Teams Excel

Presents

Skills, Tools, and Habits for

Strategic Negotiators

An eBook by Mke Palmer

About The Book

This book is a slightly edited version of my online course, ***Negotiation for Entrepreneurs****.*

Like the course, the book covers the basic knowledge and skills you need to

- have a shared understanding of the relevant **facts**,
- **communicate** effectively,
- grow **relationships** of mutual trust and respect,
- uncover each party's **interests**,
- develop **options** that work for both sides,
- understand each party's best **walkaway alternative**, and
- make **commitments** each party can keep.

The course and book will help you get the skills you need to craft wise, no-waste agreements that are better for all parties than their walkaway alternatives.

By using these skills, you can help others help you get what ***you*** really want.

About the Author

For more than 30 years, Mike Palmer has used the principles shared in this book to make deals, develop great business relationships, and resolve disputes with good outcomes for all. Since learning the basics of strategic negotiation from Roger Fisher at Harvard in 1992, he has trained corporate clients, students, lawyers, and mediators in workshops and college courses, invented software to assist with assessing the financial value and risk of lawsuits, spoken at international conferences, and published articles and books on the strategic negotiation, including *Win Before Trial: What Lawyers and Clients Must Know to Get the Best Outcomes Possible*. He holds a Dr. Phil. degree *magna cum laude* from the Freie Universität in Berlin and a J.D. degree *magna cum laude* from Georgetown University.

To take part in a free exchange of tips and advice on negotiation issues, send an email to info@teamsexcel.com to sign up for ***Mike's Monthly Meeting***.

The Startup Negotiator

How to Help Others Help <u>You</u> Get What You Really Want

By Michael Palmer

ISBN 13: _____________

ISBN 10: ____________

Printed in the United States of America

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STRATEGIC NEGOTIATION

Chapter 1: Introduction

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Holly Sampson grows tomatoes. One year Holly had a bumper crop and could not even give away what her family didn't need. So Holly made up jars and jars of salsa.

She gave most of the salsa to friends and family. They raved about how good it was. "There's nothing like this for sale," they said. "You should start a business and sell this."

After some initial hesitation, Holly took the plunge and registered Holly's Jolly Salsa with the Secretary of State.

Holly was in business.

But soon Holly found out that making a salsa business is different from making salsa. Holly had to deal with employees, a banker, lawyers and other professionals, suppliers, a property owner, web designers, investors, and other internal and external stakeholders.

“Dealing with” is another expression for negotiate with. And Holly found herself weighed down by all the negotiations.

She knew how to grow tomatoes and make excellent salsa.

But she wasn’t sure she knew how to get the best possible outcomes when making business deals.

Holly wanted to negotiate with confidence, to make sure she was not getting the short end of the stick, to be on top of the negotiation process.

But too often the process felt like a tug of war. And the handful of negotiation lore she kept hearing wasn’t helping. Stuff like, “never make the first offer” and “make extreme demands and small concessions.” That may work for some people, she thought, but it’s not helping me.

There is a better way. I call it strategic negotiation, a way to help other people help you **get what you really want**. By using this method skillfully, you stay in command of the process, focusing the conversation on the different elements of negotiation in order to create more value for each side, a more durable deal, and a stronger working relationship.

In the next chapter, I go over the basic principles of strategic negotiation. 8 elements that can give you the confidence to get the best possible outcomes.

Chapter 2: Communication

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The essence of negotiation is any **communication** between two or more people for the purpose of achieving **cooperation** intended to satisfy the **interests** of the parties. When Jim asks Mary, “Will you pick up a quart of milk on your way home from work tonight?” he has started a negotiation. When Mary says, “Yes,” the negotiation concludes with a commitment.

The bulk of business life is spent executing agreements, actually getting the work done. The time spent negotiating agreements, whether transient or formal, is small by comparison. And this imbalance of time may obscure the relative importance of each. Performance—doing what we agreed to do—is critical, of course. Without it there is no business.

Crafting agreements and developing trustful relationships is foundational. Without them there is nothing to execute, literally nothing to do.

But negotiation is not just about these formal transactional events. It goes on continually among insiders and with people outside the business.

For example, Holly communicates with her employees on a daily basis with respect to a variety of issues regarding the production, sale, distribution, and delivery of Holly's Jolly Salsa.

Holly probably doesn't think of these communications as negotiations because they lack the formality we often associate with that word and they are not extended discussions. In fact, she may think of them as more like directives. She is telling them what to do and it's their job to carry out her instructions.

But the process and the relationship are really more involved and subtle than that.

The employees have interests and they may well have alternatives to working for Holly's Jolly Salsa.

It's in Holly's interest to consider her employees' interests when communicating with them to get their cooperation in making Holly's Jolly Salsa a profitable business.

By the definition we used a moment a go, these interactions are negotiations. They are communications for the purpose of achieving cooperation designed to satisfy the interests of the parties involved.

Some people are good at negotiating—at communicating for the purpose of achieving cooperation intended to satisfy interests. We might call them competent negotiators. They seem to know what they are doing.

What are the criteria by which we measure the competent negotiator?

Competent negotiators are generally mindful of what they are doing, why they are doing it, and what they hope to achieve by doing it *while* they are in the process of negotiation. In other words, competent negotiators are purposeful in and about the process itself.

A competent negotiator works cooperatively with other parties to the negotiation to develop options that satisfy their respective interests better than they can on their own or with someone else. A competent negotiator pays attention to the fairness of the options under consideration.

A competent negotiator understands both her walkaway alternative and those of other participants as well, and she assesses whether to enter into a proposed agreement based on how well that agreement satisfies her side's interests compared with what they will get by walking away.

And she communicates effectively and contributes to a relationship of trust by remaining unconditionally constructive and behaving in a trustworthy manner at all times.

Recall that Holly found herself a bit overwhelmed by all the negotiations that are part of starting and running a business. Lawyers, bankers, suppliers, landlords, web developers, investors, and more.

And she found herself engaging in a tug of war at times, what we call positional bargaining.

Holly doesn't have to settle for the tug-of-war style of negotiation, a process that causes her stomach to knot up even thinking about it. She can become a competent negotiator, using the method distilled from the best negotiators in the world.

While some people have a better native aptitude for good negotiation than others, the best negotiators aren't born that way. Competent negotiation is a skill set that they, Holly, and you can learn.

To see how, we turn to the basic elements of negotiation.

The strategic negotiation method consists of understanding and working with 8 elements:

The relevant facts

Communication

Interests

Options

Legitimacy

Walkaway Alternatives

Relationship

Commitment

The first element is the factual context.

To reach agreement, Holly and her negotiating partner will eventually need a common understanding of the facts relating to the subject of their negotiation.

Too often negotiations are unsuccessful simply because the parties have different perceptions of the stuff, the real things, the numbers, the nuts and bolts. Good negotiators know how to spot these differing perceptions and to help participants reach a working consensus.

Communication is the second of our 8 elements of negotiation.

All negotiation is communication for the purpose of persuasion. Entrepreneurs typically find themselves negotiating with different people

Regardless of the content, however, certain purposes and processes are essential for all communication to be effective.

Every negotiation begins with some a message from one of the parties to the other:

- Public notifications
- Advertisements
- Website messages or some other display of goods and services
- Private solicitations
- Personal messages conveyed through salespeople
- Messages delivered by third parties
- Actions by one of the parties, such as deploying battleships to a particular region.

Everything we do and say—or don't say—is communication.

Actions sometimes speak louder than words.

Upon being told of the death of a Turkish diplomat during a critical negotiation involving Turkey, the French diplomat Talleyrand is said to have remarked, "I wonder what he meant by that."

To communicate effectively, Holly will need to stay in touch. Return phone calls and emails promptly.

Holly also needs to fit the communication method to the purpose and priority at issue.

For important communications, particularly those through which she will build working relationships, she should use the best medium possible:

Don’t call when you can meet.

Don’t write when you can call.

Don’t text when you can write.

Take care to send accurate messages that are designed to be accurately understood.

Emails are especially vulnerable to misinterpretation. Use them with care.

So, Holly should meet her banker in person whenever possible.

The same holds true for employees and all other stakeholders.

But if it is physically impossible for Holly to meet with other people, then it is better to call rather than send an email.

Why? Because to communicate effectively you need as much feedback information from each other as possible. Facial expressions, tone of voice, and other non-verbal clues make the exchange significantly richer.

To negotiate effectively, Holly should use email only for short factual exchanges unless she has no alternative. And then she should try to confine herself to factual information as much as possible.

Texting is an absolute last resort.

If you write while angry or frustrated, you might say something you regret. Once you hit “send,” you can’t take it back. It’s gone.

In the next lesson, we’ll explain how Holly learns to think about interests and develop options to satisfy them. And we’ll discuss the importance of the legitimacy element in crafting a durable agreement. See you then.

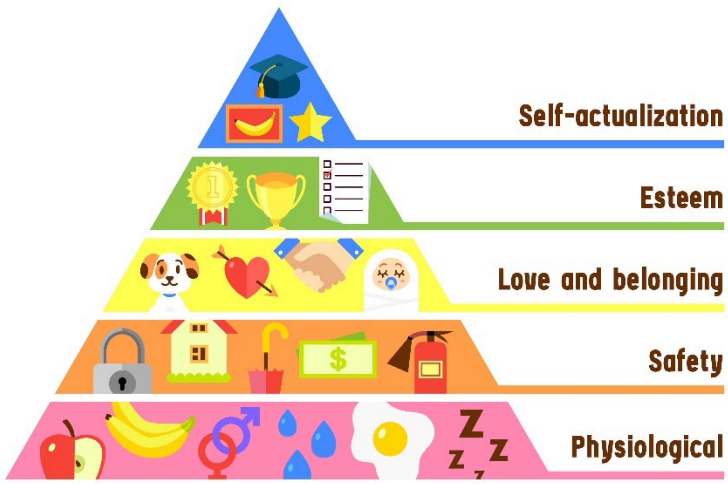
Chapter 3: Interests, Options, and Fairness

Interests, options, and fairness are important parts of the negotiation process.

An interest is anything of concern to us, something that we want or need. Like everyone else, Holly needs food. Getting enough to eat is one of her interests. Having shelter, a place to live, is an interest. She also wants to be safe from harm. Being accepted as a member of the group, which includes being recognized and acknowledged for our accomplishments, is an interest we all share. Esteem, a sense of self, or a feeling of importance is another major type of interest. And realizing our potential, self-actualization, self-expression is a need captured in the military's advertising slogan "be all that you can be."

Thus, the term "interests" encompasses a wide range of needs, desires, and motives, relating to both tangible things and intangible items such as the need to be respected or even a lust for power.

These five types of interests are restatements of Abraham Maslow's hierarchy of needs, which is most frequently presented as a pyramid. It can help us understand the relative priorities among our interests.



- Food, water, clothing, shelter, and other physiological needs must be satisfied first.
- Protection from predators and other sources of harm follows closely. Risk and loss aversion likewise tie into the basic need for safety. They can be very rational or emotionally driven interests that distort thinking about other rational aspects of business deals.
- Everyone needs to be accepted. Once the other primary needs have been taken care of, we want to have assurance that we fit in, that we belong. Love may not be all we need, to paraphrase the Beetles, but it is a fundamental part of our household of interests. Friendship and sexual intimacy arise in part because they satisfy the primal need to be loved and accepted.
- "I am somebody," Jesse Jackson taught impoverished and un-empowered poor people on the South Side of Chicago to say. It became a mantra. Respect—including self-respect—is vital to our well-being. Damage to self-

esteem is often a major part of torts leading to lawsuits, which is one reason apologies are so powerful in the settlement context. Confidence and achievement come into play here.

- When the Army adopted the slogan "Be All that You Can Be," it was tapping into our basic need to make the most of our abilities. Like other organisms, humans seek to realize their own potential. Morality, creativity, problem-solving, and the ability to accept and deal with facts become part of our self-actualization.
- All of this together from Holly's perspective is what she thinks will make her happy—or at least less unhappy.

The first step in understanding the parties' interests, therefore, is to determine their tangible, material interests. What food, shelter, clothing, medical care, and other basics do Holly and her negotiating partners need? How much will it cost to take care of those?

Like everyone else, Holly needs protection from harm.

But what about corporations and other legal entities? What kind of "physiological" needs do they have?

It is obvious that a corporation needs money to continue in operation. But it would be simplistic to think of its financial interests as limited to how much money it has in the bank or what it must pay for present needs. Future income is also a concern.

The Maslow pyramid reminds us to think about intangible interests as well. In many cases, self-esteem will trump money because the primary needs have already been adequately satisfied. Love, belonging, and acceptance are very strong needs, which is why being fired can be so devastating. Even if we find another job, this rejection can leave deep scars.

A need for ego gratification may be the driving force behind a push for some terms in a potential deal.

Finally, Holly, like every other human being, has a need for meaning. She needs to have a sense of purpose, to be involved in something that is bigger than herself, that is larger than life. This need is illustrated by the following story.

Arriving at the edge of a medieval city in the 12th century, a weary traveler asks a worker what he is doing. “I'm breaking up rocks, as you can plainly see” the worker replies, somewhat miffed at the question. The traveler moves on to a second laborer and asks the same question. “I'm earning a living for my family,“ he replies.

When asked the same question, a third worker, dripping with sweat and obviously fatigued, stands up straight and beams as he responds, “You see that cathedral off in the distance? I'm building that cathedral.“

In the best organizations, people know what they are about. They know they are building cathedrals, not just busting rocks. If asked, they would not need to go look up a written mission statement—important as these are—to answer a stranger’s question.

This is because the purpose is expressed so many ways in the work of the organization. It becomes part of what the organization lives and breathes, what it embodies.

While Holly may occasionally get caught up in the demands of here and now concerns such as meeting payroll or finding investors for the next stage of development, she will be more likely to succeed if she keeps her eye on the grand vision and helps her employees and other stakeholders share in that vision.

They will be most engaged if they are building cathedrals, not just busting rocks.

Interests fall into two broad categories: Tangible and Intangible Interests.

For the most part, tangible interests can be satisfied with money. For example, Holly Jolly Salsa's interest in sustainable growth will be met, in part, with deals with grocery stores, jar manufacturers and other suppliers, and every other business relationship the company enters into.

Intangible interests include enhanced reputation of the company, emotional satisfaction of those working on the project, higher level of employee engagement, and more.

It helps to take an inventory of your organization's interests and those of the other parties—both tangible and intangible—as part of your preparation for negotiations.

We've spent a chunk of time looking at interests, and we could go into the subject in much more depth. The reason we work on developing an understanding of the interest element is that interests are key to strategic negotiation.

To get the best possible outcomes, Holly must focus on the other person's interests. Why? Because to persuade them to help her get what she wants—her interests—they will need to get what they want. In fact, if she can't help them satisfy *their* interests better than they can without her, they will walk away. They will go elsewhere.

The company selling the jars Holly needs for her salsa has business interests just like Holly's Jolly Salsa does. The company needs to increase sales, expand its customer base, enhance its reputation, and strengthen its brand, make a profit, and more.

The better Holly understands the interests of the companies she deals with, the more likely she will be to craft deals that satisfy *her* interests well.

In a subsequent lesson, we will talk about the challenge of negotiating with agents of organizations. For now, I just want to call attention to the fact that Holly should consider both the interests of the jar manufacturing company and those of the sales agent and her supervisor when negotiating the terms of a contract for jars for her Salsa.

The corporation may be a lifeless, cold-hearted machine; but the people who run it and make the day-to-day decisions have flesh and blood and emotions and egos and distorted thinking and good and bad judgment and all the other things that make up human beings.

In short, Sarah the sales agent and George her supervisor have interests too. And those interests have an impact on the decisions they make on behalf of the jar manufacturer.

To develop a strategy for getting what Holly's Jolly Salsa needs, Holly must consider the interests of the people and entities that can help or hinder that effort. Understanding the strategic interplay requires tools and concepts that are the subject of a separate course.

In this introductory course, we have time only to stress that Holly will neglect the interests of others at her peril. She needs to develop the habit of continually asking: Who can help me? How can they help? And why would they want to?

The strategic negotiation model focuses on value creation—the development of options to satisfy the interests of the parties involved in the negotiation. An option is a potential term of the agreement, what we might do together.

Thus, an option is what Holly's Jolly Salsa might do in exchange for something the supplier, bank, lawyer, or other party might do in exchange.

So, in working with her jar supplier, Holly might want to explore the possibility of extended payment terms, volume discounts, custom labeling, free delivery, special shapes for the jars, and much else.

In the strategic negotiation process, we jointly develop options to satisfy our respective interests.

This is a process of discovering each party's **interests** and generating potentially acceptable **options** that satisfy those interests. As we work together, we gain a deeper and fuller understanding of our respective interests and how we might help each other satisfy them. The discussion of options reveals more about our interests and vice versa.

And as we communicate, we discover ways to expand the pie, to do things for the other side that don't cost us much and vice versa.

But it is not just a discovery process. It is also a creative process. Working together we create something new, new possibilities for exchanging goods and services of benefit to the parties that would not be possible without the negotiation and potential agreement.

To create great deals for Holly's Jolly Salsa, Holly needs to tap into right brain thinking. She needs to generate as many ideas for possible options as possible.

In serious negotiations, such as crafting the terms of a deal with an angel investor, she might want to bring in several people, an ad hoc advisory board, to engage in a brainstorming process.

As Thomas Edison said, "To have a great idea, have a lot of them."

Underlying every negotiation are cultural norms, common practices, legal rules, a course of behavior between the parties, the terms of similar deals that one or both parties have made, what other people do in similar situations, and so on.

I call these aspects of a negotiation the shared standards of fairness.

They affect the degree to which we find options acceptable or objectionable, irrespective of how well they might satisfy our interests.

Holly has been working with the supplier of the jars for her salsa and is on the verge getting a deal for the shipment she will be in the fall, which is a little over three months away. The sales agent is trying to get her to agree to take ownership of the jars now even though they won't ship for months. "You want have to pay for them until they actually ship," the salesperson says.

Holly has never heard of this kind of proposal for and is not sure what to do.

Holly might simply say no or make some demand in return. But if she does, she could easily fall into the push-back mode common to positional bargaining, which can quickly degenerate into a tug of war over the question of who is right (or who will win).

This kind of bargaining is not good for the relationship and tends to undermine the generation of creative options for expanding the pie. Instead, the pie shrinks and may disappear altogether.

I like to explain the fairness element with the following story from *Getting To Yes.*[1]

Jim's 3-year-old car has been totaled by a reckless driver with insufficient insurance and he was speaking with his own adjuster about payment of the claim.

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[1] *See* Roger Fisher and William Ury, *Getting to Yes: Negotiating Agreement Without Giving In* 92-94 (Houghton Mifflin, 1981)

The adjuster tells him that the company will honor his claim and has decided to pay him $12,000.

Jim replies, “I see. Why $12,000?”

“That’s how much we think the car is worth,” the adjuster replies.

“OK, but how did you go about determining that? Do you know where I can get a comparable replacement car for $12,000?” Jim wants to know.

The adjuster, apparently thinking that Jim is haggling to get more money, says, “Well, how much do you want?”

Jim says, “I want what’s fair and what my policy says I’m entitled to. I found a second-hand car for $15,500, which with tax will come to around $18,000.”

“$18,000,” the adjuster exclaims. “That’s way too much! You’ll have to come down some.”

The adjuster is caught up in the positional bargaining mode. But Jim keeps a firm grip on the pillar of fairness when he responds, “I’m not asking for $18,000 or $13,000 or $20,000. I’m trying to work with you to figure out what is fair compensation for my loss. My policy promises to pay the cost of replacing my old car. I don’t want more or less than is required to replace the car. I just want to be treated fairly.”

“OK,” the adjuster says, still not understanding that Jim is not doing the positional bargaining dance, “I’ll come up to $13,500. But that’s the best I can do. Company policy.”

Jim continues to focus on the search for a standard to determine the right compensation and asks, “How does your company usually go about determining the value of a car in this kind of situation?”

The adjuster mentions that they sometimes refer to the Used Car Guide, commonly known as the Blue Book.

The conversation continues as Jim and the adjuster discuss the number of miles on her car, his maintenance records, its overall condition and the like, all factors that add or subtract from Blue Book values.

By persistently focusing on standards of fairness, Jim has skillfully steered the conversation away from a power struggle over positions to one in which the two parties are searching for standards they can jointly agree are fair, which will provide a basis for resolving the price dispute.

In effect, Jim has brought in a third-party, neutral arbitrator in the form of the Blue Book and other objective standards that help the parties resolve her claim under his policy.

So, rather than get trapped in the tug of war that positional bargaining incites, Holly would be better off asking questions like, "Is that customary practice in the industry?" or "What's the basis for doing that?“

By asking these kinds of questions, Holly is bringing the fairness element into play. Fairness is the third player in the value creation process. By focusing on or invoking fairness, Holly and other negotiators can test the fairness of options proposed by other parties.

Words and phrases like industry standards, legal rules, what we’ve done before, reciprocity, custom, and the views of third parties all indicate an appeal to fairness.

Using the strategic negotiation process well helps us both create and expand the pie. But it also gives us tools and techniques with which to divide the pie fairly.

Again, this is about using commonly recognized standards of fairness, including the reciprocity principle, to determine who should get which slices of the pie.

In the first three lessons, I have introduced 5 of the 8 elements of negotiation: the facts, communication, interests, options, and fairness.

In the chapter 4, we learn how Holly can grow relationships of trust as she negotiates.

Chapter 4: Growing a Relationship of Trust

At a very basic level, a prospective business deal can be expressed in the form of what I call The Five Questions:

- Are you selling something I want or need? This is part of the package of interests the potential buyer wants to satisfy.
- Is it any good? Will it do what I need it to do? Is the quality sufficient?
- Can I afford what you are selling? This is the buyer's interest in doing a deal that is within its means.
- Can I get a better or cheaper version from someone else? This is the walkaway question.
- Can I trust you? This question focuses on whether the seller will take care of me, how she tends to the relationship, something we turn to now.

We may not explicitly tick through these questions each time we are considering entering into a business relationship, but they are there. And we will be continually scanning the available information for answers to them, sometimes long after we have made an initial deal.

But what do I mean by the 5th question? What does it mean to trust someone in a negotiation? And why is a relationship of trust important?

A negotiating relationship exists in the minds of those who have the relationship. It is a set of beliefs that includes the question whether the other party can be trusted. It grows over time based on the words and deeds of the parties toward each other.

The fact of communicating about a potential deal simultaneously brings a relationship into being.

So, when Holly contacts the canned goods buyer for a grocery store chain about stocking Holly Jolly Salsa, both will have many unspoken questions, including whether they can trust each other.

As they get better acquainted, each will record impressions and clues they pick up from what the other says and does. For example, if Holly says she'll call back in the afternoon but doesn't, the buyer will likely record that as an incongruence between what she says and what she does. It raises question marks about her reliability.

If the buyer shows that he might be willing to consider Holly Jolly Salsa if Holly sweetens the deal by getting him tickets to an important baseball game, this tells Holly something about the kind of person she is dealing with.

All of this exists in the minds of Holly and the buyer.

Trust is action based on the belief that a person, thing, or entity can and will perform as expected.

A relationship of trust is essential to any extended and ultimately successful negotiation process.

So, if the grocery store buyer is unsure about whether Holly will deliver on her promises, he will not want to expose himself and his grocery store chain to the risks associated with that lack of trustworthiness.

All negotiations take place within a relationship of trust. At the outset, the degree of trust may be small, but over time it can grow, making exceptional agreements possible.

Trust has two main components: Character and Competence.

“Character” refers to the reliability of the person or organization involved in the negotiation. Are they honest? Do they play fair? Do they keep their word? And so on.

“Competence” refers to the ability to perform, to deliver the goods, services, or other terms of the deal. No contract officer will want to make a deal with a company that does low-quality work, no matter how nice or honest they are.

What we seek in those with whom we do business is trustworthiness along both axes of trust. Trustworthy competence and trustworthy character.

Both Holly and the grocery story buyer want reassurance that the other is trustworthy on both the competence and character axes of trust.

Each can improve the likelihood of being found trustworthy by all people with whom they deal by diligently practicing the 7 habits of trustworthy behavior, which are based on the 7 core business virtues.

To ingrain these habits, we use a checklist format.

Instituting the Checklist of Trustworthy Behavior in your organization is a simple and inexpensive way to build habits of trustworthiness that will serve you well in every negotiation.

This checklist is built on the virtues of excellence, honest, fairness, good manners, promise keeping, compliance with the law, and avoidance of harm habits that become ingrained in our behavior at all times. The checklist poses each virtue in question form:

- Is it our best?
- Is it the truth?
- Is it fair?
- Is it polite?
- Is it what we promised?
- Is it legal?
- Have we exercised due care?

If we can't answer yes to each question, then we don't think, say, or do it.

Let's take a closer look at each one.

Is it our best? Do good work. That's the first rule of a trustworthy business. Producing less than the best you can do with the time and resources available should never be acceptable.

A business in which sub-par work is the norm may get by for a while, but it will never truly thrive and it won't attract the best people. To earn a reputation as a trustworthy business, therefore, Holly's Jolly Salsa will need to produce the best salsa it can.

That does not mean, of course, that every business must achieve Rolls Royce quality. We must work with the available time and resources, which frequently limit the product or service. And even if we had unlimited money to invest in the production, we must also consider what customers can pay.

But within those natural constraints of operating a business, we have an implicit obligation to do the best we can for the people and businesses we serve. We expect nothing less when we are the buyer. We should seek to meet the same standard as the seller.

Is it the Truth? Perhaps as much as 80% of trust problems in business stem from some form of deception, the failure to be honest, to tell the truth, to operate transparently. This should not surprise us. Even birds and other animals learn to deceive to achieve their goals.

Deception is a very robust survival strategy in the world of evolution. And if you're looking only for a quick buck, dishonesty will work in business too . . . for a short while.

But dishonest business practices are not sustainable. No business can long endure that cheats its customers and suppliers. Word gets around.

On the flip side, if what you say is as pure as the driven snow, customers and suppliers will reward that behavior. If there is no fakery, no puffery, no embellishment, no exaggeration, no dissembling—not even a hint of falseness in what you do and say, people will catch on and they will honor your honesty. This one is not easy. Real truth telling throughout the business in all ways, shapes, and forms sometimes comes at a price—a lost sale, an irate supervisor who doesn't want to hear the unvarnished truth about why we can't the numbers this quarter, a business deal that doesn't happen.

But telling the truth clearly to yourself and others is the very essence of corporate integrity. If you want to have a great business, a devotion to the truth is an indispensable virtue.

The temptation to shade the truth, to misrepresent, to dissemble, to fudge, to leave false impressions, and in dozens of ways to mislead others is especially high for entrepreneurs.

Holly desperately wants to make a sale to a top grocery store chain. The buyer asks whether she has enough product on hand to ship 20 cases in two days. Holly's Jolly Salsa has a production run scheduled, but Holly misrepresents the facts. If something happens to prevent delivery, her reputation could suffer serious damage with the buyer.

Is it Fair? The craving for fairness is built into our DNA. Scientists often refer to it as the reciprocity principle, the need to exchange good for good and bad for bad. If you do a favor for me, I feel an obligation to return it. And if I violate your rights, you will have the urge to strike back.

In fact, fairness is the basis not just for business but for life in society overall. We would not survive as groups without it. Social psychologists have demonstrated the power of the reciprocity principle in a wide variety of settings.

In business, we can use this basic life principle affirmatively by making sure that we are meticulously fair in all transactions both within the firm and with outsiders. If we take advantage of others by stealing their ideas, using their efforts without fair compensation, or exploiting a momentary power imbalance, we will sow the seeds of resentment, bitterness, and ultimate revenge.

We may not recognize it when it comes along, but payback happens—often at a cost far greater than the momentary benefit achieved by playing unfairly. But the positive side is true as well. People whom we have treated fairly will be loyal and go out of their way to help us. To create a business with moral integrity, make sure everyone can answer yes to the fairness question in all transactions.

I discussed fairness in chapter 3. If a buyer learns that Holly unfairly exploited an emergency, the trust she needs will have been damaged. She might be wise not to press every advantage she has in a negotiation.

Is it polite? Good manners are fundamental to trustworthy relationships. If we can't be trusted to be on time, pick up after ourselves, return what we borrow, and show others the common courtesies that make civilized society function, how can we be trusted in more serious matters?

Edmund Burke, the 18th Century Irish political leader, once wrote, "Manners are of more importance than laws. . . . Manners are what vex or soothe, corrupt or purify, exalt or debase, barbarize or refine us, by a constant, steady, uniform, insensible operation, like that of the air we breathe in."[2]

Entrepreneurs would do well to learn **the three magic words**, because we need them a lot.

The first, of course, is "**please**."

The second is "**thank you**."

And the third is "**I'm sorry**."

Is it what we promised? Doing what you say has been part of good business ethics from the beginning. If you give your word, keep it. Like the other parts of baseline goodness for business, promise keeping is not always convenient and may occasionally cost money in the short run.

[2] Edmund Burke, Letters on a Regicide Peace, letter 1 (1796).

That’s why some people find it expedient to go back on their word from time to time. We made assumptions that turned out to be wrong and now the cost of flour or some other ingredient makes it impossible to deliver the contract at a profit. What do we do? Break the contract or fulfill it? The courts are filled with people who chose expediency over integrity. And the number of broken business relationships caused by unkept promises is even greater. But those companies that have an unbending policy of doing what they said tend to enjoy greater success than the others. If we said we’d do it, we’ll do everything in our power to come through. Everyone wants to work with someone who adheres to that principle, someone they can rely on.

Suppose that Holly promised to deliver 40 cases of salsa at $25 a case based on the assumption that she could buy the tomatoes for $2 a pound. But now she just learned that the tomatoes will cost $2.75 instead. That increase means that she will lose money delivering the 40 cases at $25.

What should she do? Keep her word or try to change the deal?

The courts are filled with people who choose expediency over integrity. And the number of damaged business relationships caused by broken promises is even greater.

But those companies that have an unbending policy of doing what they said tend to enjoy greater success than the others. If we said we’d do it, we’ll do everything in our power to come through. Everyone wants to work with someone who adheres to that principle, someone they can rely on.

Is it legal? Oliver Wendell Holmes, Jr., wrote that the life of the law has not been logic, but experience. He meant that the particulars of the legal system emerge from the needs of society and our realization that we need this or that rule to keep things working well. The law is one form of social judgment about the right and wrong things to do.

In a technology-driven society, the law can be highly complex. Many of the rules are like traffic signs and speed limits. They coordinate behavior but are morally neutral; they do not imply rightness or wrongness. But the basic laws are often codifications of moral judgments that have evolved over centuries. The law is an institutionalized form of respect.

As Holly's Jolly Salsa grows, Holly may be tempted to bend or break the law. Adding non-organic tomatoes to a batch advertised as organic could reduce costs but would also violate labeling laws. Making cash sales off the books could help her reduce income taxes. Demanding that employees work overtime for no pay increases profitability but is also illegal.

The pressures on a startup business can be enormous and tempt owners to do something illegal. It's best not to.

Have we exercised due care? One of the oldest ethical injunctions comes from the Hippocratic Oath, which physicians have taken for over 2,500 years: First, do no harm. When we are considering a course of action, one item on our checklist should be whether it will cause any harm—to anyone.

It's easy to apply this rule to malicious behavior such as harassment, bullying, and abuse of power. There is no justification for such misconduct. It serves no legitimate interest.

But there are also numerous instances in which causing harm is unavoidable if we are to reach a particular objective. Firing someone who is unable or unwilling to perform her assigned tasks will possibly cause harm to her or her family. Building a house or an office building or a railroad will inevitably cause harm to trees, animal habitats, and other parts of the environment.

The challenge in such cases has always been to devise ways to balance the legitimate interests of those involved and to decide which interests take priority. It's not easy.

While it may not be possible to avoid all harm in every instance, it is possible to think about whether harm can be kept to a minimum. We can consider which interests should take priority given the stated values of the organization. We should make the effort.

If Holly and other entrepreneurs make the 7 habits of trustworthy people an integral part of how they do business and make deals with others, they will find their trust accounts will serve them well in both the short- and long-run.

In Chapter 5, I will introduce the final two elements of strategic negotiation: walkaway alternatives and commitment.

Chapter 5: Walkaway Alternatives and Commitment

This chapter is about walkaway alternatives and commitment, the two elements that relate directly to the decision about whether to agree to the proposed deal or pursue a better alternative.

Suppose Holly and a buyer have invested time and energy developing several options for a possible agreement.

When does Holly know she has an acceptable deal? How does the buyer make the same decision? What are the criteria by which they measure the value of the set of options on the table?

The underlying question to ask is how well these options satisfy our interests. Will this be a good deal for us?

A good deal compared to what? Answer: a good deal compared to what we can do on our own, without the involvement or agreement of the other party.

If we walk away from the potential deal, what alternatives do we have for satisfying the same interests that got us to the table in the first place? And how well will those walkaway alternatives satisfy our interests?

I call these walkaway alternatives, one of which is likely to be best suited to satisfy our interests.

Our best walkaway alternative is the criterion by which we decide whether to make an agreement based on the options are on the table. If the best walkaway alternative satisfies our interests better than the current proposal, then we are better off turning down that proposal and pursuing our best walkaway alternative.

In other words, we need to choose wisely between the options on the table and the best walkaway alternative.

The same holds true for our negotiating partner. Do the options we have proposed satisfy their interests better than their walkaway alternative?

The buyer might be comparing the options for a potential deal developed with Holly to what he can get from one of Holly's competitor's. No doubt he will have used this alternative possibility as a basis for requesting specific options from Holly.

When the buyer compares the two sets of options, he will need to decide which set better satisfies his company's interests.

Similarly, Holly might already have an offer from a competitive chain that she can use as a basis for evaluating whether the deal with Chain A satisfies her interests better.

They might pay less per case and add a week for delivery but provide no in-store promotion or display. Holly will need to establish priorities among the interests of Holly's Jolly Salsa to make the comparison.

If Holly or the buyer walks away from the potential deal, what alternatives do they have for satisfying the same interests that got them to the table in the first place?

That is the concept of the walkaway alternative, sometimes called the Best Alternative to a Negotiated Agreement.

Before committing to a potential deal on the table, we need to know how well we can satisfy those same interests by pursuing an alternative course of action that does not involve the agreement of our current negotiating partner.

One of these walkaway alternatives is likely to be best suited to satisfy our interests.

Holly's best walkaway alternative is the criterion by which she should decide whether to make an agreement with the grocery story buyer based on the options on the table.

In other words, Holly needs to choose wisely between the options on the table and her best walkaway alternative.

It becomes apparent, then, that the discussion of potential terms of agreement occurs within the shadow of each side's best walkaway alternative, what they can do without the involvement or agreement of the other party.

Thus, Holly needs the most complete understanding possible of both her best walkaway alternative and that of the grocery store buyer and how well each satisfies their respective interests. We need to know what each can do if the talks fail.

The better her grasp of this information, the more confident she will be in conducting the negotiations.

The better Holly understands each side's walkaway, the more adept she will be at crafting options for a possible deal.

Having a thorough understanding of each party's walkaway alternative is also helpful for anticipating what others might be using as a measure of a potential agreement.

Often the walkaway alternatives can be a source of creativity for value generation and a basis for developing a trustful relationship.

If she chooses to do so, Holly can put each side's walkaway alternatives on the table during the interactive aspects of the negotiation.

But she should take care to use walkaways to help craft the best possible options for an agreement rather than as a cudgel with which to threaten or be threatened.

The core of the Strategic Negotiation Model has both a preparation mode and an interactive mode. And we sometimes move from interaction back to more preparation for the next interaction.

In both the preparation and interaction modes, our focus should be on creating value through the exploration of options that meet the parties' respective interests while satisfying their mutual understanding of legitimate standards—all while measuring the sufficiency of the potential options against how well the parties can satisfy their interests by walking away.

We want to be able to choose wisely between the proposed deal and our best walkaway alternative.

The subject of choosing wisely brings us to commitment, the last of the 8 elements of strategic negotiation.

In the haggling model of negotiations, parties engage in a process of continually making and revising commitments. In other words, they make offers, counteroffers, counteroffers to the counteroffers, and so on.

This series of demands and concessions is called positional bargaining. It has numerous drawbacks.

In the strategic negotiation model, the commitment comes at the end of the process, if at all.

To be sure, Holly and her negotiating partners make numerous commitments about the process along the way, such as commitments to meet at given time and place or to exchange documents or to provide samples and the like.

But a good strategic negotiator creates the value first and enters into the commitment at the end of the process. As I said before, it's a choice between the deal or the best walkaway alternative.

I assess the quality of negotiated commitments by three criteria.

First, a good commitment is realistic. That is, it is reasonable to expect that the parties can actually do what they say they will do. An unrealistic commitment will not hold.

Second, the commitment should be sufficient. It should cover all the items necessary to make the deal work. The parties should not discover half-way through the performance phase that they forgot to address an important issue.

Third, the commitment needs to be operational. The parties need to know who will do what and by what date or time. Leaving this vague or unaddressed is a way to set the deal up for failure.

Now these 8 elements are a lot to keep in mind while interacting with other parties. We can easily lose sight of the big picture as we focus on the message of the moment.

It's like looking at this part of the gadget while ignoring everything else.

But doing that leads to less-good agreements.

So what is the solution?

We've all heard the joke about the young musician who, upon asking how to get to Carnegie Hall, received the reply, "Practice. Practice. Practice."

With negotiation the mantra might be Prepare, Prepare, Prepare.

But just like only good practice makes perfect, only good preparation makes for great negotiations.

So how do we prepare well?

By using the 8 basic elements of strategic negotiation that we have just surveyed.

We make sure we think about how we will communicate, for example, by returning telephone calls and emails in a timely manner, listening in order to understand where they are coming from, expressing ourselves as clearly as possible, and using the most appropriate media of communication.

We pay attention to the factual context, being alert to different perceptions of the same data. We thoroughly analyze the other side's interests as well as ours.

We develop as many options as we can think of that might satisfy those interests (and be acceptable to us).

We assess potential options using commonly accepted standards of fairness: Is it something we would consider fair if we were in their shoes?

We build a relationship of trust by remaining unconditionally constructive and practicing the 7 habits of trustworthy people.

And we compare our best walkaway alternative with the proposed deal on the table in order to choose wisely between them.

Remember, they are unlikely to agree to our best conceivable outcome if they can satisfy their interests better somewhere else.

We have included some preparation tools with this program that will help you go through each of the 8 elements for each party. Explanations and the tools are available in Lesson 8.

This concludes our overview of the 8 elements of strategic negotiation. In Chapter 6, we will examine the special challenges of negotiating with agents representing organizations or other parties.

Chapter 6: Negotiating with Agents

In this chapter, Holly learns about negotiating with the agents of organizations and other entities.

At the start, entrepreneurs are working entirely for themselves. And if they remain sole proprietors or form a corporation with themselves as the sole shareholder, that could remain true for the life of the business.

But many people with whom they deal work for a corporation, agency, or other organization. They speak not for themselves but for some other person or entity. They are agents of a principal.

Our economy functions largely through the delegation of authority from principals to agents.

In the case of the government, the ultimate principal is the citizenry. Citizens delegate their authority to the legislature, which in turn delegates the authority to purchase goods and services to government agencies such as the Pentagon. Each branch of the military receives its authority through the Pentagon. That purchasing authority is further delegated to a procurement office and finally to a contract officer.

Each person or office along the chain of authority is acting as an agent for a principal.

The same kind of chain of authority exists within business organizations. For example, General Electric is a large corporation with multiple stakeholders worldwide. The directors and officers who work in corporate headquarters are agents of General Electric as an entity. They delegate their authority to individual business units, such as the military systems division. The vice president of the military systems division is an agent of the division and the corporation. The authority is further delegated to the government contracting office and finally to an individual sales representative.

Each unit in a chain of authority has interests that are distinct from those of the other links in the chain. And each person exercising the authority of her unit has interests that are separate from the unit's interests.

For example, at General Electric, the ultimate principal—the General Electric Corporation—has a set of interests. But so do each of the units in the chain and the people who work in those units, all the way down to the procurement officer.

And the interests of the units and the people in them may occasionally be inconsistent or even in conflict.

To illustrate, let's start at the Department of Defense level. The ultimate principal in the chain—the people of the United States—have numerous interests related to every acquisition. These include:

- High-quality products
- Competitive prices

- Reliability of service
- Ethical integrity on the part of everyone involved.

But the department has its own interests as well in the background. For example, the leaders of the department probably want to increase next year’s budget, which means that they will need to spend all of this year’s budget. They will likely want to protect jobs within the organization. We can expect they would have a desire to enhance the status of the department within government as a whole. And it is reasonable to anticipate that they would want to expand the influence of the department within government.

The Pentagon procurement office has its interest as well. Of course, people in the procurement office will want to satisfy the interests of the Pentagon. But they have an interest in protecting their budget (and jobs) and, ultimately, the existence of the office altogether.

As we go down the principal/agent chain to the procurement office, we find the same interests of the ultimate principal. But now there are additional interests of the procurement office itself.

And we shouldn't forget that the individual people within the office all have their own interests that relate to the contract under consideration as well as the interests of the procurement office, the department of defense, and, ultimately, the people of the United States.

And each individual contract office should be considering the interests of the procurement office, of the pentagon, of the government as a whole, and ultimately of We The People.

When Holly negotiates with the wholesale buyer she is effectively negotiating with two sets of interests—those of the grocery store chain that the buyer represents and those of the buyer himself. Officially and legally, only the interests of the grocery store chain count. Those of the buyer should not enter into the process at all. But they do. In fact, his interests become entangled with those of the chain in subtle and sometimes imperceptible ways.

As I mentioned in chapter 3, corporate agents have interests of their own.

The buyer has all the interests I discussed in chapter 3 of this course. He has food, shelter, and safety needs, the need to be accepted, the need for self-esteem, and the need to achieve his potential.

These are the needs that Abraham Maslow identified in the hierarchy of needs I discussed in chapter 3.

An overarching and ultimate need is the need for meaning, to be involved in something purposeful, to count for something. Like the third worker in the story in chapter 3, the grocery store buyer needs to have a sense that he is building a cathedral, not just busting rocks.

In chapter 3, I touched on the importance of creating a chart of the interests of a negotiating partner such as the grocery store shown here.

Holly would be wise to create a similar chart such as this one showing the buyer's interests. If she understands the buyer's interests well and how they relate to those of the grocery store, she will more likely propose options that resonate with him, options that he will want to make part of the deal.

Whether Holly is negotiating with the bank, the jar supplier, a venture capital firm, or a website developer, she will be dealing with agents—people with interests of their own who have a fiduciary responsibility to represent the interests of the principal they represent.

When Holly prepares for these negotiations, she needs to think about the interests of both the agents and the principals they represent.

In chapter 7, I discuss negotiating price.

Chapter 7: Negotiating Price

Many people do not like to negotiate about price.

Over time, people came to know that the sticker price on cars was not intended to be the actual selling price. Car salespeople expected buyers to try to get a better deal and they were trained to take advantage of the average buyer with various manipulative ploys such as the nibble, the flinch, appeals to higher authority, the add on, and more.

But they also knew that this approach made potential buyers uncomfortable, which is why manufacturers came up with the “no haggle” deal, which has been quite popular.

Actually, having price tags is a fairly recent thing in commerce. Before the late 1830’s, when a few merchants started putting price tags on items for sale, it was common to barter with eggs, meat, and services for goods in a store or to negotiate a price based on whether you were paying in cash or buying on credit. There were no fixed prices. Daniels and Kimbell, a dry-goods retailer in New Hampshire, started selling items at a fixed price in 1838. Then in 1846, A.T.

Stewart introduced the one-price system for dry goods at his Marble Palace in New York. People loved this innovation.

Merchandising quickly evolved from into the price tag system we have today.

Stewart, by the way, had a peak fortune of $88.9 billion in today's dollars.

Because of price tags, we tend to think that the price for the things we buy is non-negotiable. In fact, if you try to negotiate a price in a large chain department store, you are likely to get a blank stare or bemused reaction from the salesclerk.

Accountants' fees, lawyers' fees, loan rates, real estate broker commissions, computer repair services, and, of course, car prices and much more—all can be negotiated. The question is not whether, but how.

What should Holly do to get the best possible price for the things and services she needs to make Holly's Jolly Salsa succeed? What is the best way for any entrepreneur to do this?

By now, it should come as no surprise that I recommend using all 8 elements to get the best possible price. In each instance, Holly will need to research the relevant facts. For example, if she's buying a car, knowing the dealer's cost will be valuable information. Communicating effectively is important. Understanding the dealer's interests in order to invent options that meet those interests is important. Being able to refer to commonly acknowledged standards of fairness will be helpful, as well as nurturing a relationship of trust. And having a solid walkaway alternative will play a key role too.

For example, most people will have several places they can buy a new car within a convenient distance from their home. Thus, if they want a Toyota Minivan, they can probably go to at least three and often more dealers within a 50-to-100-mile radius. For example, there are 9 Toyota dealership in the Boston area.

This means that Holly can develop several walkaway alternatives, provided she does her homework, understands the dealers' interests, and thinks about options that work for her and the dealer.

So, here is a proven strategy, using the 8 elements, for buying a new car when there are several dealers in the same area.

First, determine precisely which make, model, color, and options you want.

Second, find out the dealer cost for precisely that car.

Third, secure alternative bank financing if possible.

Fourth, get the phone numbers of every dealer within a 30–50-mile radius.

Armed with this information, Holly can sit at her desk in the morning, call each dealer, and read the following script to each salesperson:

Hello. My name is Holly Cartwright. I plan to buy the following car today at 5 p.m. [Here Holly describes the car precisely, down to the color, engine size, and options.] I am calling all of the dealerships within a fifty-mile radius of my home and I am telling each of them what I am telling you. I will come in and buy the car today at five p.m. from the dealer who gives me the lowest price. I need to have the all-in price, including taxes and incidentals such as dealer prep. [Holly might tell them that she does not want or need dealer prep.] The price needs to cover everything, because I will make out the check to your dealership before I come and I will not have another check with me."

There are variations on this method. They all work because Holly has essentially created an auction in which dealers are bidding for her purchase. She has used the elements of commitment ("I will have a signed check in the agreed amount and no other check with me.") and walkaway alternatives strategically to reach the goal of getting the lowest price.

This appeals to the dealers' interest of making a sale, even if it is at their lowest price.

By becoming the auctioneer, Holly flips the normal routine in which the car dealer controls and manipulates her.

Some sectors of commerce are notoriously bad at negotiating the price component of a contract. We may be so eager or even desperate to land the deal that we adopt a crouching position in the corner even before a discussion begins.

If you are uncomfortable with confrontation and conflict or not used to asserting yourself, you might tend to avoid talking about price.

But as we just saw with the strategy for buying a new car, good preparation with the 8 elements of negotiation can save you hundreds or thousands of dollars.

When you think you are at your weakest that is precisely the time to increase your strength by arguing the legitimacy of a fairer price.

"You agree that we need to make a reasonable profit on the contract, don't you?"

"If you were in our shoes, would you want to bear all the risk for unforeseen events?"

"If this pricing model applied to everyone, would anyone be able to provide quality goods or services to the government?"

Remember the story about Jim and the insurance adjuster I told earlier. Developing shared standards of fairness gives you extraordinary power to protect yourself against exploitation. Of course, this is a two-way street. Its power derives, in part, from your implicit willingness to abide by the same appeal to fairness yourself.

As the owner of a startup, Holly should not be shy about requesting special discounts from startup support professionals. She can argue truthfully and convincingly that she is short on cash now but, when Holly's Jolly Salsa succeeds, she will have plenty of money and will be able to pay the professional's standard rates. Most of the professionals she will be dealing with have an interest in developing a business relationship with Holly. And they know that a business such as Holly's Jolly Salsa can be a source of more and more work as it grows. Imagine being the lawyer or accounting firm that got in at the start of Google for example.

How should Holly price her salsa when she is the seller?

In American business we sometimes tend to think that the price of something should be based on the cost of producing it plus a reasonable profit or on the price of available alternatives. And those are no doubt legitimate standards to use.

But Holly can also turn the question around and ask, "What does the product or service I am providing save the buyer? How does it help the buyer be more efficient or profitable? What contribution does it make to achieving the buyer's mission or goals? How well does it satisfy their interests?"

In preparation for a meeting with the buyer, Holly might ask, "What does the product or service I am providing save the buyer? How does it help the buyer be more efficient or profitable? What contribution does it make to achieving the buyer's mission or goals? How well does it satisfy their interests?"

Holly's Jolly Salsa might provide several special benefits. For example, Holly might show the grocery store buyer how Holly's Jolly Salsa will help pull in more high-value customers, lead to increased sales of other foods such as chips, avocados, and beer, increase the volume of salsa sales, and enhance the store's reputation as a high-quality grocery store.

Of course, she can say these things only if they are true. And she will need to have data to back them the assertions. But if they are true, then they provide a basis for a premium price. She is no longer selling a commodity but a branded product. It's like the difference between a generic cell phone and an iPhone.

By focusing on the needs of her customers, Holly can help them satisfy their interests better than might otherwise be possible. And because she is adding value for them, she can legitimately claim part of that value.

If Holly can make a product that provides extra value that the buyer can't get elsewhere and helps the buyer reduce its overall costs in the bargain, is it not fair for the seller to receive a share of that savings, that extra value created?

As a startup, however, Holly's most pressing need is customers—any customers. Is she in a position to command premium prices for an unproven product?

Probably not. How can she know that Holly's Jolly Salsa will pull in more high-value customers or increase the sales of related products or enhance the store's reputation? At the outset she likely doesn't know these things, can't make credible claims about them, and shouldn't try.

Does that mean she should use a lower price?

Quite possibly it does.

But Holly must take care to avoid setting a bad precedent or getting locked into a low price for the future. To do this she must make clear that this is an introductory price for a limited time available only to prove the value of the product to the buyer. She acknowledges that the buyer is taking a risk but makes sure he understands that if Holly's Jolly Salsa sells as well as Holly thinks it will and provides the benefits she expects, she will want to share in that value by increasing the price.

In other words, Holly is proposing a test or trial run at a reduced price. If it succeeds as expected, then both she and the grocery store should share in the value created.

In this chapter, I have only scratched the surface of negotiating price. I could spend a day and still not exhaust the subject. For those wanting to dig more deeply, I recommend reading *The Strategy and Tactics of Pricing* by Thomas Nagle and John Hogan.

In Section 2, I introduce several tools that will help you negotiate no-waste agreements.

SECTION TWO: NEGOTIATION TOOLS

Chapter 8: How to Use the Franklin Decision-Making Tool

[Decision Under Consideration]	
PRO	**CON**

Welcome to this bonus section on using the analytical tools that come with this program.

In preparing for a serious negotiation, Holly needs to think through the interests of the parties as well as the options that might satisfy them well. And she needs to consider each of the other 8 elements of strategic negotiation to make sure she is ready to deal with questions that might arise and to take charge of the process.

I have created a variety of tools and adapted others for this process.

Included with this book and course are

- The Franklin Decision Making Tool
- The Currently Perceived Choice Chart for understanding how the other side sees the options under consideration.
- The Interest Analysis Worksheet
- The Strategic Negotiation Preparation Tool and

In the advanced versions of our strategic negotiation training, I introduce other tools that help negotiators prepare even more thoroughly.

The Franklin Decision-Making Chart is something you've probably used in a different form for years. Benjamin Franklin had received a letter from his friend and fellow scientist Joseph Priestly asking for advice on a particularly difficult and complicated decision. On September 19, 1772, Franklin replied that he was unable to advise Priestly about what to do, but he would gladly share a method for making such decisions, which he called his prudential algebra.

Franklin wrote:

> When these difficult Cases occur, they are difficult chiefly because while we have them under Consideration all the Reasons pro and con are not present to the Mind at the same time; but sometimes one Set present themselves, and at other times another, the first being out of Sight. Hence the various Purposes or Inclinations that alternately prevail, and the Uncertainty that perplexes us.
>
> To get over this, my Way is, to divide half a Sheet of Paper by a Line into two Columns, writing over the one Pro, and over the other Con. Then during three or four Days Consideration I put down under the different Heads short Hints of the different Motives that at different Times occur to me for or against the Measure. When I have thus got them all together in one View, I endeavor to estimate their respective Weights; and where I find two, one on each side, that seem equal, I strike them both out: If I find a Reason pro equal to some two Reasons con, I strike out the three. If I judge some two Reasons con equal to some three Reasons pro, I strike out the five; and thus proceeding I find at length where the Ballance lies; and if after a Day or two of farther Consideration nothing new that is of Importance occurs on either side, I come to a Determination accordingly.

This is a schematic illustration of Franklin's method.

I have included a simple template for using Franklin's prudential algebra as part of the toolkit for this course. Here is how Holly might use it to decide whether to seek angel investors for Holly's Jolly Salsa.

First, Holly starts writing down the reasons that favor looking for an angel and those against as they occur to her over several days. The first reason is that an angel would provide funds for rapid growth. That's fairly obvious.

A short while later she adds, "Could lead to good mentor relationship."

Then she adds a reason under the no column.

Over several days she has identified a variety of reasons for and against looking for angel investors.

Then she starts striking out pro and con reasons that have a roughly equivalent weight of importance.

At the end of that process, two reasons are left in the Yes or Pro column and none in the No column.

The process has helped Holly spell out the reasons for and against seeking angel investments and demonstrated which side outweighs the other.

I have created a version of this chart in Excel with which users can assign numerical weights to the reasons and compute the balance of weights. In this case, the sum of the weights in the pro column is greater than that of the con column, indicating that reasons favoring yes outweigh those against.

In the next chapter, I explain how to use the Currently Perceived Choice Chart, a tool for figuring out what the other side is thinking and how they might respond to proposals we make.

Chapter 9: How to Use the Currently Perceived Choice Chart

Should I do or agree to X?	
YES	**NO**
BUT	**BUT**

The Currently Perceived Choice Chart looks similar to the Franklin Decision Making Tool, but it has an altogether different function. Its purpose is to help you understand how someone on the other side of the table likely views the available choice at this stage in the negotiation.

Suppose, for example, that Holly is talking to an angel investor about putting money into Holly's Jolly Salsa. How might the investor see that opportunity? What could she be thinking?

The Currently Perceived Choice chart helps her answer those questions.

At the top of the page, she writes the question facing the investor. In this case, "Should I invest in Holly's Jolly Salsa?"

Then in each column she writes reasons supporting and opposing that choice from the other person's perspective.

For example, she might start by writing Opportunity to get in on ground floor of exciting business and Potential 200-500% return on investment.

On the right side she might note Holly lacks experience with a larger company and

Holly may be reluctant to share control of the business.

She continues to fill in the chart with all the reasons she can think of why the prospective angel investor might think it's a good or bad idea to invest in HJS.

Notice at the bottom of the form on each side there is a section labeled "BUT." Here Holly needs to write reasons that are particularly relevant to the yes or no column. This includes thoughts like, "If I hold back, I might be able to come in for subsequent rounds of investment." This indicates to the investor that she is not necessarily foreclosing an opportunity if she doesn't say yes at this time. Holly makes a similar notation on the other side of the ledger, indicating that failure to act now may mean the opportunity is lost forever.

Having completed the Currently Perceived Choice chart for the prospective angel investor, Holly now has a much better understanding of what might be affecting that person's decision-making process. What kinds of interests might be of importance to her? What concerns she might have.

Having these insights makes it possible for Holly to address those concerns even if the potential investor never raises them explicitly.

For example, Holly has guessed that the angel investor might be concerned about her lack of experience heading a larger organization. She might address that head on by stating that she intends to bring in a COO with experience in the food business once the business starts scaling up. Or she might say that she would be willing to relinquish the CEO position if necessary.

Simple and easy to use, the Currently Perceived Choice chart is one of the more valuable tools in the strategic negotiator's toolbox.

In chapter 10, we'll look at how to use the Interest Analysis Worksheet.

Chapter 10: How to Use the Interest Analysis Worksheet

This bonus video for Negotiation for Entrepreneurs explains how to use the Interest Analysis Worksheet.

We briefly saw the interest analysis chart in lesson 3 on interests, options, and fairness.

Now let’s spend a few moments on how to use this valuable tool

Holly has opened up the tool in order to better understand the interests of the grocery store chain as well as her own in connection with potential sales to that chain.

The blank tool has categories of information listed at the top.

We enter a description of the interest in the left column. The next two narrow columns provide a space for indicating whether the interest is tangible or intangible or both. Next to that is a column for indicating where on the Maslow hierarchy of needs the interest falls.

The numbers that we put in the column indicate where on the Maslow scale the interest generally falls.

Note that many interests could reflect more than one level on the hierarchy. Thus, a desire to have income might be an expression of both physical health and safety because it helps to provide for both.

We indicate combined levels with slash between the two numbers in the Maslow column

You can leave the tangible/intangible and Maslow columns blank if you like. But if you understand the Maslow hierarchy, filling them in can be quite useful.

Finally, the right-hand column provides space for noting options that might satisfy the interest in the far-left column. The tool expands automatically to accommodate as many options as you think of.

Holly first lists “sell products with a high margin” as an interest of the grocery store. She classifies it as a tangible interest because it is satisfied mostly with money. Holly shows it as a ½ on the Maslow scale because money is essential to the survival of the business. And she believes this interest will have the highest priority for the grocery store management.

One option for satisfying that interest is to buy Holly’s Jolly Salsa as cheaply as possible and to sell it at as high a price as the market will bear. In other words, if Holly’s Jolly Salsa normally carries a retail price of $4.75, then the grocery store chain would want to buy from Holly at a significantly reduced price.

Spelling this out helps Holly think of other ways the store might achieve the same result but without Holly’s Jolly Salsa having to discount the product too much.

Holly continues filling out the interest analysis tool, discovering several interests that she had not previously identified.

At the end of this process, she has a much better understanding of the grocery store chain’s interests and how they might be met.

Because the buyer representing the grocery store chain has his own interests, Holly opens up a chart for him as well and fills it out as shown here. As she thinks through his interests, Holly quickly sees that he wants to keep his job and not get fired. At least that is a reasonable assumption until she learns something different. He probably would like a promotion and a bonus. To satisfy his need for acceptance and recognition, it would help him to be recognized as a first-class buyer.

He may enjoy working with vendors and might also like to help build a top-notch procurement department. Having identified these as possible interests, Holly will be able to keep her eyes and ears open for indications of this kind of interest.

Holly also identifies options for satisfying each of the buyer's interests. This gives her insights into how she might help the buyer at little or no cost to her and Holly's Jolly Salsa.

Now that she has filled in the chart for both the grocery store chain and the buyer for the chain, she has a much better idea of what will be motivating their decisions, what they will need in order to do a deal with Holly.

Having completed that step, Holly can now turn to the strategic negotiation preparation tool to think about each of the 8 elements of negotiation as it relates to a potential deal with the grocery store chain.

In chapter 11, we'll look at the strategic negotiation preparation tool.

Chapter 11: The Strategic Negotiation Preparation Tool

In this final chapter, we look at the Strategic Negotiation Preparation Tool included in the toolkit that comes with this course.

The Strategic Negotiation Preparation Tool is a series of questions designed to help negotiators or a negotiation team think through the 8 elements of strategic negotiation plus some additional topics that help to prepare an effective strategy.

The first two questions focus attention on the topic or issue that brings the parties together and the preliminary articulation of one or more objectives for the negotiation.

The issue could be a dispute, a problem that needs to be resolved, a sales opportunity, the negotiation of a contract, or anything else on which two or more people need to work together to work out a result.

The stakeholder chart helps you identify people and entities that could affect the outcome of the negotiations. For example, in Holly's negotiation with the buyer of the grocery store chain, the buyer may not have authority to conclude a deal. His role may be to recommend to someone higher up in the chain of command. That person would actually decide. And someone else might be in a position to ratify or veto the deal.

Holly would want to find out whether the buyer has ultimate authority and, if not, who within the organization will make the final decision.

It may not be easy to get this information, but Holly should try because having it will be useful in crafting a deal.

The section on the factual context brings the first of the 8 elements into play. It has two questions. But you can add others that help you make sure you have a full understanding of how the parties see the relevant facts.

For example, if you know how they see the critical facts, write down their perceptions—especially if they differ from yours. If so, you will want to spend time attempting to arrive at a common understanding of the factual context.

The preparation tool next prompts the user to list interests,

options, standards of fairness, and walkaway alternatives. The purpose here is to make sure you have thought through these elements and have recorded your thoughts for future use.

Finally, the tool directs the negotiator's attention to the communication and relationship elements. Here the questions ask about the quality of the communication process, what can be done to improve it, and what media the parties are using to communicate. Similar questions are posed about the relationship.

The purpose of the tool overall is to help the negotiator anticipate and plan for what might take place in the actual interaction. It assists the negotiator in being mindful about the process as well as the substance of the negotiation.

This concludes the discussion of the analytical tools in the tool kit for the book and course. I hope you found it useful.

If you have questions about how to use the tools or any other aspect of the course, please contact me by email (mike@winbeforetrial.com).

I can also help develop custom instructions for your organization and with specific negotiation problems. Give me a call. I'd love to hear from you.

SECTION THREE:
THE TOOL TEMPLATES

Appendix A: The Franklin Decision-making Tool

As they occur to you over several days, write down the reasons in favor of the decision under consideration in the left column and those against in the right. Then locate reasons in the left column have comparable weight to those in the right column and cross them out. At the end of this process, if any reasons are left on one or the other side, that is the decision (yes or no) that has prevailed in this process. Benjamin Franklin called this a form of prudential algebra.

[Question or Decision Under Consideration]	
PRO	CON

Appendix B: The Currently Perceived Choice Chart

In the top line, state the choice that the other party in the negotiation is facing. In the left column list all the consequences to them (the impact on their interests) if they say yes. In the right column list the consequences of saying no. A sample CPC Chart for a choice facing the buyer in Holly's negotiation with the grocery store buyer is shown on the second page.

Should I do or agree to X?	
YES	**NO**
BUT	**BUT**

Should I invest in Holly's Jolly Salsa?	
YES	**NO**
Opportunity to get in on ground floor of exciting business	Holly lacks experience with a larger company.
Potential 200-500% return on investment	Holly may be reluctant to share control of the business.
The product is excellent. There should be a demand for it.	Uncertain whether Holly has resilience necessary to adapt to unanticipated problems and setbacks.
Could be a chance to use my mentoring skills to help nurture a promising startup to national prominence (think Newman's Own Salad Dressing)	Could easily lose entire investment
I like Holly. We seem to get along well.	HJS is unproven in national markets.
The facilities, employee base, and infrastructure for scaling are readily available.	Uncertain how major food outlets will respond to a new salsa
	There are already many strong competitors. Does the world need another salsa?
BUT	BUT
If I hold back, I might be able to come in for subsequent rounds of investment.	Would have a lifetime supply of good salsa
	Failure to seize this opportunity now might mean it will never come again.

Appendix C: Interest Analysis Worksheet Template

List interests on the left. Indicate whether they are tangible (T) or intangible (I), where they fall on the Maslow hierarchy of needs, and their relative importance to the party. Put options for satisfying these interests in the right-hand column. Completed samples are shown on pages 2 and 3.

Sample Interest Analysis for Grocery Store Chain

Grocery Store Interests Worksheet					
Interest Description (Objective)	**T**	**I**	**Modified Maslow Scale**	**Importance to Organization (priority, intensity, impact) 1-10**	**Options for Satisfying Interest**
Sell products with high margin	X		1-2	10	Buy HJS as cheaply as possible
Build reputation as store with high-quality products		X	3-4	9	Be selective in products we buy. Insist on demonstration of quality.
Low administrative costs. Hassle-free buying	X		1-2	7	Get long-term deals with reliable vendors.
Durable relationships with suppliers		X	3-4	5	Get long-term deals with reliable vendors.
Good mix of products and brands		X	3-4	6	Have at least 3 brand choices for each product category

Sample Interest Analysis for Buyer for Grocery Store

Buyer's Interests Worksheet					
Interest Description (Objective)	T	I	Maslow Scale	Importance to Buyer 1-10	Options for Satisfying Interest
Keep his job. Not get fired.	X		1-2	10	Conclude deals consistent with store interests
Get a promotion	X		1-2	8	Conclude deals consistent with store interests. Exceed expectations.
Get a bonus	X		1-2	8	Bring in deals under projected costs.
Be recognized as first-class buyer		X	3-4	7	Consistently close deals at or below projected costs with special benefits for grocery store
Enjoy working with vendors		X	3-4	6	Negotiate in non-contentious, pleasant atmosphere. Have a good working relationship.
Help build a top-notch procurement department	X	X	6	8	Develop standards for negotiating with vendors. Develop behavioral standards for all buyers.

Appendix D: Strategic Negotiation Preparation Tool

What is the Issue?

What do we want to accomplish? (What is our goal?)

STAKEHOLDER CHART

Who recommends?

Who decides?

Who ratifies or vetoes?

FACTUAL CONTEXT

What is our perception of the critical facts relating to this negotiation?

What is our perception of the critical facts relating to this negotiation?

INTERESTS

Our Interests

Their Interests

Third Party Interests

OPTIONS

That satisfy our interests

That satisfy their interests

FAIRNESS

Standards that might apply (law, custom, precedent)

WALKAWAY ALTERNATIVES

Their Walkaway Alternatives

Their Best Walkaway Alternative

Our Walkaway Alternatives

Our Best Walkaway Alternative

COMMUNICATION

What means are we using to communicate?

What is the quality of our communication?

What can we do to improve the communication?

RELATIONSHIP

What is the state of our relationship now?

What can we do to improve it?

How can we avoid making it worse?