Optimize deal value with ‘menu-driven negotiations’

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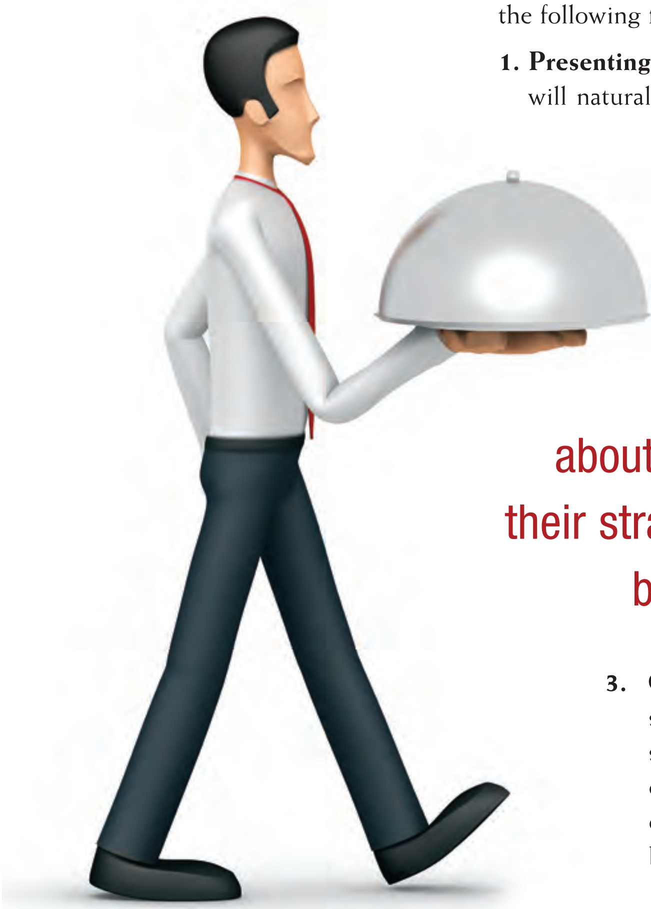
Everyone talks about selling value to their strategic accounts, but few succeed. Too often a strategic account renewal plays out in a way that destroys value for the seller. The negotiations focus almost exclusively on price. The customer pushes hard to drive the price down. The sales organization attempts to justify a higher price by reminding the customer of the value delivered during the life of the concluding deal. The customer ignores or dismisses these attempts and continues to push for a lower price. In the end the seller concedes on price to retain the deal in the face of a real or perceived competitive threat. Why do so many value-based sales efforts fail to deliver value for the seller? Intentions are good. The effort is genuine. The company really does deliver value to the customer. The strategic account manager spends a lot of time documenting and explaining value to key stakeholders. Why does the effort still fail? The answer is in the negotiating approach. The SAM makes one or more of the following four key negotiation errors:



1. **Presenting a single offering.** When presented with a single offering, a customer will naturally concentrate on the price of what is offered. Indeed, without visible alternatives, the customer will frequently assume that price is the only real source of value and differentiation. There is a limited exchange of information, and innovative win-win outcomes are not uncovered or explored.

2. **Failing to make value tangible and compelling for the customer.** Sellers spend much time talking about the benefits that have been delivered and/or will be delivered to the customer. However, sales often fails to change the deal terms and conditions in a way that makes the benefit real to the customer. For example, a seller may promise that its offering will save the buyer money, but the buyer won't give it credit until the savings are guaranteed and it has some skin in the game.

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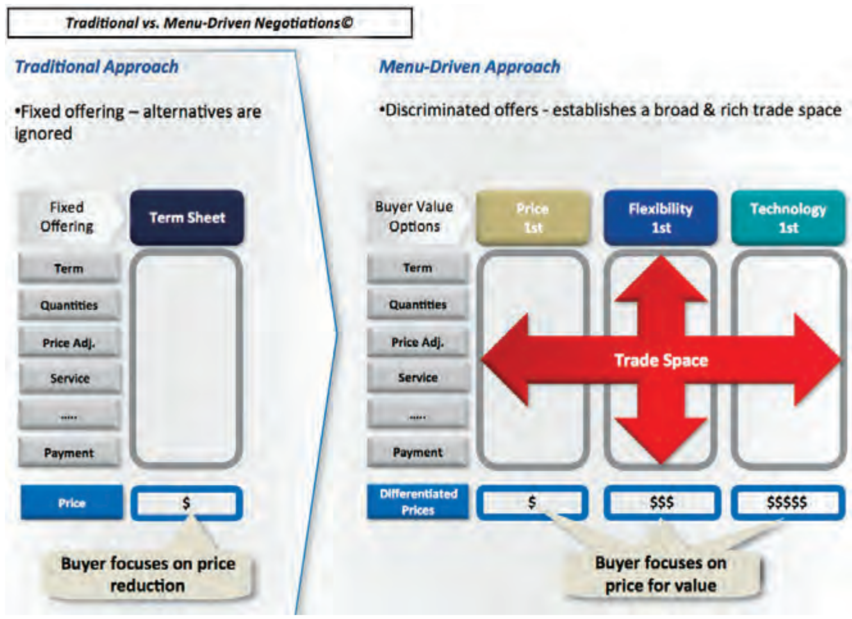
3. **Conceding on price without getting anything in return.** This may sound elementary yet happens over and over. Part of the problem is that sellers think narrowly about what they could request in return for a price concession. They don't consider options the customer can give them or opportunities to reduce their costs and risks. Sales also negotiates for the buyer, dismissing potential trades before they are even proposed.

Figure 1



4. **Giving away value.** Value-added services are routinely included for free as part of the seller's offering to strategic accounts. By giving the services away the buyer takes the value they produce for granted. The buyer expects to receive them and isn't willing to compensate the seller for them. Normally the buyer may have been willing to pay for the value-added services directly or via a performance-based structure.

The SAM can avoid these negotiation errors by following a Menu-Driven Negotiation© approach, which represents a radical departure from traditional negotiation. Menu-driven negotiation enables sellers of goods and services to shift the customer's negotiation agenda away from concentrating on price and toward trading value and risks. What is required is a proactive, systematic way of soliciting and discovering the customer's preferences and willingness to pay within a framework that logically ties price differences to variations in risk allocations, options and obligations. Menu-driven negotiation presents a customer with a commercial menu of alternative offerings, or buyer value options. A bundle of terms and conditions describes each BVO. The menu is carefully constructed to create a broad, rich trading space. The BVOs are aimed at distinct, compelling customer value propositions and differentiated by price according to the value provided to the customer and the associated cost of deal obligations, risks and options. (See Figure 1.)

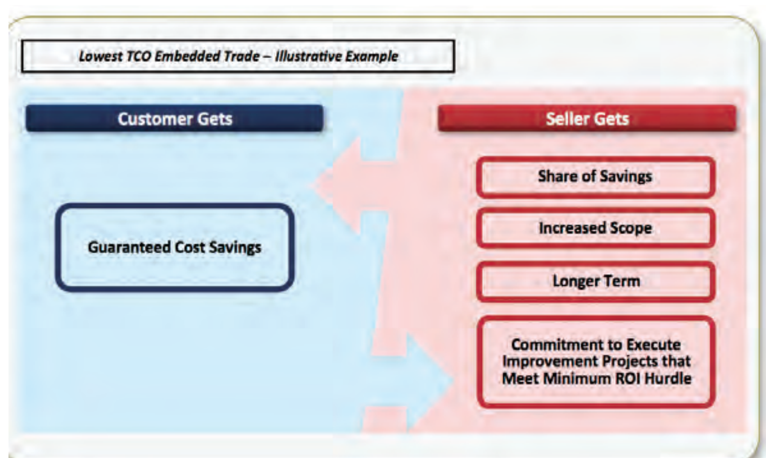
Each menu offering is built around an embedded trade where the seller obtains value in exchange for the value provided to the customer. Figure 2 shows a simple example of an embedded trade for a lowest total cost of ownership BVO. Here the seller identifies and implements projects that generate a guaranteed minimum level of savings for the customer. The guarantee is a firm one: The seller will write the customer a check if the seller fails to deliver. In exchange the seller receives a share of the created savings. The seller also gets a longer-term deal, more scope and the buyer's commitment to implement savings projects above a minimum return on investment. The commercial menu creates a trading space that guides the negotiation and a more deliberate exchange of value and risks. A customer will typically gravitate toward one of the BVOs but ask for changes to it. The customer may want to pull in elements from the other BVOs or exclude elements of the preferred BVO. The customer might ask for a price reduction on the preferred one.

In response to customer requests to change a BVO's composition or pricing, the seller has two options:

1. Steer the customer to another BVO.

2. Propose a trade where the customer's

Figure 2



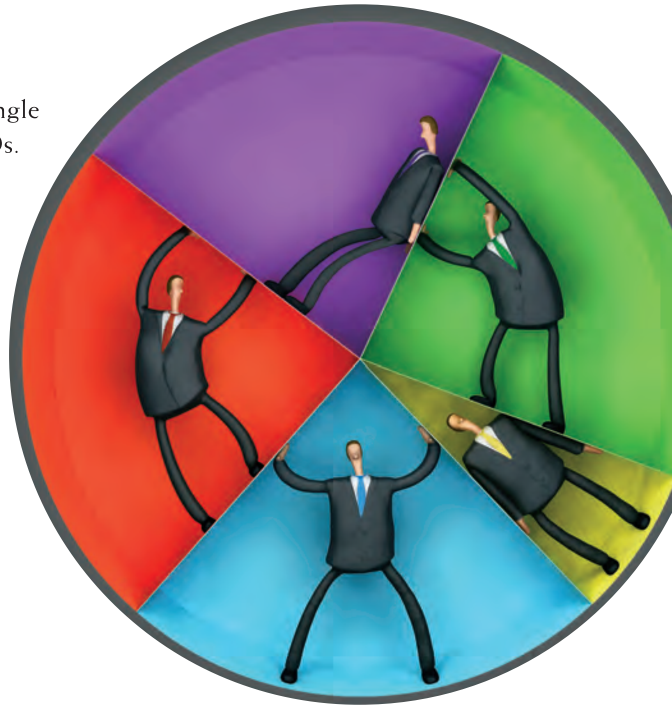
request is addressed in exchange for tradables that create value for the seller (e.g., a longer term, more scope, lower cost and risk, etc.).

Note that the seller doesn't simply grant the customer's request without getting anything in return. In both cases the seller receives value in return for addressing the customer's request, via either a win-win trade to modify the preferred BVO or the embedded trade in the alternate BVO. Trades are carefully and deliberately structured around three design guidelines:

1. Win-win—The trade should create value for you and your customer.
2. Comprehensible—Your customer must be able to understand the trade.
3. Aim high—This is your "going-in position," so leave room to move.

Synaptic Decisions has developed a best-practice template for defining a trade. Over time key trades should be documented in an enterprise-trading playbook. (See Figure 3.) The four key negotiation errors that prevent sellers from capturing value from their value-selling efforts can be avoided by following the menu-driven negotiation approach. Let us summarize how these errors are addressed in it:

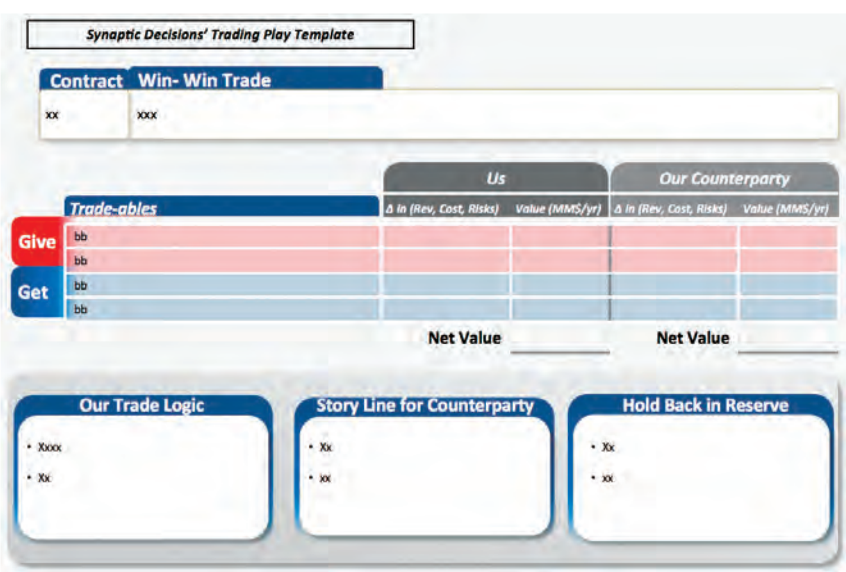
- Instead of presenting a single offering, present a menu of BVOs.
- Instead of failing to make value tangible and compelling for the customer, hardwire the benefits into the deal terms.
- Instead of conceding on price without getting anything in return, craft win-win trades.
- Instead of giving away value, define premium-priced BVOs.



Case study: implementing menu-driven negotiation in the petrochemical industry

A Fortune 100 petrochemical producer implemented a menu-driven negotiation approach with a key account. During the renewal process, the seller presented a menu of BVOs to the customer. One included an option to use a different raw material feedstock than was traditionally used for the customer. This "wild idea" came from discussions with the supply chain and risk management groups. The supply chain group recognized the substitution's feasibility while the risk management group identified the potential for an advantageous future market price for the substitute feedstock. This proposal had never been offered before, as the seller always presented a single offering to the customer, so it was unknown how the customer would react to this option. The seller discovered that the customer was able and willing to accept the alternative feedstock. The new deal resulted in a true win-win trade-off. The customer obtained better pricing, and the seller was more able to manage its supply chain costs and risks to obtain better margins.

Figure 3



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Additional resources

For more information on this subject in SAMA's library, the editor recommends: Carrie Welles, "On-demand webinar: preparing for a strategic negotiation," Sept. 8, 2010, www.strategicaccounts.org; and Tim Cummins, "Has the economy killed collaborative negotiation?" *Velocity*®, Vol. 11, No. 3/4, Summer/Fall 2009, www.strategicaccounts.org.