

Negotiation Skills

Lesson 1: Negotiation Skills – Definitions and uses (1283 words)

Introduction

Hello and welcome to this lesson entitled Negotiating Skills- Definitions and Uses

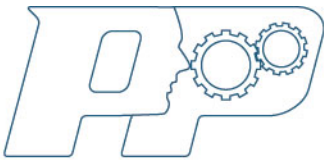
Negotiations are a central part to the way we live. From getting children to complete their homework and chores to securing bank loans; from agreeing the family holiday to getting a pay increase at work we all get involved in negotiations.

In this lesson we will examine what a negotiation is and look at examples of where negotiations are used in business.

Negotiations may be defined as [formal](#) discussions between parties who have different [aims](#) or [intentions](#), during which they [try](#) to [reach](#) an agreement that is acceptable to the parties.

Negotiation is a method by which people settle differences. It is a process by which compromise or agreement is reached while avoiding argument and dispute.

If people negotiate with each other or negotiate an agreement, they talk about a problem or a situation in order to solve the problem or complete the arrangement.



Let's now look at some examples of where negotiations take place in the business sense.

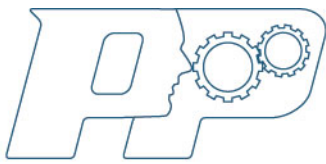
Company procurement of product or service:

Companies will buy raw materials from suppliers to manufacture products. Companies will require services from utility companies. They will hire transport for the delivery of their products.

They will procure machinery, facilities and infrastructure. They may look for machinery service, maintenance contracts for facilities, and computer services.

These companies will negotiate with the suppliers on:

- Specification of product – Is the product bespoke in which case we supply, drawings and specifications or is it a specific model number of the supplier?
- Scope of service –
What service do we require, how often, and how do we measure the success of this service?
- Cost of product or service
What is the cost of the product including taxes? What are the payment terms? What is the currency used? Will this cost remain the same or can it vary?
- Day rate costs for service
What is the day rate for service? Does this rate vary for different levels of service/expertise? Will this rate remain constant over the contract life?
- Out of normal hours costing for service
What is the cost for call in of service outside of normal hours? Does this rate vary for different hours?
- Delivery schedule for product or service.
What is the lead time for delivery? Do we pay extra for delivery?
What is the agreed response time to call for service?



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- Quality of product / service

What is our agreed way of measuring quality of supply of product or service?

What constitutes a non- conforming product / service? How will this be handled? How quickly will new product be supplied?

- Ongoing support / replacement

What are the warranty terms? Can the supplier offer ongoing support?

Will the supplier replace this product after a set amount of time? Are there paths for migration to newer models of product?

Can the supplier offer maintenance contracts?

The output of these negotiations may take the form of contracts for supply, service level agreements or purchase orders.

Sale of Product or Service to Customer:

If we are negotiating as the supplier of product or service we may wish to negotiate on a number of areas:

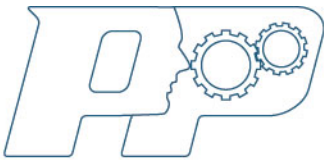
- Price - Fixing of price based on inflation, currency changes, material cost changes, and manpower cost changes. What is the cost for fixing on price?

- Volume of Supply:

- Can we build in increases in volume of supply? Can we build in sole supply to this customer?

- Auxiliary Product Supply:

- Can we on the back of this sale negotiate the supply of other associated products?



- Can we on the back of this sale look to supply sister companies or associates?
- Can we sell maintenance and ongoing support also?
- Quality of Supply:
- Can we build in bonus payments for quality of supply, savings in customer costs or winning sales?

Reaching management agreements on strategy, projects, and budgets:

The management or leadership teams within companies are constantly negotiating among themselves on how to best move the business forward.

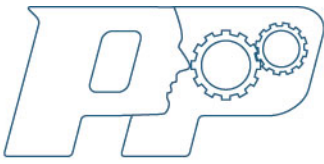
Company goals are adjusted year on year based on business priorities.

The company will ask what are the key strategies that will best move the business forward based on minimising the risk of internal and external factors and best using the resources available.

The managers or directors with a clear and logical argument who present their ideas coherently will have a major impact on goals and company strategy.

As company resources are finite, major capital projects will be examined with a view- what gives the best financial return? What is the best fit to the company strategy? What has the best chance of success?

Likewise operating budgets will be examined and budget heads will have to justify reasons for increases and any over runs. This will require good data and analysis on the part of the manager so that confidence can be given that budgets are being controlled.



Allocation of internal resources:

Managers on companies will often be negotiating on the people resources to run the business.

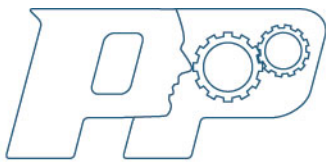
Difficult questions may be asked such as:

- Can this department run with less people?
- Can we reduce headcount?
- Are there efficiencies to be had in combining groups?
- Can work be automated?
- Can elements of work be eliminated?

Managers may wish to arm themselves with information to allow better negotiation. This may take the form of:

- Information on headcounts for similar work from other companies or regions.
- Information on previous efficiency improvement projects carried out.
- Performance metrics of teams.
- Key resource recruitment needs

Managers may also be asked to allocate resources to company projects which will require time away from the normal day job. This again may require negotiation as to what effect this will have on the department and what risk is acceptable.



Recruitment and contract negotiation:

One of the most common forms of negotiation in a company is when a person is being recruited. In this sales negotiation, the potential recruit is looking to convince the company that the product that he/she brings is the best.

To do this he/she will look at the details of the job specification and detail out what experiences they have that proves these required competencies were shown. Once again the key to convincing the company is exhibiting good communication skills

If the company wishes to buy this product, then the recruit may be able to negotiate items within their contract e.g. salary, bonus payment and benefits.

In some cases the company will have to build a very attractive picture of the company and the position to get its preferred candidate on board.

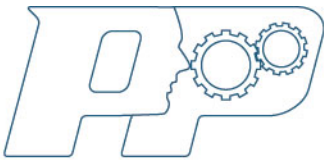
Managing change to work contracts:

In a lot of companies, contracts with employees may be agreed at union level or with worker representatives.

In these cases changes to these contracts may have to be negotiated.

Some of the items that are negotiated include:

- Rates of pay, overtime rates, call in rates.
- Team numbers, Shift patterns and allowances.
- Type of work covered e.g. use of machines, automation, reporting.
- Productivity improvements.
- Location of employees e.g. change of work area.
- Implementation of changes to employment law.



Worker representatives may also wish to negotiate in:

- Security of employment
- Training and development opportunities.
- New grading for changes of work practise.
- Flexible working initiatives.

Often the backdrop for negotiation will depend on the business setting. For example negotiations on company rationalisation and potential redundancies are very different to negotiations on company expansion.

Summary:

In this lesson we examined what a negotiation is and looked at examples of where negotiations are used in business.