



PROJECT **PERFECT**
Pty Ltd

Negotiation User Guide

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Table of Contents

Document Origin	2
Change History	2
Planning	3
Opening Negotiations	5
Bargaining	6
Closing	7
Negotiation Points	8

Document Origin

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Planning

Overview Most people approach negotiation on an informal basis. Essentially they make it up as they go along. A planned negotiation will always give a better result. This document covers some of the key points about a negotiation and makes some suggestions regarding finalising the price and conditions for purchasing software.

Components The components of the planning process are essentially an agreed list of points you are prepared to discuss. They include:

- What is your bottom line in terms of price and conditions
- What are you prepared to trade off
- What are you prepared to seek above what the vendor has to offer
- What are the authority levels

Bottom line You should agree before the negotiation at what point you are prepared to walk away. Everyone in your team should be aware of the bottom line. Obviously this is never communicated to the other party. There may in fact be a mix of bottom lines in that we would accept a price for software only of \$X and a price for software and implementation of \$Y

Trade off You should also have a list of what you can trade off. What are you prepared to sacrifice during the negotiations? For example, would you trade off payment on completion for progress payments? You might start out asking for payment on completion, but as the horse trading continues, you offer progress payments in return for a concession from the vendor.

Above the offer Are there things that are not included in the deal you would like to have included? A real example was where we wanted a particular technical person who the vendor had introduced during the sales cycle, assigned to the implementation. We got down to resolving every other issue except timing of the deal. We agreed their timing if they assigned the technician. The advantage was that they had exhausted all the bargaining chips they thought were on the table, but we had one left they hadn't seen. It enabled them to conclude what they thought was a deadlocked discussion.

Authority levels Everyone should be clear what they can approve or not approve. There is no point in agreeing a deal if it can be overturned by a senior person. Know what your limit for negotiation is, and make sure the vendor has representatives present who can agree from their side.

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Planning, Continued

Timing

Vendors have sales cycles. They might have a budget for the year, or quarter. If they are short of budget towards the end of their budget period, they are going to be very keen to close a deal. If it is early in the period, they are going to be less keen.

Find out the budget period, and be sure you understand whether they are ahead of behind budget. It can make a lot of difference if the possibility of closing a sale is presented which will get their budget.

Payment Terms

It is not only price that determines the financial reward for the vendor. How you pay, and when you pay can have an impact.

One aspect of this has already been mentioned. Progress payments can also be negotiable. How much is paid, and when it is paid can be negotiated to your advantage.

Another aspect is currency. If for example, the vendor is European, they might be willing to negotiate in Euro if they think progress payments will be more reliable than the local currency. If you seek advice from your CFO on hedging, you may be able to negotiate a deal that is beneficial.

Opening Negotiations

Overview Taking the initiative from the beginning is important in negotiation. The person who takes the initiative sets the expectations. They create the line that people will bargain from. Remember the vendor is just as keen, if not more keen, to sell you the software.

Example Imagine the following. You go into a shop and see something for sale. There is no price tag. You are not sure of the price but think it is around \$10. When you ask the sales assistant the price you are told \$18. Immediately you lose interest. Then the sales assistant tells you that since it is the last one in stock, and the manufacturer is not making any more, they will give it to you for a third off (\$12). You are in a position where a number of things have happened:

- You did not take the initiative by offering \$10 or less
- The sales assistant set the expectation that it was worth nearly double that
- You know that it is the last one you will ever get to buy
- There is a discount offered of a third off

Suddenly it looks like a good deal. And you buy for \$2 more than you expected to pay.

An alternative Suppose you asked the sales assistant first how many they had and found out this was the last one. You could then open negotiations by offering to take the last one off their hands for \$8. Chances are they would accept.

Positions The opening phase of negotiations is where both parties state their positions to one another. It is at this point you can most influence the outcome. If one starts at 80 and the other at 100, the result will probably be around 90. If one starts at 90 and the other remains at 100, the outcome will probably be 5 higher. It is not likely to be less than 90.

Bargaining

Overview At the end of the day, you will need to work with the Vendor – probably over many years. Neither side should come out of the negotiation feeling they have been cheated. Such an atmosphere will have dire consequences in the years to come. The aim is to have a win-win situation.

Trade Concessions If at all possible, do not give concessions early. When you do concede a point, always do it as a trade off.
“If I give in on this point, will you give in on that point?”
You have a list of things you are prepared to concede. Don’t use them all up too early.

Small points It is sometimes useful to use up the small points the other party is prepared to concede. They are probably going to come into the negotiation in the frame of mind that they will have to concede some points. Get them to do it without you conceding points early in the discussion.
“Before we start talking about whether we will purchase your solution, there are a few things I want to clarify. I assume that if we decide to purchase, we will be getting all the training materials at no cost?”
Your comment has indicated that we are not even at the point of discussing purchase at this point.

Opposition weaknesses When the vendor objects, look for weaknesses in the argument. If for example, the vendor objects to providing technical staff because they are short of skilled people at present, turn it around. Express concern that you might not be able to get the level of support you need. Take a step back from the sale and look for some guarantee or compensation for the likely lack of support.

Policy Another tactic is to claim that something cannot be negotiated.
“We have a policy of 30 day payment and it cannot be varied.”

Reverse order concessions When offering concessions, do so in reverse order. Offer the smallest first, and try to make the vendor offer a large concession first. The vendor will probably expect you to make concessions, but you can choose what to concede.

Closing

Overview Closing can be difficult if there are still issues outstanding. Nobody wants to walk away from the negotiation at that point, but there are still some points that have not been resolved. You need to break the deadlock and close the meeting.

Breaking deadlocks There are a number of techniques for breaking deadlock

- Take a break and resume after half an hour, or a few hours. Sometimes it allows people to cool down and make progress
- Break and refer to more senior people to adjust the parameters within which you are operating
- Move the debate away from the area where you are deadlocked and get back into resolving other issues. By the time you get back to it, you may have resolved it another way.
- Hold a separate discussion with just the main negotiator from both sides. See if they can reach common ground without others clouding the situation.

Closing When a final deal has been negotiated, make sure the key points are noted by both sides, and leave immediately. Staying for a further general discussion may reopen the negotiations. You need to get out of the discussion arena and send confirmation of the deal to the other party as soon as possible.

Last concession If you have reached agreement, you may still be able to gain one last concession.

“I think we have resolved all the matters discussed. We would be happy to sign an agreement on one condition. You waive the first year maintenance fee.”

So close. It is too tempting to refuse. The vendor will probably give in to get the deal signed.

Negotiation Points

Overview It would not be possible to list all the points for negotiation however we will list a number of typical points.

- Financial**
- Final price
 - Discount for prompt payment
 - Progress payments
 - Bonus for exceeding implementation deadline
 - Currency for payment
 - Who pays escrow
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- Functionality**
- Vendor builds missing functionality
 - Client builds functionality and sells/licenses to vendor
 - Vendor produces missing reports at no cost
 - Vendor provides reporting tools
 - Access to source code
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- Data**
- Vendor writes program to clean up data
 - Vendor guarantees accurate conversion (typically on an upgrade)
 - Vendor carries out data integrity analysis at no cost
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- Hardware**
- Vendor provides development, testing or training environment
 - Vendor sources hardware
 - Vendor sets up hardware
 - Use of vendor infrastructure
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- Training**
- Vendor provides training on site rather than at vendor location
 - Provide free training
 - Train our trainers
 - Provide free training materials
 - Provide training facilities
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- Communications**
- Vendor provides demonstrations to staff
 - Use of vendor promotional material in staff communications
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Negotiation Points, Continued

- Implementation**
- Allocation of nominated technical resources
 - Briefing sessions from technical staff
 - Assistance with developing implementation schedule
 - Secondment of vendor staff for a period after go live
 - Use of vendor help desk during go live for second level support
 - Inclusion of other components such as hardware or software
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- Ongoing support**
- Reduced maintenance charge
 - Free upgrade to new version
 - Higher level support contract at reduced charge
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