIVE STRATEGY





| | | | |
|-----------|-------------|------------------------|------------------------|
| | | YOU | |
| | | WIN | LOSE |
| ME | WIN | We Both Win | I Win, You Lose |
| | LOSE | I Lose, You Win | We Both Lose |

The Dual Concerns Model

Substantive Outcome Important?

| | | | |
|-------------------------------|------------|----------------------|----------------------|
| | | Yes | No |
| Relational Outcome Important? | Yes | Collaboration | Accommodation |
| | No | Competition | Avoidance |

1 AVOIDANCE STRATEGY

If one is able to meet one's needs without negotiating at all, it may make sense to use an avoidance strategy.

It simply may not be worth the time and effort to negotiate.

The decision to negotiate is closely related to the desirability of available alternatives.
Alternatives are the outcomes that can be achieved if negotiations don't work out

Avoidance may be appropriate when the negotiator is responsible for developing others into becoming better negotiators.

2.COMPETITIVE STRATEGY

- Distributive Bargaining
- Win-Lose Bargaining (I win, you lose)

Zero-sum game: whatever extent one party wins something, the other party losses

Distributive Bargaining refers to the process of dividing or distributing scarce resources

- Two parties have different but interdependent goals
- There is a clear conflict of interests
- There can be a winner and a loser, and parties are usually opposing each other. Any relationship between the two parties is usually short term, as at least one party will walk away a “loser” of sorts and animosities can build.
- *Imagine you’re looking to purchase a used car. You might meet a salesperson on the lot. You ask the price of the green Chevy. The salesperson tells you, and you shake your head—you know you don’t want to pay that much. You make an offer that’s significantly cheaper than the current sales price. Negotiation begins.*
- *The new price will likely come at the commission of the salesperson, as there’s a fixed amount of resources to be divided. As you “win” a discounted price, he “loses” commission. You and the salesperson are opposing each other in the price negotiation. And when the purchase is complete, you’ll part ways, not likely to interact again.*

3. COLLABORATIVE STRATEGY

- Integrative Bargaining
- Win-Win Bargaining (I win, you win)

Positive-sum situations are those where each party gains without a corresponding loss for the other party.

Integrative Bargaining is about searching for common solutions to problems that are not exclusively of interest to only one of the negotiators.

Concepts for Integrative Bargaining

- *Separate people from the problem*
- *Focus on interests, not positions*
- *Invent options for mutual gains*
- *Insist on using objective criteria*

Distributive versus Integrative Bargaining

| Bargaining Characteristic | Distributive Characteristic | Integrative Characteristic |
|----------------------------------|---|--|
| Available resources | Fixed amount of resources to be divided | Variable amount of resources to be divided |
| Primary motivations | I win, you lose | I win, you win |
| Primary interests | Opposed to each other | Convergent or congruent with each other |
| Focus of relationships | Short term | Long term |

4. Accommodative Strategy

- Win-lose strategy (I lose, you win)
- The negotiator wants to let the other win, keep the other happy, or not to endanger the relationship by pushing hard to achieve some goal on the substantive issues

Accommodative Strategy is often used;

- When the primary goal of the exchange is to build or strengthen the relationship and the negotiator is willing to sacrifice the outcome.
- If the negotiator expects the relationship to extend past a single negotiation episode.

“In a successful negotiation, everyone wins. The objective should be agreement, not victory.”

“The key to successful negotiation is to shift the situation to a “win-win” even if it looks like a “win-lose” situation. Almost all negotiations have at least some elements of win-win. Successful negotiations often depend on finding the win-win aspects in any situation. Only shift to a win-lose mode if all else fails.”

RELATIONSHIP

- a) A good negotiating relationship is needed to address differences and conflicts.
- b) Separate people issues from substantive issues.
- c) Plan and prepare to build and maintain a good working relationship
- . d) Be respectful, trustworthy and unconditional constructive.

- CONCLUSION: WHAT IS A GOOD OUTCOME? a) Meets interests. b) Demonstrably fair. c) Better than BATNA. d) Doable.

COMMUNICATION

- a) Active listening
- b) Acknowledgement of what has been said & felt
- c) Listen to understand, speak to be understood
- d) Speak about yourself & not them & speak for a purpose

Core skills needed: Basic communication skills, probing skills, Integrative framing skills

INTERESTS: WHAT DO PEOPLE REALLY WANT?

Collectively identify and articulate the interests, concerns, and needs of all relevant parties (mine, yours, theirs). Remember: most parties do not know all their interests or necessarily agree on their interests.

OPTIONS

- a) Design options, not positions. b) Create options to meet interests of both parties

ALTERNATIVES

- a) Do we need to negotiate, or can we satisfactorily meet our interests in other ways? b) Identify and articulate our best/doable alternatives to a negotiated agreement. c) Fully understand the implication, consequences, risks and costs of your and their BATNA. d) Select and improve our BATNA

LEGITIMACY

Fairness is a governing consideration

COMMITMENT

Get commitment at the end and not beginning. Plan the timeframe & steps to implement the agreement

7 Elements of Effective Negotiations

Cross Cultural Negotiations

- ❖ More complex than domestic negotiations
- ❖ Differences in national cultures and differences in political, legal, and economic systems often separate potential business partners
- ❖ Cultures differ in:
 - ❑ How they negotiate
 - ❑ Win-Win or Win-Lose
 - ❑ How they come to agreement
 - ❑ How they communicate disagreement
 - ❑ Rituals of negotiations
 - ❑ Protocols



Cultural Differences In Negotiations

A knowledge of cultural differences can assist the manager both in understanding the other party's position and in striking the best possible deal given the circumstances.

A good way to start this analysis is by recognizing how different cultures approach the art of persuasion; that is, how do people in different countries try to win you over to their side in a dispute?

- Americans tend to enter into a discussion emphasizing facts and figures.
- Arabs may focus on emotions.
- The Russians may talk about ideals.
- Germans are **task-oriented, clear, direct and transparent**. Discussions and negotiations follow a logic line of arguments. Interests are often expressed clearly with data, facts and figures. The attention to detail is considered to be professional.
- The Chinese focus on building relationships rather than on contracts
- During negotiations in the United Kingdom, they use **distributive techniques**

Steps

01
PREPARATION

02
BUILDING
RELATIONSHIP

03
EXCHANGING
INFORMATION
/ FIRST OFFER

04
PURSUATION

05
CONCESSIONS

06
AGREEMENT

Important Hint

Learn Their Language

You don't have to become fluent, but it helps to learn at least a few basic words in the language of the person you're attempting to communicate with.

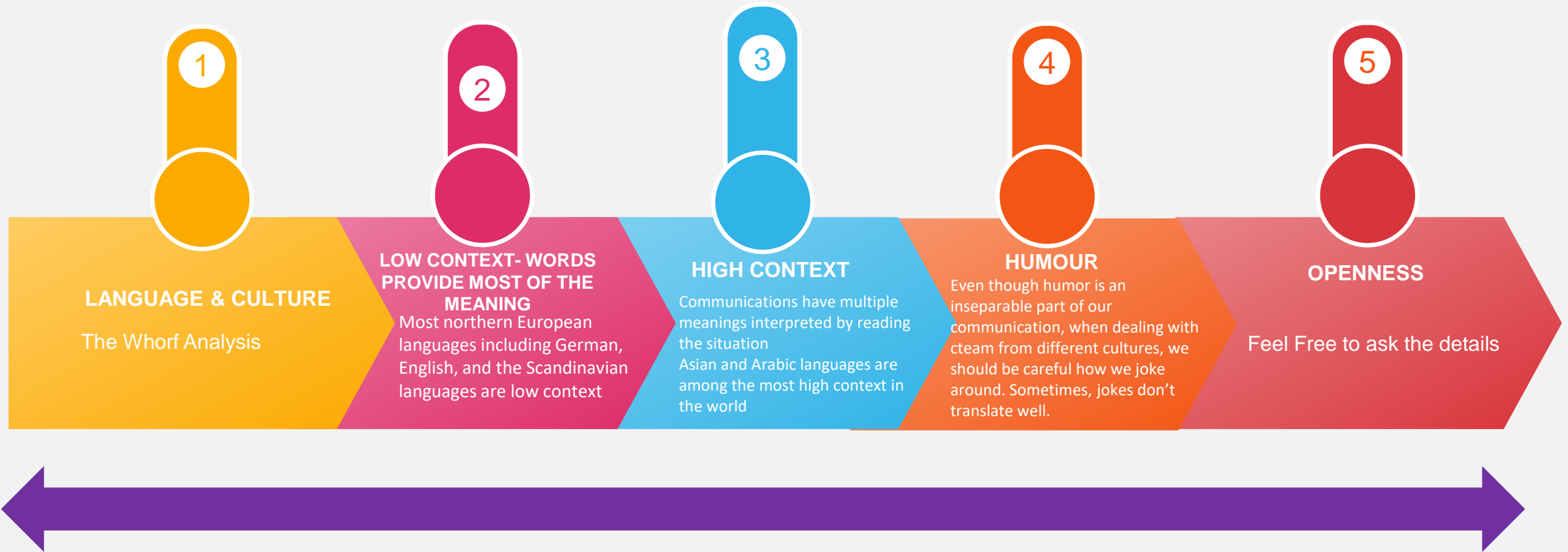
If you try to use words in their language, they're very welcoming.

Don't use jargon or sayings that could be misconstrued. For Exp. the American "I'm pulling your leg" translates into German as, "I'm sitting on your arm." Use simple, clear words and phrases that will more easily translate on a literal level.

Negotiation experts often advise having a trusted interpreter at your side instead.

Interpreters can provide valuable information and can interpret critical information more quickly from the other side.

BASICS OF CROSS-CULTURAL COMMUNICATION



***UNDERSTANDING
BATNA, WATNA, WAP & ZOPA TO NEGOTIATE
EFFECTIVELY***

BATNA

- ❖ "Best **ALTERNATIVE TO** a negotiated agreement." Said another way, it is the best you can do if the other person refuses to negotiate with you-
- ❖ BATNAs are critical to negotiation because you cannot make a wise decision about whether to accept a negotiated agreement unless you know what your alternatives are.
- ❖ In the simplest terms, if the proposed agreement is better than your BATNA, then you should accept it.
- ❖ If the agreement is not better than your BATNA, then you should reopen negotiations.
- ❖ If you cannot improve the agreement, then you should at least consider withdrawing from the negotiations and pursuing your alternative (though the relational costs of doing that must be considered as well).
- ❖ Having a good BATNA increases your negotiating power.
- ❖ If you know you have a good alternative, you do not need to concede as much, because you don't care as much if you get a deal. You can also push the other side harder.
- ❖ If your options are slim or non-existent, the other person can make increasing demands, If you have a strong BATNA, it is worth revealing it to your opponent.
- ❖ If you have a weak one, however, it is better to keep that detail hidden.

BATNA- EXAMPLE

You have had a broadband connection at home from the same internet service provider (ISP) for two years. The price of your internet plan has been increasing every year. Presently, you pay ₹3,000 every month. Recently, you have learnt that your ISP is offering the same plan as yours to new customers for a cheaper price. You also plan to call your ISP and negotiate a better rate. You have also decided to either secure a good deal from the ISP or find a new one.

You find out about other ISPs in your area and explore their plans and internet speeds. With this research, you create a list of alternative ISPs. You notice that the primary competitor of your current ISP is offering the same plan for ₹2,000. This plan also mentions that there may be no price hike for two years. With this information, you have identified your best alternative to a negotiated agreement. Now, you decide to get a plan for ₹1,500 from your current ISP, since you are still preferring to avoid the hassle of getting a new connection.

You have also decided that the most you are willing to pay is ₹2,200 per month. After the initial negotiation over a call, the ISP offers you a plan costing ₹1,200 but has lower speeds. You counter this deal with ₹1,500 for your current plan. The ISP refuses to accommodate this, but they offer a plan for ₹2,700 per month for your current speed. This saves you ₹300 per month, but this offer is still costing you more than your maximum acceptable amount, so you cancel your present ISP's subscription and sign up with its competitor for ₹2,000 per month.

Worst Alternative to a Negotiated Agreement

In a negotiation, your WATNA, or Worst Alternative to a Negotiated Agreement, represents one of several paths that you can follow if a resolution cannot be reached.

Like its BATNA counterpart, understanding your WATNA is one alternative you can use to compare against your other options along alternative paths in order to make more informed decisions at the bargaining table.

Peter R. Robinson note that *“sometimes, the deal on the table is acceptable because it is less bad than your WATNA, i.e., you are minimizing loss or making the best of a bad situation.”*

In any negotiation, it is important that you keep your **WAP (Walk Away Price)** to yourself, especially if it is significantly less than your initial offer.

For the experienced negotiator or the seasoned procurement manager, the art of recognizing a **walk-away point** during any negotiation is a must.

A **walk away point** is, simply put, that very moment where you recognize that there is no point in continuing the negotiation because the offers do not align with what you want. Sounds simple, no? The basic truth, however, is that it isn't.

If the other party is keeping things quiet, this means that it's a test of who's going to be the first to break the silence by giving an offer. By any means do not be the one to break the silence. The art of negotiation is akin to a battle of patience and endurance; just patiently wait it out and the other party will soon break the silence.

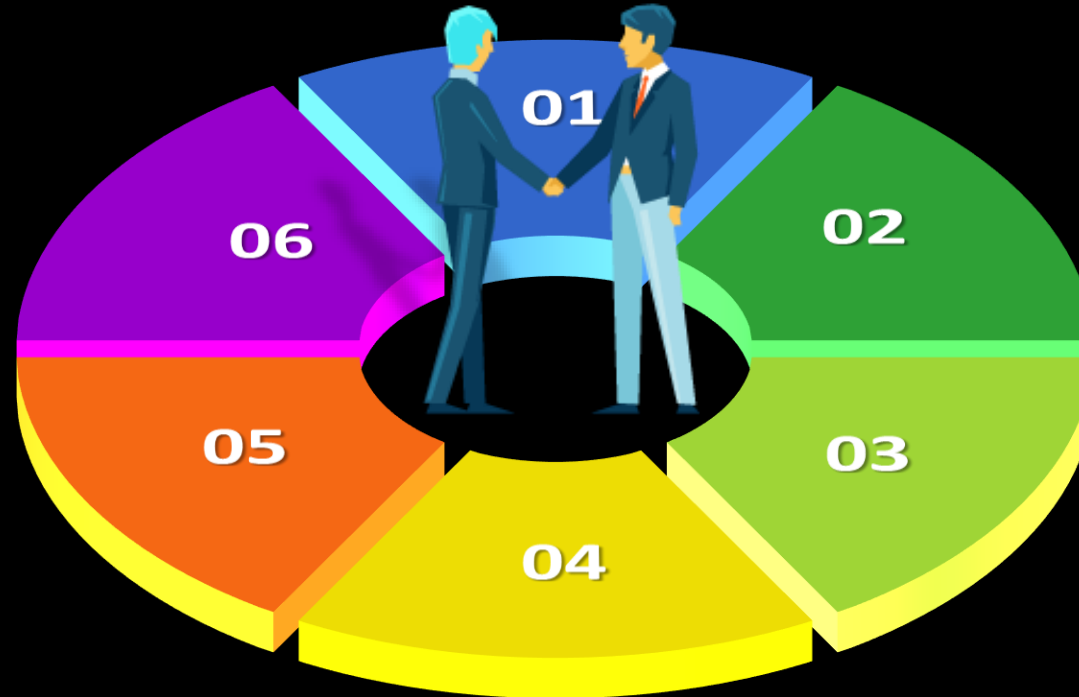
When you do walk away, always remember to inform the other party that your offer still remains and that should they wish to reconsider, they can definitely give you a call. Do not linger at the negotiating table any longer in the hopes of getting any sudden change of heart from the other party.

ZOPA-Zone of Possible Agreement

A "Zone of Possible Agreement" exists if there is a potential agreement that would benefit both sides more than their alternative options do

Negative bargaining occurs when negotiating parties are unable to achieve a ZOPA. However, a deal cannot be attained in such a case as the requirements and objectives of involved parties cannot be met.

ZOPA Should begin with BATNA



A company wants to buy a car & starts with an offer of Rs 5.5 Lakh but can go upto Rs 8 Lakh. Seller counters company's offer at Rs 9 Lakh but can take at Rs 7 lakh. ZOPA is between Rs 7 lakh & Rs 8 Lakh

Not all potential deals will have zones of potential agreement.

What about the other party? Do they have a BATNA as well?
If not, then you're in luck.

7-38-55 Rule

What is 7-38-55 Rule

The 7-38-55 rule is a concept concerning the communication of emotions. The rule states that 7 percent of meaning is communicated through spoken word, 38 percent through tone of voice, and 55 percent through body language

As a negotiator, learning how to apply the 7-38-55 rule in a negotiation situation will help you understand what your negotiating partners are communicating and better control your own messaging.

How to use

Observe your counterpart's body language

If your counterpart's body language indicates that they are about to lose their bearings, speak calmly and plainly to soothe them and slow the pace of the negotiation.

Look for inconsistencies between spoken words and nonverbal behavior

Pay attention to how your counterparts speak and act. Do the words they're saying match the way they're carrying themselves? Look at the people who are not talking—what does their body language signal to you? Remember that their spoken words only account for seven percent of their communication and look for nonverbal cues that contradict their words. It's also important that you make sure your own nonverbal messages are in line with what you are saying. If your facial expressions are pained and you can't maintain eye contact, you are communicating your insecurity to your counterpart..

How to use

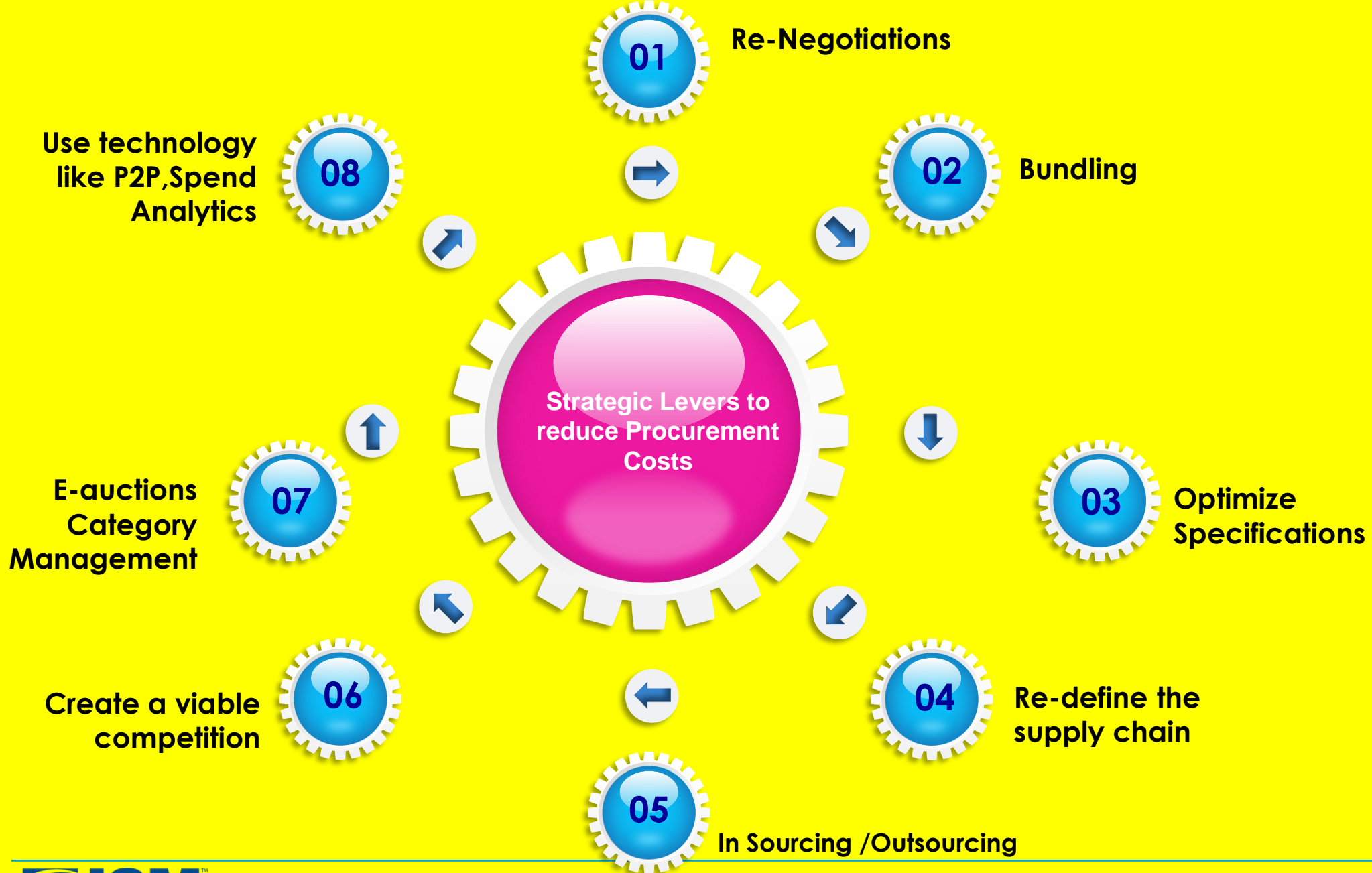
Monitor your counterpart's speaking patterns. We all have one way of telling the truth. If you can identify how your counterpart looks and sounds when they are being honest with you, you'll be able to detect any deviations from that pattern that may signal a lie.

Learn to use different vocal tones

Use accommodative voice that promotes collaboration and avoid assertive voice, which is declarative

Calibrate your own nonverbal communication

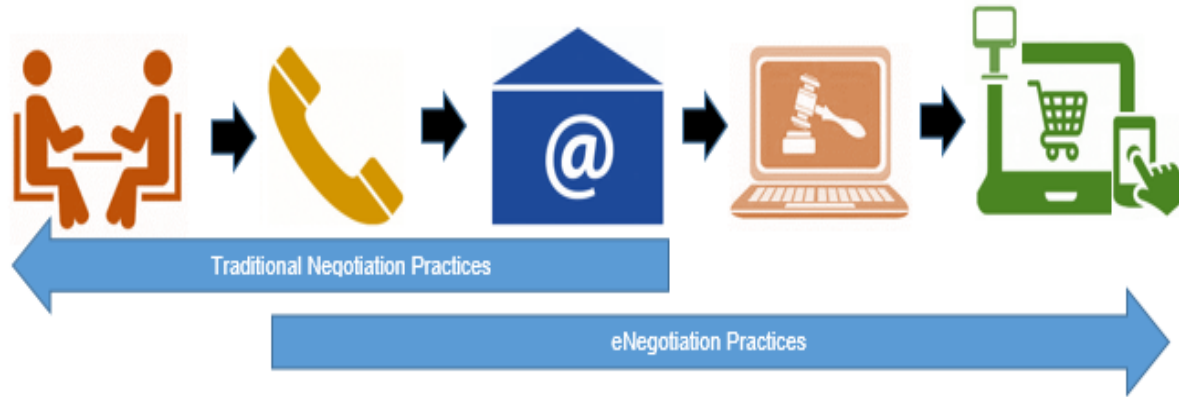
When debating the main points in a negotiation, try to alter your demeanor based on the signals you are receiving from your counterpart.



Steps for Changing Negotiation Practices in your Organization

1. Acknowledge the strengths and weaknesses of the function
2. Manage the negotiating team properly
3. Stress outcomes.
4. Point out inconsistencies.
5. Model best practices.
6. Build a coalition.

Future of Negotiations with Artificial Intelligence



1. We're not far from the day when AI will negotiate commercial deals in most large organizations.
2. With Big Data revealing business user's buying pattern, Procurement Professionals will be able to understand the behaviors of suppliers and plan their negotiation strategies or mediums accordingly

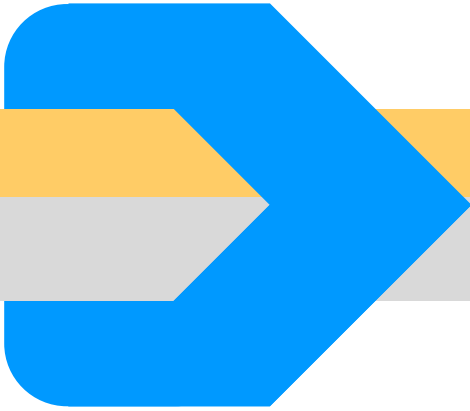
3. Let's envisage a scenario which is highly anticipated and which might become a reality in the near future. It is Negotiations being conducted by an AI chatbot. The big question is can a chatbot without common sense and emotions handle negotiation like humans?

The answer lies in the advancements in the field of NLP (Natural Language Processing) wing of AI. Natural Language processing is the next big thing in AI, and it is only a matter of time that we will be able to interact with machines on a daily basis not only for personal use (e.g. Google Home, Amazon Alexa, MS Cortana) but for business purposes as well.

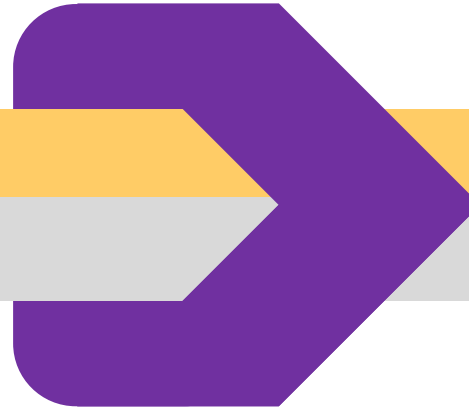
Best Kinds of deals to negotiate using AI

- 1. Low-value, high-volume contracts.** Machines can renegotiate tail-spend deals much more efficiently and cost-effectively than humans can.
- 2. Deals that depend on complex data.** Machines are better equipped to manage negotiations of contracts that depend on factors such as fluctuating commodity prices, consumer demand or competitive price analysis.
- 3. Spot-pricing deals.** Human teams don't have the time or capacity to effectively handle freight terms and other deals that need to be renegotiated daily or weekly.

How to best prepare an Organization for AI negotiations



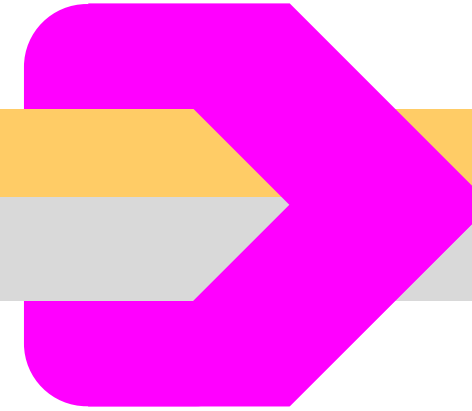
- ❑ Think like a startup and foster innovation



- ❑ Appoint a big picture thinker to lead & execute the innovation



- ❑ “The world’s most valuable resource is no longer oil, but data,” as *The Economist* put it a few years ago. One must be mindful of the structure and quality of their data.



- ❑ Find neglected value in the business, like unmanaged suppliers/ contracts and understand what type of deals machine can negotiate

THANK YOU!



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