



Home Builders Network
Making a difference in the housing industry

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Profit through Negotiation

*How to deal effectively with clients, employees,
subcontractors, and suppliers to achieve your goals.*

Presented by Al Trellis



Introduction

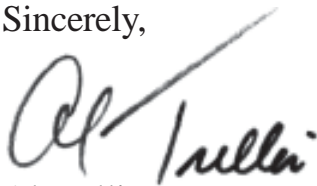
Negotiation is one of the most important tools in the builder's toolbox. Builders must negotiate effectively with potential buyers, with subcontractors and suppliers, with employees, and even with spouse and family.

Unfortunately not everyone is born a good negotiator. With a little training and practice, however, everyone can become more effective. It requires a knowledge of the process of negotiation, and of the techniques we use to persuade others to our point of view. It requires an understanding of human nature, and of the situation in which we find ourselves. What do we want? What does the other person want? What is the balance of power between the parties? Is there a zone of negotiation between the two positions? What are the obstacles to negotiation, and how can we overcome them?

By learning and applying negotiation skills, you will increase your financial success. You can also use those skills to increase customer satisfaction and employee productivity. As the saying goes, "You don't get what you deserve in life. You get what you negotiate."

I hope that this information helps you develop a more effective negotiating style, and increases your profits and success in life.

Sincerely,

A handwritten signature in black ink that reads "Al Trellis". The signature is written in a cursive style with a large, sweeping initial "A" and a long, thin stroke extending upwards and to the right.

Al Trellis

This handout material is a summary of information contained in *Profit Through Negotiation*, available from Home Builders Network. To find out more about this or other publications, call 800-823-4344, visit www.HBNnet.com, or email us at Mail@HBNnet.com.

What is Negotiation?

According to Webster's Dictionary, negotiation is the art of "conferring with another in order to come to terms or to reach an agreement. Confer is to **Communicate**. **Terms** are the conditions or stipulations that define the nature and limits of an agreement (such as price). And **Agreement** is a mutual consent. Without these three elements you're not negotiating, you're only making noise.

Four Kinds of Negotiation

There are four major types of negotiations, each with a different objective. These types are: Obtain more favorable terms, close a deal, make a point, and resolve a conflict.

Obtain more favorable terms

This is the most common concept of negotiation. We have made a decision to buy something and we are now attempting to obtain it at more favorable terms than those being offered. Example: You quote a price for a new house, and the prospective clients says, "Is that the best you can do?"

Close a deal

Negotiations to close a deal are different than just trying to obtain more favorable terms. In the first case, you are going to buy the product. The only question is at what price. In the second case, *whether you buy or not* depends on negotiating mutually acceptable terms. Example: A seller has a house for sale for \$195,000. The buyer offers \$180,000. Whether or not the deal is closed will depend on the negotiation, how much the buyer is willing to pay, how much the seller is willing to take, and whether or not the two parties are skillful enough to find some common ground between them.

Make a point

Very often we negotiate early in our relationships to make a point. Once this point is made it becomes a given when doing business for as long as you remain in a relationship with the other party. Example: You

order a house full of appliances from a new supplier. He tells you that the price is \$2,950 plus \$75 to deliver and uncrate. You say, "I have no problem with the price, but I don't pay delivery and uncrating charges." If the seller agrees to do this, you have now made a point through your negotiation and you will never have to pay the delivery charge with this supplier again.

Resolve a conflict

In a conflict resolution negotiation we are trying to give away as little as possible, and yet have the other person leave the negotiation happy. This will help our reputation, produce additional client referrals, etc. Conflict resolution is often the most difficult type of negotiation due to the emotional involvement of the parties.

Negotiating Opportunities

As a Buyer

- Buying land (controlling lots)
- Buying money (negotiating a loan)
- Buying labor (hiring subcontractors)
- Buying materials
- Buying tools, equipment

As a Seller

- Selling Land
- Selling houses (spec houses)
- Selling services (custom homes)
- Selling yourself (aways)

As a Conflict Resolver

- With clients
- With suppliers
- With subcontractors/employees
- With government officials
- With lenders
- With others

What do you want?

If you don't know what you want from the negotiation ahead of time, you probably won't get it. Negotiation isn't about winning for its own sake, but about getting what you want.

If you are negotiating a price, have a target price in mind, strive to attain it, and when you do, consider it a victory. Going for the last nickel time and time again will not enhance your reputation, and in the long run is a poor way to do business.

Know your bottom line

Before the negotiation starts, make a mental commitment to a price and don't go below it. If you're not willing to walk away from the table, you're not really negotiating, you're just haggling over price.

Analyze the alternatives if the negotiation fails

In determining your bottom line, you should think through the consequences of a failure to reach an agreement. Example: You are a spec builder in a mid-sized town. You build approximately twenty houses per year. You have five lots left, and you are negotiating for a piece of ground that will give you 54 lots. If the negotiation fails, you will be out of lots in three months. Therefore this is an important negotiation.

Know the consequences if you succeed

Many people go into a negotiation attempting to get a great deal and are sometimes unprepared when the deal goes through. Example: There is a beautiful piece of property for sale for \$400,000. You believe that the seller is distressed and you may be able to get it for a great price. You don't need the land right now, but would love to get it at a bargain price. You offer \$275,000. The question is: If the seller accepts, are you prepared to purchase now? Can you arrange financing?

The Negotiation Process

Negotiation is a process. It's about getting from point A to point B in a way that leaves both people (hopefully) at least partially satisfied. This process is exciting because we don't know exactly where point B is. So each of us is heading for a different place and trying to convince the other party into going to *our* destination. Most of the time, we end up in a place near where both of us wanted to go, and close enough that each of us calls it a successful journey.

Many negotiation experts focus on the techniques and tactics of negotiation. While it's important to know these techniques (especially to recognize when they're being used on you), it's more important to understand the process itself. This sometimes means violating the rules, based on your understanding of your needs, and the needs of the other party. This comes from the ability to listen, perceive a situation, and have empathy for the other party's goals and aspirations. Then you must take that knowledge and empathy and turn it into a course of action which blends your goals and the other party's goals and takes you to a place close to the one you're trying to reach.

The Negotiation Process

- Understand the process
 - Get from point A to point B
 - My B and your B are not always the same
- Know tactics/techniques/tricks
 - To know when they're being used on you
 - To use them for tactical advantage
- Know when to "break" the rules
- Importance of boldness and creativity

The Negotiation Environment

The negotiation process is never the same twice because each time it takes place in a different environment. No matter how well prepared you are, the circumstances and the context within which the negotiation takes place help determine whether the negotiation will proceed, and possibly the outcome itself. The three key factors effecting the negotiating environment are: **Power**, **Knowledge**, and the **Players**.

Power

- Time
- Desire
- Ability
- Need
- Competition

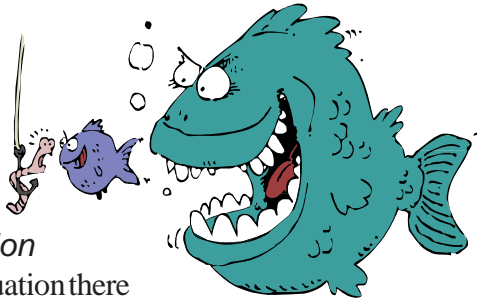
In any given situation there are circumstances which make you weaker or stronger. Among the factors which affect power are:

1) Time (how quickly you need it), 2) Money (do you have the resources available now), 3) Desire (how much you want it), 4) Need (how critical it is to your success), and 5) Competition (what are your alternative sources of supply).

Knowledge

- What do you know?
- What do they know?
- When do you reveal what you know?

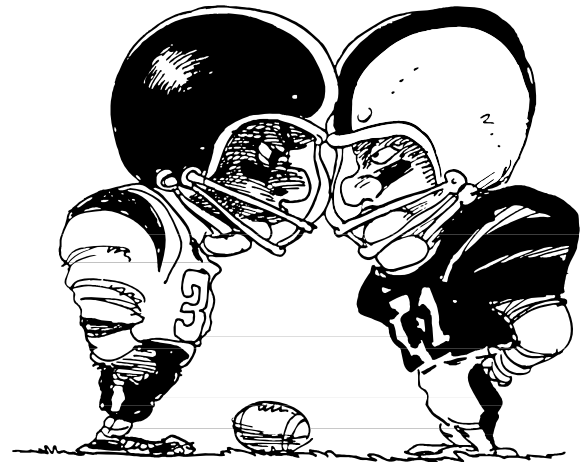
The old saying goes “knowledge is power.” Information, the source of knowledge, should be closely guarded and never given away gratuitously. The more you know about the other party and their needs, the better off you are.



Players

- Who has power?
- What does your opponent want?
- What is your opponent like?

How you negotiate and the strategies you use will vary not only with the strength of your position and the knowledge you possess, but also with the character and personality of the other party. Only a fool would use the same techniques and the same strategies every time, regardless of the people involved. Some people can be bluffed and some can't. One individual seeks fairness and another seeks victory. It is understanding these aspects of human nature affecting the negotiation environment which will lead you to success.



Only a fool will use the same game plan in each negotiation. Each negotiation is different than the one before it and you have to revise your tactics and strategy in order to meet this change.

Let's Make a Deal

The objective of most negotiations is to consummate a deal. DEAL is also an acronym for the negotiation process. The four steps in this process are:

- D Determine if negotiation is possible
- E Examine the goals of both parties
 - Evaluate strengths and weaknesses of both sides
- A Agreement by all Parties
- L Legal follow through

Determine if negotiation is possible

In order to negotiate successfully, there must be a zone of negotiation between the two parties. If such a zone does not appear to exist, the parties must create one. Example: The seller offers a house for \$195,000 and the buyer offers 180,000. If the seller will not, under any circumstances, take less than 186,000, and the buyer will not offer more than 184,000, there is no zone of negotiation. If the seller might accept 185,000 and the buyer might offer 185,000 a zone of negotiation exists. Since neither the seller nor the buyer knows in advance the other party's zone of negotiation, they must explore this as part of the negotiation process.

Examine the goals of both parties

Goals can be both short-term and long-term. Ask yourself, "What am I trying to achieve in this negotiation, and what is the other party attempting to achieve?" If this is a one-time negotiation with a supplier you will never use again, your goal may be to obtain the lowest possible price. If this is with a supplier with whom you've done business for twenty years,

you don't want to destroy a valuable relationship over a small amount of money. Sometimes long-term and short-term goals conflict. Then you have to make a hard choice: which is most important in the larger context of your business.

Evaluate Strengths and Weaknesses of both sides

Knowing the strengths and weaknesses of both parties will help you obtain the most favorable conditions possible.

Example: You finished framing a custom residence two weeks ago. Roof shingles have just been in-

Wouldn't it be nice if you were always the strongest party in every negotiation? Sorry!

stalled. The client complains that "the great room is not the way we thought it would be." We thought the roof would be higher and flat." You point out that the roof is built according to plans, although there is some debate about a hidden line in the section. To rebuild the walls and put on a taller roof will cost about \$6,000. What are your strengths and weaknesses?

Strengths: The plans are pretty clear that the roof is correct. The client waited two weeks, incurring additional expense. The client needs to move in on schedule.

Weaknesses: You want an on-going relationship with the client. You want the client for referral.





Remember that famous line: "I'm going to make you an offer you can't refuse."

Even if it appears that negotiation is not possible, always remember that you may be able to make it possible.

Agreement by all Parties

This is the stage during which the actual negotiations take place. Having determined what needs to be done, and having examined the goals, strengths and weaknesses of both parties, you now proceed through the process of negotiation. The ultimate objective is to reach an agreement. It is important that as the process proceeds, you constantly maintain your view of your original goals and make sure that the most important aspects of your objectives are incorporated into this final agreement. You don't have to win on every point, but you do need to win, or certainly not lose, on the important points.

Example: You just negotiated a \$220,000 custom home contract with a client. You give your standard contract to the client, who has it reviewed by his attorney. The lawyer proposes 23 changes, including a "completion bond." Not only are you unwilling to pay for the bond (about \$3,000) but in the past they have been very difficult to obtain. You explain this to the client but he is so nervous about "being stuck" that he won't budge. The deal may fall apart because of the "legal follow-through."

Treat the advice you get from your lawyer as you would treat advice from anyone else—it's just advice. The ultimate decision is up to you.

Legal follow through

After the agreement is reached, it is important that both parties summarize the highlights of the agreement and verbally agree to the terms. At this point, some type of legal document is usually prepared. This is a dangerous stage in the negotiating process, because attorneys may convince their clients that certain terms or stipulations are not in their best interest.

Resist any substantive changes to the agreement unless your attorney warns you of extremely dire consequences.



How to Improve Your Negotiation Skills

- Read and learn about negotiation
- Learn to be a good listener
- Practice both listening and negotiation
- Practice with spouse and business associates
- Analyze success and failure

Obstacles to Negotiation

One of the unfortunate realities of life is that we can't always get what we want. A common form of this frustration is when one party is anxious and willing to make a deal while the other is unwilling or unable to negotiate. Reasons can include personality conflicts, hidden agendas, and drastically different priorities.

Personality conflicts

Two people just don't get along. For whatever reason, the chemistry between the parties makes negotiation difficult, if not impossible. There are three ways to deal with this problem, all beginning with the letter S. They are: **S**uck it up, **S**ubstitute, and **S**ay Goodbye.



Suck it Up. There may be a personality conflict between the two parties, but you decide to live with it, and negotiate in good faith. The danger is that at some point you just may be unable to deal with it any more, with the resultant explosion causing the process to break down completely.

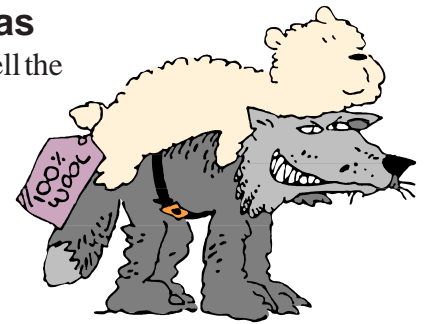
Substitute. Upon realizing that a personality conflict exists you can substitute a representative to act for you in the negotiations. The substitute can be a business associate, attorney, accountant, spouse or anyone you feel comfortable acting as your agent.

Say Goodbye. Sometimes the conflict is so great that you are unwilling to negotiate. In these situations the best alternative is to leave the table. You can do this in two ways. You can lay your final offer on the table and say, "If you're interested, call me," and then leave. The second way is to tell them "I wouldn't want to deal with you if you were the last person on earth."

The first way can lead to acceptance if the final offer is more acceptable to him than he pretends. The second way is guaranteed to end the negotiation. Aside from the satisfaction, there's no benefit to your walking away and telling the other party what a jerk he is. He won't believe you anyway!

Hidden Agendas

People don't always tell the whole truth during negotiations. You may negotiate in good faith only to discover that the other party has a secret or hidden agenda. For example,

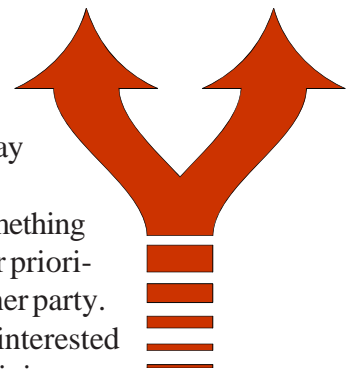


the other party may not be serious or ready to close a deal. Perhaps they're negotiating with a third party, and are using you as a bargaining chip. Or suppose that they promised they would do something, but are just going through the motions. A husband might have promised his wife they would buy a new house, so they spend Sunday afternoons looking at houses and talking to agents, when in reality he has no intention of buying a house. Instead, he'll find problems and flaws with each property and negotiate only for show.

Drastically Different Priorities

Often a negotiation will go nowhere because one party is acting under severe time constraints while the other has all the time in the world. Because of these different priorities, a deal may not be possible.

Sometimes we want something so badly that we project our priorities and desires onto the other party. We assume they are just as interested in negotiating as we are. This is a dangerous habit. Learn to objectively evaluate the other person's priorities. One of the most fascinating aspects of the negotiation process is the lack of total knowledge by each side of the other's needs, desires and perceptions. Thus every buyer and seller is never really certain of where the negotiation stands at a particular instant.



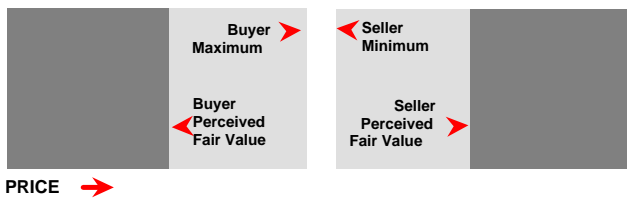
The Zone of Negotiation

Take the case shown below.

Case 1: No Zone of Negotiation

In this case the buyer is willing to pay more than his perceived fair value (need? desire?) and the seller is willing to take less than his perceived fair value (anxious? pressured?). Yet, unless something changes there is no zone of negotiation, because there is no overlap between these two numbers.

CASE 1 - NO ZONE OF NEGOTIATION



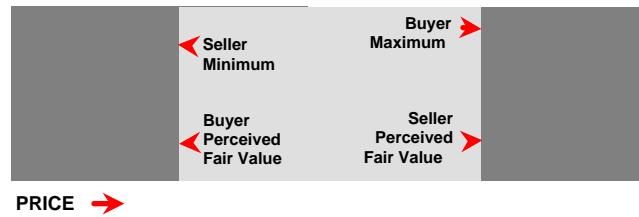
Case 2: Small Zone of Negotiation

Here a small zone of negotiation exists as the buyer's maximum and the seller's minimum have a small overlap. Even though a zone of negotiation exists, good communication will be required to make this negotiation happen.

Case 3. Large Zone of Negotiation

Here we have an almost optimal situation. The maximum the buyer is willing to pay is equal to what the seller would love to get, and the minimum to seller is willing to take is equal to what the buyer perceives is a

CASE 3 - LARGE ZONE OF NEGOTIATION

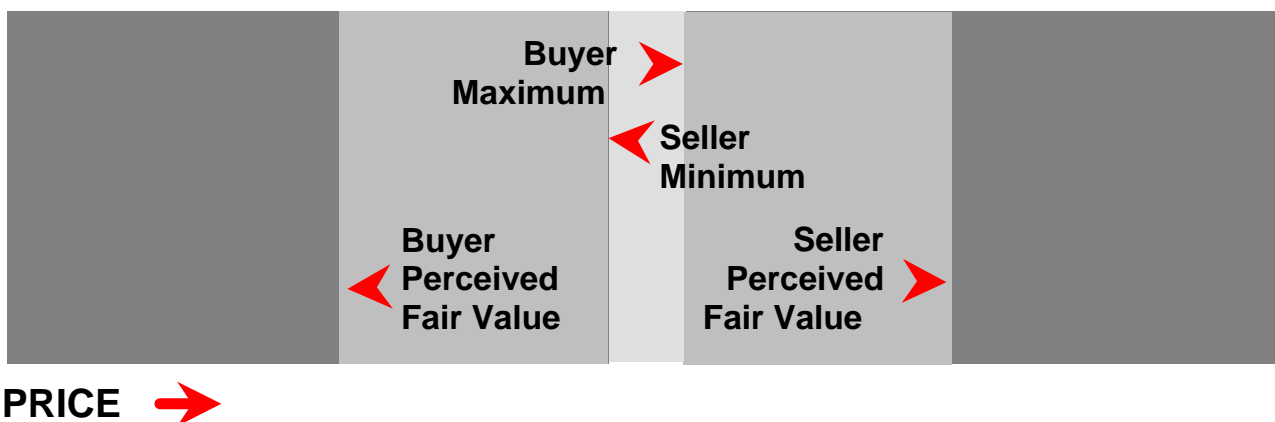


fair value for the product. This is case in which all but the most incompetent will be able to strike a deal. Yet even a case such as this can fall apart due to non-monetary considerations such as personality conflicts or drastically different priorities.

Since most situations are more similar to Case I or II than Case III, negotiation skills are involved. These skills may require not only searching out the buyer's top and the seller's bottom, but, as in Case I, may also require additional steps to create a zone of negotiation. If there is no overlap, or either party believes no such overlap exists, you must create a range of negotiation.

If no range of negotiation exists, the parties must create one. Typically, this happens when one or both of the parties adjusts his perception of an acceptable price due to changes in other variables such as product, terms, timing, or other considerations. This approach of modifying the acceptable price works because the price is only one variable of perceived value.

CASE 2 - SMALL ZONE OF NEGOTIATION



Creating a Range of Negotiation

Change the product.

One of the best ways to create a range of negotiation and bridge a price gap between buyer and seller is by changing the product being purchased. Most frequently this involves the addition or deletion of some accessory or attribute. Example: A spec house is for sale at \$169,000. After much negotiation, the buyer wants to pay no more than \$164,000 and the seller wants to take no less than \$165,000. At this point, the seller offers to modify the product by offering to add the \$2,000 deck and sell the house for \$166,000. Since the deck only costs \$1,000 to build, this results in the seller getting \$165,000 (\$166,000 - \$1,000 deck) and the buyer getting the \$164,000 price he wanted (\$164,000 + deck). Both sides are satisfied because of the difference in the perceived value of the item being added to the product.

Modify the terms

Generally “terms” refers to those monetary considerations involved in the transaction other than the price itself. They include financing arrangements, deposits, discounts for prompt payment, etc. For large purchases, such as land or a finished house, terms become an increasingly important factor. Buyers often prefer builders whose prices may be slightly higher, if they are offering better financing arrangements which result

in a lower monthly payment. Example: A seller with deep pockets is offering a large piece of land for \$600,000. You only want to pay \$500,000 and the negotiation is stuck at \$575,000 from the seller and \$525,000 from you. At this point, the seller states that for prime plus 2% he will hold 80% financing for four years. Since this will not encumber your credit line at the bank, it will enable you to do this deal and another one. The \$50,000 price difference is now much less important since you will be able to make money on two deals, rather than one.

Adjust the Timing

Being able to purchase or deliver at the times requested by the other party gives a tremendous strength to your position. Since this is such a valuable card to play, it should be kept well-concealed until the appropriate time. Use this ability to either obtain a better price or help break a price deadlock.

Vary Other Considerations

You can vary other considerations such as quantity purchased, purchase of additional services or merchandise, referrals to other purchasers, providing additional services, or provide new information or a change in the situation.

Creating a Range of Negotiation

To raise the value of the Product (Seller)

- Offer lower down payment
- Offer lower interest rate on financing
- Extend length of financing
- Be capable of immediate delivery
- Be able to dispel an anxious buyer's fears
- Offer mid to long range contract
- Pricing protection
- Mention other offers
- Add features or accessories
- Add services or warranties
- Say something positive about the product which the buyer didn't know

To Lower the Value of the Product (Buyer)

- Offer cash
- Allow the seller to deliver at his convenience
- Allow seller to direct ship from his supplier
- Be ready to buy or settle immediately
- Offer to refer other customers
- Offer to sign a long-term or volume contract
- Offer to buy additional merchandise
- Mention alternative suppliers or products
- Delete unneeded features
- Buy with minimal service or warranties
- Make the seller aware of your knowledge of a fault or weakness in the product

Power and How to Use It

Circumstances, perhaps beyond your control, will strengthen or weaken your position. When power is on our side, we must guard against becoming abusive or overbearing. We must remember our manners and hold on to some humility, remembering how quickly conditions can change. A good negotiator also understands that sometimes you are dealt a less than powerful hand, and you have to play it as best you can. This means:

- Maximize whatever strengths you have.
- Minimize your known weaknesses.
- Hide your secret weaknesses from the other party.
- Understand, to the extent possible, the other side's strengths.
- Find out as much as you can about the other side's weaknesses.
- Know your priorities. Realize that when you're the weaker party, you may be only able to obtain your highest priority items.

Who has the Power?

Things that make your position strong

- *No need to consummate quickly*
- *No carrying cost on land or spec house*
- *Backlog of work*
- *Unique Product*
- *Good cash flow*
- *Ability to act or deliver*
- *Good reputation*
- *Good planning*

Things that make your position weak

- *Carrying existing house or land*
- *Not enough work*
- *Common product*
- *Poor cash flow*
- *Actions contingent on other transactions*
- *No reputation, or poor reputation*
- *Poor planning*



The Act of Negotiation

After understanding what negotiation is, learning about power and determining the zone of negotiation, you still have to work through the negotiation process. This means knowing what you want, understanding the techniques of negotiation, and successfully using those techniques in a planned campaign designed to communicate, convince, and consummate the deal.

Preparation

Being prepared is the heart of becoming a good negotiator. The negotiator who is better prepared will always have a significant advantage over the unprepared or shoot-from-the-hip negotiator.

Know what you want before you start

This involves setting priorities for your objectives and knowing the bottom line for each deal. It does no good to win major concessions on unimportant points if you're unable to get the key concessions you need to make a project viable.

Set your bottom line.

Price – What price are you looking for?

What price are you willing to accept?

Terms – rate/length/discrepancy

Safety/escape provisions

Ongoing relationship factors

Set strategies - what are you willing to give up to reach your goals?

Set priorities – Which goal is most important?

What do you give up first?

Set alternatives – if you can't reach an agreement – then what?

Know yourself – your strengths, weaknesses, your goals and priorities.

Know the other party – their needs, their strengths and weaknesses, their likely agenda.

Remember, knowledge is power.

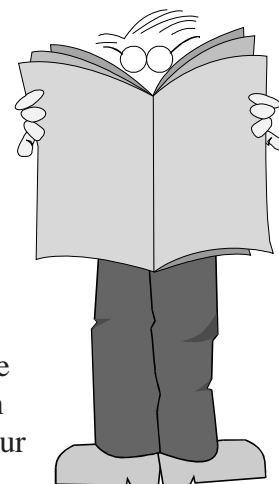
Be prepared physically

Get plenty of rest the night before, don't negotiate after a big meal, and don't negotiate immediately after a long trip.

Be prepared emotionally

Have a positive attitude. Be prepared, and know it.

Believe in yourself, your abilities, and your positions.



Be prepared intellectually

Do your homework. Eliminate as much uncertainty as you can ahead of time. And prepare your evidence and props to support your position. Props are best used

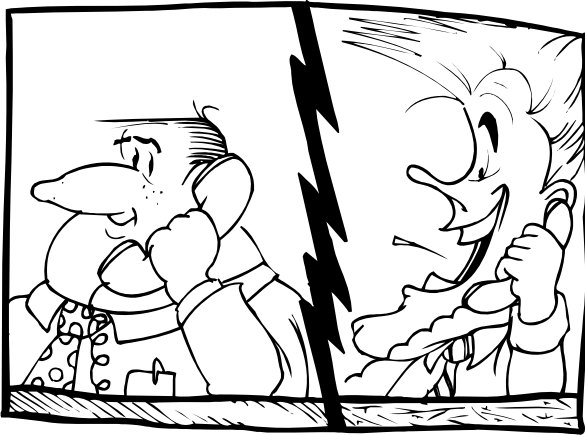
with a sense of timing. In all negotiations, there are critical points where the use of these devices can be maximized to close the deal, deliver an ultimatum, or seriously weaken the other side's argument. Example: When the buyer says "I'll pay \$220,000 and that's it," you pull out the prop – comps of the last three houses sold in the subdivision. Then you say, "The last three houses in here sold for \$228,000, \$230,000 and \$229,000. \$227,000 is a very fair price, but if you're willing to close in 75 days when the house is finished, I'll bend over backwards and let it go for \$225,000."

Note the concessionary attitude, along with a sound business reason for the reduction (close when the house is finished). **When you hit someone aside the head with a 2x4 to get their attention, make sure you give them an aspirin for the headache.**

Typical Evidence and Props: Engineering report, comparative sales figures, calculation sheets, research reports, appraisal report, letter of credit, letter of authorization, inquiries for other buyer or seller, offer from other buyer or seller.

Don't be afraid to ask

If there's a single rule for negotiating, it would have to be "Don't be afraid to ask." I am constantly amazed by how often you can obtain what you want simply by asking, yet many times people are afraid or embarrassed to ask. It never hurts. The worst that happens



is that you will receive "no" for an answer. Example: You go to a furniture store to purchase a room full of furniture. You would like to get deferred billing, but that offer was made in a sale that ended a month ago. Just say, "By the way, I would like the same deferred billing terms that you had in your big sale a month ago." Nine times out of ten, you'll be told "certainly." The tenth time, if you are refused you begin a mini-negotiation. "That's okay. I'll just delay my purchase. Call me when the terms are available."

Maximize your strengths

As you enter a negotiation, you should know the issues that make you strong in this particular negotiating environment. Then play those strengths at the appropriate moments. If you say at the beginning of the negotiation process, "I'm ready to buy today," it's not as effective at that point as it would be at a critical juncture of the negotiation. Wait until the negotiation is almost concluded and then say, "IF you can agree to these terms, I'll pay you cash right now."

Downplay the other party's strengths

The way to minimize the other's strengths is to act as if they are unimportant to you. If the seller is in no hurry to conclude a transaction, indicate that you also have lots of time.

Keep your emotions out of the negotiations

If you become overly involved emotionally, you're putting yourself at a severe disadvantage. No matter how much the other person upsets you, you can't afford to show it. If you are going to throw a temper tantrum, do it for effect, and be prepared to walk away from the negotiation.

Keep your ego out of the negotiations

One of the greatest closing tools which can be used against you is to get you involved to the point where you feel that you "must move forward" because your ego will not allow you to stop or retreat. I believe that more bad deals have been made because of ego than any other factor (except possibly greed). The secret to keeping your ego out of the negotiation process is knowing who you are, being comfortable with yourself, and being confident in your abilities. When the other party says "Someone like you can afford the extra \$100," don't bite. \$100 is \$100 and a good negotiator shouldn't give it up just because someone plays to their ego.



Don't lose sight of the big picture

Throughout the negotiation process, nothing is more important than maintaining your perspective. Don't get lost in the details of the negotiation and forget about your critical priorities. It does no good to win 98 points out 100, if the two you lose are the two that keep you from accomplishing your objectives. The big picture is really the only one that matters.

Tips, Tactics, and Techniques

1. Win/win vs. Win/lose

Most negotiations are about win/lose. You want to get as much as you can, and pay as little as possible. The other party has exactly the opposite objective. It's all about dividing the pie. The more you get, the less the other party gets. Some negotiations, however are about win/win. These negotiations are about mutual benefit—how you can make the pie larger. Whenever you can, convert win/lose to win/win negotiations.

2. Probing vs. Forcefulness

There are two ways to communicate during the negotiation. Of these, probing is more gentle, and usually more effective. In addition, probing is used to solicit information you need about their agendas, and needs. This information puts you in a much stronger negotiating position, and also creates an atmosphere of cooperation. For example: “How do you think it would work if...”, or “Perhaps you could give me your input on...”

If the other party is taking a hard line approach, you can use this against them. Tell them that you're trying to be fair and reasonable, etc. but you don't understand why he's being so intransigent in the negotiation process. Don't let them mistake a probing approach for weakness. If hard-nosed is the only style they understand, then get hard-nosed.

3. Time (deadlines, delays)

Having to make a deal by a certain date can be a weakness. If you know the other party's deadlines, you can delay the final decisions until just before that time. Then say, “Everything is resolved, and we can close by next Thursday (deadline) if we can just reduce the price by \$25,000.”

4. Authority (the boss wouldn't agree)

If at all possible, you should negotiate only with people in a decision making capacity. It's a waste of your time to reach an agreement, and then have the other

person say that they have to run it by their boss. On the other hand, one way of saying no without being the bad guy is to tell them that you know your boss wouldn't agree. If you are the boss, use your partner, banker, accountant, or spouse as the bad guy.

5. Detours

When you reach a deadlock in the negotiation, move on to another issue. Repeat this process as many times as necessary until you create a foundation of items on which both parties agree. This helps create a positive attitude during the negotiation. Even if you have quite a few things to resolve you can say, “We've come a long way, and now we only have these last ten items to resolve.”

6. Investment (time, energy, status)

This technique works to the extent that people's time has value. If they have spent a lot of time working on an agreement, they hate to have all the time go to waste. Be careful about it being used against you. A bad deal is a bad deal, and it's better to walk away with only your time wasted, than to agree to something you will later regret.

7. Deliberate Misunderstanding

One of the most significant phrases in negotiation is “Oh, I didn't understand that.” Sometimes the misunderstanding is sincere, and sometimes it's an attempt to re-open some item in the negotiation that you believed to be resolved. But the technique works both ways.

8. Broken Record

If you don't get what you want the first time, simply repeat your position. Nothing says you have to change your position just because the other person did.

9. Concessions

There is a fine art to making concessions in a negotiation. Studies have shown that whoever makes the first concession typically ends up on the short end of the

stick, in terms of the final price. The way around that is to make a concession without appearing to, and give a sound business reason for the concession. For example, if they want you to lower your price (and you are willing to) give them a reason so it doesn't appear to be a concession. *Example: "We're already building one house in this subdivision. If we can build another at the same time, we could save on coordination costs. If we can begin construction within 90 days, I can reduce the cost by \$4,000."*

10. The conditional promise

Concessions can be powerful negotiating tools. When you give something away, expect something in return. Instead of just agreeing to their request, make your agreement conditional upon their agreeing to something you want. Or use it to close the sale. For example "IF I agree to your condition, would you settle within 90 days?"

11. Give up something you don't care about to get something you want

Suppose you have a \$4,000 difference in price. You don't want to lower your price because it would be reflected on comparables, and influence future negotiations and appraisals. You offer to add on the optional deck (\$2,000) at no charge if they agree to the price. Since the deck only costs you \$1,000 to build, you have effectively gotten \$3,000 of the \$4,000.

12. Splitting the difference

If you're the first one to offer to split the difference, it creates a new level from which the other party may not resplit the difference. If you are at 200, and the other party is at 180, and you say "Let's split the difference and make it 190" he can counter offer by splitting again to 195. If you feel you MUST offer to split the difference say it this way, "If I were to offer to meet you halfway, would you meet me there." If they refuse, ask "where would you meet me?" Either way, you have precluded them from splitting again.

13. Be willing to walk

There are times in many negotiations when the refusal to negotiate further is the only way to reach an agreement. Like in poker, you sometimes have to call their bluff to win. Unless you're willing to walk away from the table (bottom line) you're really not negotiating – you're just haggling over price.

14. Point out their tactics

When you find the other party using unfair tactics against you (appeals to ego, bait and switch, hidden agendas) call it to their attention. Give them the benefit of the doubt and don't attack them personally, just point out their behavior. This puts them on notice, and nullifies the affect of the tactic.

15. Good cop/Bad cop

Sometimes you can double-team negotiations and have a good guy, bad guy situation. One of your team is hard-nosed and difficult. The other appears to be nice and conciliatory, but uses the bad guy to keep from making concessions, and to keep the other party off guard.



Overcoming Objections

Overcoming objections is a common form of negotiation to remove barriers to agreement.

The Three Types of Objections

There are three types of objections: logical, emotional, and rule based. Sometimes one or more types are mixed together. Each of these types of objections must be dealt with differently. You can almost never overcome an emotional objection with logic, and rarely will a logical objection fall to pure emotion.

Logical: Use professionalism, props, evidence, and facts to overcome this type of objection.

Emotional: Use emotion to counter emotion. Overcome one fear with a greater fear, or with a different emotion such as concern about others.

Rule based: Find an exception to the rule, or a way of having the rule waived. Appeal to a sense of fairness.

The Value of Objections

The one word that most salesmen are afraid of is the word “NO.” In the area of overcoming objections, however, *no* does not mean NO. “NO” is simply the statement of an objection. It means “I’m not comfortable with this.” It means “I need more information before I can go ahead.” But it is very helpful, because it tells you *specifically* what information they need. There are four steps in overcoming objections. They are: Validate, Interrogate, Sublimate, and Accentuate. They spell the word **VISA** – your passport to overcoming objections.

1. Validate

Acknowledge the objection. Tell them, “I understand how you feel,” or “That’s a very good objection.”

2. Interrogate

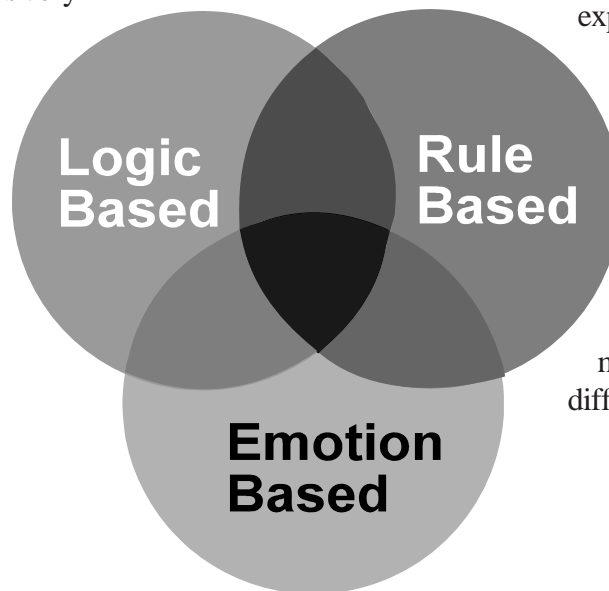
Make sure you understand the objection. Objections are sometimes tricky. They can be emotional objections masquerading as a logical objection. Or vice-versa. Ask reflective questions. If they object that the price is too high, reflect back the objection. “The price is too high?” Then keep quiet and let them explain. Don’t negate their objection until you are certain you fully understand it.

3. Sublimate

Put the objection in context. For example, if price is the objection, reframe the cost in terms of the total value of the home. “Yes, this house is a little more expensive than the other one. But look at what you get for that small increase in price.” Or reframe in terms of time costs. “This house costs \$5,000 more. But that means that your payments are only an additional \$45.00 per month. Can you afford \$45 to get what you really want?”

4. Accentuate

Sell the benefits again. Stress your expertise, professionalism, experience and quality control. Show how you really save them money in the long run. “Yes, our homes may cost a little more than our competition. But, when you compare quality and service, we are more than worth the small difference in price.”



AI's Ten Rules for Negotiation

1. Never be afraid to ask.

You'll never get more than you ask for, only less. But if you ask, you might get what you want. The worst they can say is "no."

2. Know what you want.

Set goals – why are you negotiating?

Price – What price are you looking for?

What price are you willing to accept?

Terms – rate/length/discrepancy

Safety/escape provisions

Ongoing relationship factors

Set strategies – what are you willing to give up to reach your goals?

Set priorities – Which goal is most important? What do you give up first?

Set alternatives – if you can't reach an agreement - then what?



3. Be prepared.

Know yourself – your strengths, weaknesses, your goals and priorities.

Know the other party – their needs, their strengths and weaknesses, their likely agenda. Remember, knowledge is power.

Be prepared physically. Get plenty of rest the night before, don't negotiate after a big meal, and don't negotiate immediately after a long trip.



Be prepared emotionally. Have a positive attitude. Be prepared, and know it. Believe in yourself, your abilities, and your positions.

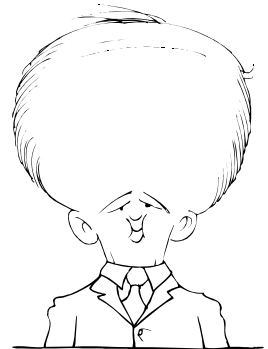
Be prepared intellectually. Do your homework. Eliminate as much uncertainty as you can ahead of time.

4. Keep Your emotions and ego out of the negotiation.

Negotiation is not about being popular. Don't let your need to be liked interfere with your ability to negotiate a good deal. However, you can use the other person's need to be liked as an effective negotiating tool.

If you're never going to work with the other party again, then it's okay to play hard ball. Many negotiations are "one-time affairs."

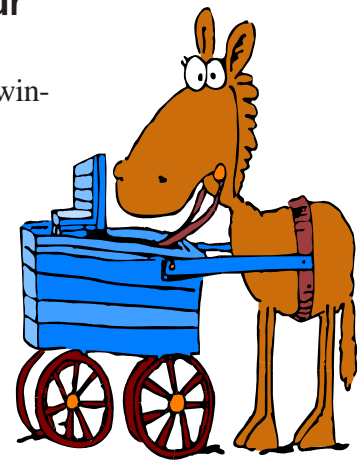
No matter what happens, you can't afford to become upset. The negotiation is not about you - it's about achieving your goals. On the other hand, don't be afraid to use the other party's ego or emotions as a negotiation tool.



5. Focus on your priorities.

Negotiation isn't about "winning." It is about getting what you want. Don't let your enthusiasm for negotiation get you into a bad deal. Don't let your enthusiasm for negotiation kill a good deal. Know when to stop negotiating and start closing. If you can get what you want without negotiating, take it.

Remember to keep the big picture and focus on your priorities.



6. Negotiation is about power.

You often have more power than you think you have. Examine the things that give you power - good cash flow, backlog of work, multiple offers, and use them in your negotiation. Minimize your opponents strengths, by acting as if they weren't that important to you. Power is also about "turf."



It is usually to your advantage to negotiate on your own turf. Negotiating over the phone is usually not a good idea. You lose important non-verbal communication cues. In addition, unless you make the call, you may not be prepared for the negotiation.

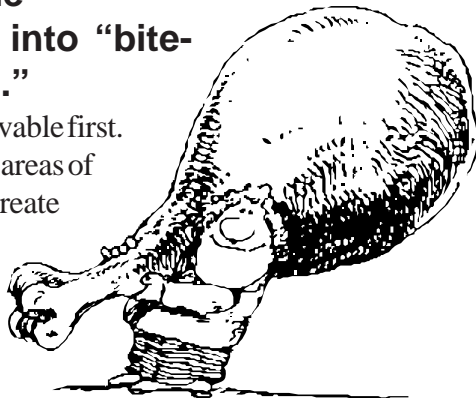
7. Be willing to take a risk.

If you're not willing to walk away from the table, you're not really negotiating. You're just haggling. Like everything in life, risk and reward are directly related. As in all risk, however, you need to understand what the risks are, and what the likelihood is that you will be successful. Most importantly you need to be able to survive a failure.



8. Break the negotiation into "bite-size pieces."

Resolve the resolvable first. By making small areas of agreement, you create momentum which encourages future agreements. This also creates an investment of time for the other party. They may not be willing to walk away from the negotiation and lose their investment of time.



9. Never be the first to split the difference.

In almost any negotiation, the person to go first is at a disadvantage. The other person can then offer to split the remaining difference, and you end up somewhere less than halfway. If you feel that someone must go first, and it has to be you, here's how to go about it: say "If I were to offer to split the difference, would you meet me there?" If they accept, this precludes them from splitting again. If they don't accept, ask "Where would you meet me?" You've now gotten them to split the difference, although not halfway.

The other strategy is to offer to split less than half. Offer 1/3 of the difference. If the other person splits the remaining difference and you continue to offer 1/3 less each time, you end up near the middle.

10. Support your position.

Props and evidence can be powerful factors in supporting and defending your position. If you have outside verification of your position, you are in a stronger bargaining position. You can also use them to alleviate uncertainty in the mind of the other person. This way, it's not just your word. Give them a reason to believe you. Typical Props: Engineering reports, comparative sales figures, appraisal, research report, letter of credit, letter of authorization, calculation sheets, offers or inquiries from other buyers of sellers.

