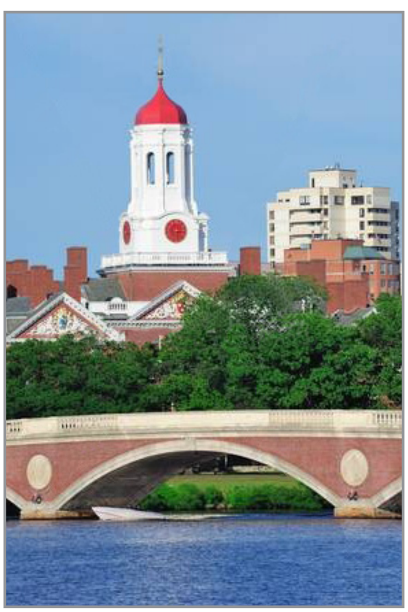
PROGRAM ON NEGOTIATION
HARVARD LAW SCHOOL

SPECIAL REPORT

Sales Negotiation Training

Essential Negotiation Skills for Sales Professionals



www.pon.harvard.edu

Negotiation Special Report #6
$25 (US)

Published by
Program on Negotiation
Harvard Law School

Managing Director
Susan Hackley

Assistant Director
James Kerwin

About *Negotiation*

The articles in this Special Report were previously published in *Negotiation*, a monthly newsletter for leaders and business professionals in every field. *Negotiation* is published by the Program on Negotiation at Harvard Law School, an interdisciplinary consortium that works to connect rigorous research and scholarship on negotiation and dispute resolution with a deep understanding of practice. For more information about the Program on Negotiation, our Executive Training programs, and the *Negotiation* newsletter, please visit www.pon.harvard.edu.

To order additional copies of this Special Report for group distribution, or to order group subscriptions to the *Negotiation* newsletter, please call +1 800-391-8629 or +1 301-528-2676, or write to negotiation@law.harvard.edu.

For individual subscriptions to the *Negotiation* newsletter, please visit www.pon.harvard.edu/negotiation-monthly.

To order the full text of these articles, call +1 800-391-8629 or +1 301-528-2676, or write to negotiation@law.harvard.edu. Visit www.pon.harvard.edu to download other free *Negotiation* Special Reports.

Adjust your expectations.

IMAGINE THAT YOU ARE MOVING from one city to another and putting your home on the market. How would you determine the true value of the residence? Now imagine that you are in the market for the same residence rather than selling it. How would you determine its value? Do you think you would reach the same estimate regardless of whether you were the buyer or the seller?

According to basic economic principles, we should place the same value on an item whether we're selling it, buying it, or merely window-shopping. Yet few of us behave with such level-headed rationality. Specifically, psychological research shows that sellers typically value their own possessions more highly than the possessions of others. In negotiation, that's a problem if you need to make a sale.

Priceless or "pseudosacred"? Some possessions truly are priceless—we wouldn't part with them for any amount of money. Others are virtually priceless, or "pseudosacred," according to Harvard Business School professor Max Bazerman. We might claim that these possessions aren't negotiable, but we would consider making a trade under certain conditions. Your mother's engagement ring might be permanently sacred, for instance, but your great-uncle's watch may be another matter when money is tight.

What happens when you decide you're ready to part with a pseudosacred possession? You'll be prone to resist beneficial tradeoffs and compromises and to respond to counteroffers with anger and rigidity—not a recipe for a successful deal.

Consider what often happens when a family's longtime home goes on the market. Sacred memories lead family members to set an irrationally high asking price for the house. After an initial flurry of interest, the house sits on the market for months, even years. Price cuts fail to attract much interest, and a once-beloved home becomes a source of stress and anxiety.

Your treasure, their trash. Interestingly, we also tend to overvalue ordinary possessions that have no sentimental value. In a 1990 *Journal of Political Economy* article, researchers Daniel Kahneman, Jack Knetsch, and Richard Thaler describe what happened when they gave ordinary objects such as coffee mugs, pens, and chocolate bars to the college students participating in their experiments. Sudden, arbitrary ownership provoked participants to value these trifling goods more than other participants did, a phenomenon the researchers dubbed the "endowment effect"—in this case, the *instant* endowment effect.

Contrary to rational economic theory, we seem to view almost anything as more valuable once it belongs to us. Why? Ownership, like any stroke of good fortune, is accompanied by the threat of loss relative to the status quo. This "loss aversion" can lead us to overvalue our assets and ask too much for them.

How can you avoid succumbing to loss aversion the next time you want to sell a treasured asset? To put together a more rational and competitive package prior to your next sale, answer these four questions as honestly and thoroughly as possible:

1. "Would I want it if it weren't mine?" Once you've made the difficult decision to part with a possession, imagine how you'd react if someone were pitching it to you. When you put yourself in a prospective buyer's shoes, the item might not look as appealing.

2. "How much is it really worth?" Improve your estimate of an item's value by consulting an expert in the field, such as a financial adviser or an art, jewelry, antique, or real-estate appraiser.

3. "What if it doesn't sell?" Imagine what will happen if you are unable to make a sale after a month or a year passes. If that wouldn't be a problem, go ahead and aim high. But if it would cause financial or other difficulties, rethink your goal.

4. "What other value can I offer?" In most negotiations, price should not be the only issue on the table. If you can provide delivery options, payment plans, matching rights, or an ongoing relationship to a potential buyer, you may be able to justify a higher-than-average price.

Adapted from "Why Your Selling Price May Be Too High,"
the *Negotiation* newsletter, October 2007.

Make your offers more appealing.

So far, talks have been productive. After much discussion and careful analysis, you think you understand the issues on the table and the other side's priorities.

Taking some quiet time to prepare a proposal, you quickly find you're stumped.

Should you give your counterpart a single offer, two choices, 12, or 20? If you aim too high, will you scare her away? How can you increase the odds that she'll feel, as you do, that an excellent agreement is within reach?

Regular readers of *Negotiation* understand the importance of working with others to create value while also claiming as much of the pie as you can. But you could find yourself with no deal at all if you don't present your proposals strategically.

Researchers in fields such as psychology, law, and marketing, most notably psychologist Robert Cialdini of Arizona State University, have accumulated significant evidence that our judgment and decisions are strongly affected by the amount of information we receive and the way in which it's framed. This evidence implies that negotiators can use a number of influence strategies to reach their goals. In particular, the three strategies that follow will help you present offers with maximum effectiveness.

Strategy No. 1: Don't overwhelm them. In our society, we're bombarded with a multitude of decisions each day, beginning with the increasingly complex question of how to order our morning coffee. Studies of consumer behavior confirm that most of us would prefer fewer choices in our lives. In a 2000 study, professors Sheena Iyengar of Columbia University and Mark Lepper of Stanford University set up a tasting booth of high-quality jams in a gourmet food store. On one weekend, shoppers were able to taste six different jams. On another weekend, shoppers were offered 24 jams to taste. All the jams were available for purchase on both weekends.

As you might expect, the larger selection of jams attracted more people to the tasting table, though the number of jams people tasted was about the same on both weekends. Here's the surprising result: 30% of shoppers exposed to six types of jam bought a jar, but only 3% of those exposed to 24 types did so.

Consumers can become so overwhelmed by the array of available options that deciding not to make any decision at all can be a relief, the researchers concluded. This lesson applies to negotiation as well. Your counterpart may say she wants as many choices as possible so she can make an informed decision. But if you hand her 10 or 20 proposals, she's likely to feel overwhelmed and irritated—real stumbling blocks to reaching agreement.

Strategy No. 2: Make several offers. What's the right number of options to put forward? In their April 2005 *Negotiation* article, "Putting More on the Table: How Making Multiple Offers Can Increase the Final Value of the Deal," Northwestern professors Victoria Husted Medvec and Adam D. Galinsky write that issuing three equivalent offers simultaneously can be a good strategy. They describe a software company that began initiating negotiations by presenting three equivalent software packages to its clients at once: for example, a $1 million package with payment in 30 days, the same software for $1.5 million with payment in 120 days, or an enhanced package for $1.35 million with a 30-day payment. Customers responded well to this strategy, and the company's profits rose.

When you present multiple equivalent simultaneous offers, or MESOs, you show other parties the issues you value most. In turn, their reactions to your offers tell you about their priorities. Together, you can craft an agreement that accounts for everyone's most important interests. What's more, MESOs give negotiators the choice they desire without sending them into decision paralysis.

Strategy No. 3: Leverage the status quo. In many areas of life, whether because of inattention, laziness, or fear of making a damaging mistake, we tend to accept the status quo rather than making a change.

Studies of employees' enrollment in 401(k) retirement plans show just how strong this status quo bias can be. In most organizations, employees must take the initiative of filling out a form or making a phone call to opt in to a 401(k) plan. By contrast, some employers automatically enroll their employees at a default contribution rate. In such instances, employees must opt out of the program if they don't want to contribute. Research shows that employees make very different choices about 401(k) enrollment depending on whether they must opt in to or out of the program. In one company, 401(k) enrollment jumped from 49% to 86% after the company switched from an opt-in program to automatic enrollment, Brigitte Madrian of the University of Pennsylvania and Dennis F. Shea of UnitedHealth Group found.

How can negotiators capitalize on the status quo bias? You might gain an advantage by controlling the deal draft and its wording. And after making an offer, you may be able to establish it as the default agreement by saying, "Let me know if you disagree." (Of course, you'll need your counterpart's explicit acceptance for a deal to be binding.)

Adapted from "Will Your Proposals Hit the Mark?"
the *Negotiation* newsletter, May 2008.

Reach the finish line.

It seems as if you've been working on a particular negotiation for years—and maybe you have. You've held countless strategy meetings with your team and exhausting negotiating sessions with your counterparts. You feel you've given as much as you can, and you're right on the cusp of what looks like a great deal for both sides.

Yet somehow you can't bridge one last issue. Maybe you can't figure out how to split the remaining 5% gap in a purchasing negotiation. Maybe you and your romantic partner, after debating long and hard about whether to live in the city or the suburbs, now can't agree on whether to buy or rent. Or maybe you anticipate losing out in an auction because your company is cash poor.

When such roadblocks appear toward the end of a negotiation, you may be tempted to either walk away or make one last concession. Neither of these "solutions" is likely to be satisfying. Instead, consider whether any of the three novel strategies outlined here could get you to the finish line.

Strategy No. 1: Get time on your side. When negotiators can't manage to resolve a final sticking point, time can be one of the best tools at your disposal. How can you use time to move forward?

If the negotiation has already dragged on too long, you might try imposing a deadline. Setting a final deadline, even an arbitrary one, calls off stalling tactics and increases efficiency, Carnegie Mellon University professor Don A. Moore has found in his research. Negotiators often fear that a deadline will cause them to concede too much as the clock runs down. But remember that both sides are affected equally by a deadline. Deadlines can spur concessions and creative thinking from both sides—and allow you to move forward.

You might also manipulate time to your advantage by agreeing to reach a decision on the final issue but to delay implementation on that issue until a later date. Consider the case of a couple who, having decided to live in the city after a long debate, now can't agree on whether to buy or rent. After expanding their time horizon, they might decide to rent for the next two years and buy a place after that. When the impact of a sticky issue is distant, negotiators may be able to evaluate it with less emotion.

Strategy No. 2: Express a positive no. Sometimes negotiators get stalled not because they can't get to "yes," but because they can't say no, writes negotiation expert William Ury in his book *The Power of a Positive No* (Bantam, 2007). Our anxiety about saying no can cause us to be too accommodating or avoidant—and, when pushed to the limit, to lash out in unconstructive ways.

"No" can be hard to say, especially at the end of a tense negotiation, yet sometimes it's necessary. If a customer demands a final price cut that would put you out of business, you will have to say no. If a prospective boss tells you he expects you to work on weekends for no extra pay your first year, you may need to say no.

In his book, Ury presents a three-step technique for delivering a "positive no"—what he refers to as "Yes! No. Yes?" First, set up your no for success by asserting your needs and interests. "I appreciate how far we've come in our discussions," you might say to the demanding customer. "I value our business relationship a great deal and hope that it continues well into the future as our companies continue to grow."

Second, deliver your no in a respectful, firm, and direct manner. "To protect the health of my business, I cannot afford to make any more concessions on price," you might say to the customer. "If you can't accept the price on the table, you will need to seek out a new partnership." Avoid becoming overly emotional or apologizing profusely.

Third, propose a "yes?" that encourages the other side to accept your no while redirecting his attention toward a positive outcome. "If you can accept my price, I'd be open to revisiting the issue of paying on installment. How does that sound to you?" Note that the "positive no" strategy requires you to have a strong "Plan B." Whenever you deliver a no, there's a chance the other side will walk away, so you need to be prepared with a viable outside alternative.

Strategy No. 3: Try a shutdown move. In some negotiations, the obstacle to your desired deal isn't between you and the party across the table, but rather among your competitors on the same side of the table. Imagine, for instance, that James, a well-respected book editor for a New York–based trade publisher, has received a dazzling proposal for a manuscript he'd love to acquire. James knows that the author's agent has submitted the proposal to many different editors and is trying to drum up an auction that will drive up the author's advance.

Because James's company is struggling financially, he knows he wouldn't last long in a bidding war. What should he do? Try a "shutdown move," advises Harvard Law School and Harvard Business School professor Guhan Subramanian in his new book, *Negotiauctions: New Dealmaking Strategies for a Competitive Marketplace* (Norton, January 2010). A shutdown move is an action that cuts off competition on your side of the table and, in so doing, turns an auction into a negotiation.

Here's how it works. James calls the literary agent to tell her that he's extremely enthusiastic about the book proposal and would work closely with the author to make the book as strong as possible. Next, he tells her that he'd like to make an offer for the manuscript in a week, after discussing the specifics with his colleagues. Finally, he asks the agent not to entertain any other offers during this one-week period. "After you get my offer, you're free to reject it," James says. "But I must insist on exclusivity for the next week."

Will the agent accept James's terms? Possibly. If she does, James believes he will be in a good position to put together an attractive offer. If she doesn't, James will know he has done the best he can to compete on issues other than price. Whenever your goals are blocked by the competition, ask yourself whether you can implement a shutdown move that changes a multiparty auction into a one-on-one negotiation.

Adapted from "3 Strategies for Reaching the Finish Line," the *Negotiation* newsletter, December 2009.

ATTEND an upcoming Executive Education program

Negotiation and Leadership: Dealing with Difficult People and Problems

Designed to accelerate your negotiation capabilities, this three-day offering examines core decision-making challenges, analyzes complex negotiation scenarios, and provides a range of competitive and cooperative negotiation strategies. You will emerge well prepared to achieve better outcomes at the bargaining table, every time.

In-Depth, One-Day Author Sessions

Groundbreaking ideas, global insights, and innovative strategies — all taught by the experts who literally wrote the book on them.

Harvard Negotiation Institute's Summer Programs

Ranging in duration from two to five days, each program focuses on a critical aspect of negotiation.

- Mediating Disputes
- Negotiation: Strategies, Tools, and Skills for Success
- Improving Negotiation Effectiveness
- Dealing with Difficult Conversations
- Advanced Negotiation: Deal Set-Up, Design, and Implementation
- Intensive Negotiations for Lawyers and Executives

For an updated listing of programs, including dates and locations, or to download a complete program guide, visit www.pon.harvard.edu.

SUBSCRIBE to *Negotiation*, the monthly newsletter

Drawing on ideas from leading authorities and scholars in the field of negotiation, this timely publication provides proven strategies and techniques aimed at improving your ability to get deals done, solve problems, preserve relationships, and manage conflict.

To learn more or subscribe, call +1 800-391-8629 (outside the U.S., dial +1 301-528-2676), email negotiation@law.harvard.edu, or visit www.pon.harvard.edu/negotiation-monthly.

EDUCATE yourself and others on key negotiation topics

Access teaching materials and publications in the Program on Negotiation's Clearinghouse, including role-play simulations, videos, books, periodicals, and case studies. Most Clearinghouse materials are designed for use by college faculty, corporate trainers, mediators, and facilitators, as well as individuals who seek to enhance their negotiation skills and knowledge.

To view all Clearinghouse teaching materials and publications, visit www.pon.harvard.edu/shop/home/.

READ the *Negotiation* Journal

This quarterly publication is committed to the development of better strategies for resolving differences through the give-and-take process of negotiation. *Negotiation Journal*'s eclectic, multidisciplinary approach reinforces its reputation as an invaluable international resource for anyone interested in the practice and analysis of negotiation, mediation, and conflict resolution.

To learn more or subscribe, visit www.pon.harvard.edu/publications/.