Two negotiating elements: avoiding old China's risks and seizing new China's opportunities

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Introduction

We live in a world where the business environment changes rapidly. For example, fewer customers produce a larger share of profits. With fewer customers, losing a major customer is a larger loss of profits. So managing and negotiating with key accounts is now critical to sustaining profits. Not all customers value suppliers' services the same way. Yet often we service all our customers the same way, missing an opportunity to improve profits by providing unique services. This means that to manage global accounts, you must be able to negotiate in different cultures and gain support for new initiatives, frequently when the world's turbulence would suggest caution over courage. Customers have become more sophisticated in their buying strategies. Consequently, successful sales and management teams need to become more sophisticated in their key account management strategies. Rethinking and adapting approaches for each key account is imperative.

In today's tough, rapidly changing global business environment, outstanding strategic negotiation skills are vital for increasing business and profits. As individuals and companies conduct business across the globe, managing and negotiating relationships for all stakeholders is now critical. This article is designed to challenge your thinking about two key principles and look at the many ways you can more effectively negotiate with strategic customers in a fast-paced global setting. A case study at the end will bring together these elements in a "live deal."

Avoiding old China's risks and seizing new China's opportunities

Nowhere is the business environment changing more rapidly than in China. The energy- and labor-intensive business sectors of old China that generated so much growth in the past decade now face business risks. Companies must look to new China's opportunities.

Energy and emissions: China consumes as much energy as the United States, but China's gross domestic product is only about a third of the USA's. China depends heavily on coal (70 percent of the country's energy), so reducing carbon emissions is a pressing, growing issue. The U.S. consumes twice as much energy per person as China because the U.S. is more developed. As China develops, it will increase energy consumption per person to similar levels, doubling its total energy demands. So energy efficiency will be a critical issue for China.

Demographics will force change: China's demographics will force structural change. Just as in many countries, when baby boomers start retiring, there will be a worker shortage. This will cause labor-intensive industries such as manufacturing to use less labor-intensive methods and more technology-intensive methods. In addition the number of college graduates has continued increasing, from about 1 million in 2002 to about 5 million in 2009. This increase will require the government to develop high value-add industries, including information technology and machine tools, to employ graduates.

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Internet and IT: China is now the largest Internet market with more than 400 million users, nearly twice the number in the U.S. This is forecast to increase from 400 million to 800 million by 2013, creating opportunities for IT hardware and software companies.

Old China's risks are in energy- (e.g., cement and coal) and labor-intensive industries. The opportunities are in IT and services. New China will focus on reducing pollution, conserving energy and innovating in technology. Negotiating with strategic customers in these areas will be critical to your success. As change and uncertainty in the business environment increases, negotiating's importance increases, too.

Negotiating in a rapidly changing global business environment

This article is to help people negotiating in an international context and challenge how they prepare for it. The research findings on negotiation types demonstrate a breakthrough in the approaches we use and help one understand why people behave the way they do during negotiations. Successful global negotiation in account management revolves around two critical elements: types of negotiations and outcomes. Negotiation has been defined differently by many authors, researchers and academics. Here is a sample of definitions:

"The processes by which two or more interdependent parties who do not have identical preferences across decision alternatives make joint decisions." (Max H. Bazerman and John S. Carroll)

"It seems best to define 'negotiation' as including all cases in which two or more parties are communicating, each for influencing the other's decision." (Roger Fisher)

"Negotiation includes cooperation and competition. Common and conflicting interests is nothing new. In fact it is typically understood that these elements are both present and can be disentangled." (David Lax and James Sebenius)

These definitions touch on each element type: negotiations and outcomes. In our account management experience, specifically in China, if you wish to be more effective, you need to be a good negotiator and know how to apply both elements.

Negotiation types

Identifying the negotiation type you are involved in often means the difference between a successful and poor outcome. Out of habit most people enter every negotiation the same way. This is not only time-consuming but counterproductive. Everyone is different. Every situation is different. So you should vary your approach to negotiating according to who you are dealing with and your desired outcomes. To make the process more productive and successful, you can choose from three negotiation types: quick, compromise and deliberate.

Quick

Use this approach when you need to negotiate in a hurry. The main consideration: You do not expect to do business again with that individual or organization in the near future. This approach can destroy relationships, and the immediate value is seen as the prize. Lax and Sebenius describe this as distributive negotiation, with each party competing for benefits for itself. Both buyer and seller take a position; neither is keen to move from it, and claiming value for one party necessarily deprives the other of the same value.

Compromise

This approach is commonly seen as an effective form of negotiation, as each side walks away from the table with some sort of deal. The relationship is preserved, and an outcome is achieved, often fairly quickly. In our work with companies around the world, we frequently see a suboptimal outcome from this approach. Nevertheless as pressure is applied to budgets and incentives, this negotiation type is becoming very popular.

Deliberate

This negotiation type is effective when you want to develop or maintain a lengthy relationship—when you realize the importance of a deal satisfying both parties. The main consideration is knowing that the business will be ongoing for months, years or even decades. This approach is most applicable to new China as you look at long-term contracts with your key global accounts. This means that you accept that the approach:

- Requires cooperation and relationship-building to reach an agreement
- Does not develop without much time and hard work
- Means moving forward, sideways, backward and back again

We have seen many deliberate negotiations turn into quick negotiations, then back again in hours. This process continues until agreement is finally reached. Just because you decide to adopt a deliberate style does not mean that the other side will see it the same way. Deciding which negotiation type to use is in direct proportion to the desired outcome. If you charge into a negotiation with the approach of "I know what I want, and I'm going to get it at all costs," then you can expect an outcome that reflects a lack of planning. When managing negotiations in China you must think carefully about the right negotiation type to use. If you want to manage the risks, then perhaps a deliberate negotiation would be appropriate. In it you can craft a creative agreement to manage risks for both parties. In contrast in a quick negotiation, you choose how to manage risks and ignore the other party's. In a quick negotiation, you rely on contract conditions to compel the other side to comply, no matter what the consequences for it.

In dealing with new China, if you're not already in business, how do you manage the opportunities there? If you want to quickly grab the opportunities, then perhaps the most appropriate negotiation is quick. You take what you can get as fast as you can. This has many risks; you may win in the short term but fail in the long term because you might not get another offer to negotiate. Or given the importance of the relationship in China, you could forego some of the value you may claim using the quick type and instead strategically use a compromise type to invest something in the relationship.

Outcome types

Outcomes vary with each negotiation type, and preparation is the key. Choosing your desired outcomes is as serious as choosing your negotiating type. Negotiators who have several predetermined possibilities as outcomes have more chance of getting what is wanted than negotiators who aim only for the right result. Aim high, yes, but spend time preparing more than one desired outcome. Without realizing that different outcomes exist it's difficult to know:

- Where to start negotiation
- When you've achieved the best outcome
- When to walk out of discussions. Sometimes to close the deal, the effort involved is not worth it.

Realistic

This is the best result: Both parties are satisfied by the transaction. You may see this from the quick, compromise or deliberate approach. Here we have the classic satisfaction of mutual benefits: Both sides feel they would like to do business again. This is the outcome you should strive for in every situation. Occasionally after a quick negotiation, both sides will have that successful feeling. However, this kind of outcome usually comes from the deliberate approach where both sides work together in a creative manner to achieve a realistic result.

Acceptable

As we move down the scale, outcomes start to more closely represent negotiation's quick approach. You should ask for a better deal. Suppliers are always keen to move a product or service—i.e., "It's better than nothing." It's an acceptable outcome. But in acceptable outcomes, you will get to the negotiation's end and feel that while the deal might be passable, you could have had a better conclusion. Don't waste time on such thoughts; they're entirely counterproductive.

Worst possible

In all negotiation types, you can face the worst possible outcome, but it is far more common when using the quick type. The worst possible outcome is something you can live with away from the table. For instance, in a retail store group, you may have your realistic outcome as each store using 100 percent of your point-of-sale software. Acceptable may be 83 percent of the stores using the software, and the worst possible outcome could be only 21 percent using your software. This means that anything below 21 percent would cause you to call a recess and if need be walk away. This is the worst possible outcome for both parties. If you use the deliberate negotiation type and get the worst possible outcome, it's usually because someone becomes emotionally involved in the process. We have seen companies lose hundreds of thousands of dollars due to managerial ego standing in the way of a good deal. Creative problem-solving doesn't stand a chance.

Much as you prefer not to think about it, this could happen to you. However, if you consider the worst possible outcome an option, then it is far easier to decide to say no and seek creative solutions. Planning for the worst possible outcome is vital because if you pass this point, the negotiation should stop. Remember: The worst possible outcome is still one you should be able to live with. Many negotiators invite the worst possible outcome because of their lack of planning. Would you believe that an astounding percentage of negotiators do their planning on the way to the negotiation? Then when their gamble fails and the worst possible outcome seems about to happen, they press the panic button, and the deal ends disastrously. Think carefully, think creatively, and think ahead.

The more rapidly the business environment changes and the bigger share of profits the customer contributes, the greater your need to become a creative negotiator. A simple way to be more creative is to list the negotiating issues, then for each decide three possible outcomes: realistic, acceptable and worst possible. What you have now is a table of possibilities. Armed with this you can start to negotiate by selecting one of the three outcomes for each issue. Then as you negotiate, simply change the outcome for at least two issues at a time. Simultaneously changing at least two prevents you being pressured to concede on just one issue—often price. In practice this means moving from worst possible toward realistic on some issues while at the same time moving from realistic to worst possible on others.

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Case study: opportunity in new China—the negotiation experience of entering the Chinese wind sector

Listed on the London Stock Exchange, The Morgan Crucible Co. plc is a world leader in advanced materials, with turnover of about 1,000 million pounds. Derek Nelson, chief executive officer of Asia, explains how internal negotiations were critical to taking advantage of an opportunity in new China: renewable energy. The Chinese government had announced wind turbine renewable energy targets of 10 to 15 gigawatts by 2010, with Chinese content of no less than 70 percent.

"By combining our advanced materials and technology in a majority-owned China business," Nelson says, "being Chinese and producing world-class Chinese products differentiates us from our competitors."

If Morgan Crucible wanted to participate in the growing wind sector, time was of the essence. The company had to manage two sets of internal negotiations. First, as the regional CEO it was critical for Nelson to understand the business case, market and required investment from a Chinese perspective. Second was negotiating internally with a Western-based publicly listed management team for the investment. The first internal negotiation was challenging due to him being a Westerner, having limited Mandarin capability and controlling his Chinese team's passion for funding. Initially the team's passion outweighed its business case. The first internal negotiation was about organizational structure, strategy, timelines and most importantly producing a world-class product. Over many serious discussions and dinners, Nelson and Co. arrived at an initial investment figure and developed a structured floor plan and product range that they believed would satisfy the current Chinese original equipment manufacturer specifications for wind turbines.

The next step was to build the business case for negotiating upward. This meant building it and gaining "air time" for immediate investment for an unbudgeted project with Morgan Crucible's global CEO. Working with the Chinese team and particularly with its Deputy General Manager Cao Jianming, the case was Westernized. It included investment in the first year for a working facility – producing power slip rings, brush gear and carbon brushes designed for the Chinese wind sector – all in just three months. Getting air time with the U.K.-based CEO and financial controller was straightforward. Ensuring that the financial modeling and support story were correct and understood by the controller prior to the CEO call was critical.

It took about an hour of negotiating on a conference call to gain approval for the investment. The CEO was supported by being given a story he could promote. A resonating story that stock markets want to hear is about a Western company investing in a low-cost base in a market with GDP growth over 10 percent year on year, once proven profitable growth in a developing market has been shown. Although totally unbudgeted, the initial investment was small enough to gain quick approval. Nelson finished the call armed with news that his funding was approved. The facility was up and running within three months. Morgan Crucible encouraged many existing customers entering or established in the wind sector to make a trial installation of the product. Success came quickly, with further investment the following year in testing and control facilities. After the initial investment, every month the company had sales of more than four times the investment with an increasing order book and plans for further investing, which testifies to the world-class product being produced.

"We could only take advantage of the opportunity in new China by managing two sets of internal negotiations," Nelson says.

Conclusion

In summary, before starting any negotiation, you must be clear on the negotiation type you are about to use with the other party. Have you determined the different outcomes? What is your walk-away point? Deciding which negotiating type is appropriate will ultimately depend on the situation's context. Your decision around type will be connected to the substantive issues and your relationship with the people in that negotiation. Our research and experience reveal that too often people don't put enough work into the way they prepare to manage their type and that of the other party. In our experience managers nod their heads and agree that managing and negotiating with all stakeholders is critical. However, when they internally negotiate, many simply do not prepare. Our case study shows the business benefit of preparing well for internal negotiations. Account managers will get better results for themselves, their customers and their business by preparing thoroughly for internal negotiations.

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Additional resources

For more information on this subject in SAMA's library, the editor recommends: Jeffrey Cochran and John Buelow, "Dealing with difficult customers: Part II—controlling and exploring," *Velocity*®, Vol. 11, No. 2, Spring 2009, www.strategicaccounts.org; and David G. Hartman, Atlee Valentine Pope and George F. Brown Jr., "Rules of three: managing major customer relationships involving China," *Velocity*®, Vol. 9, No. 4, Fall 2007, www.strategicaccounts.org.