

Part Three: Sales and Negotiation

Sales is not the same as marketing. We have deliberately separated them in these documents. Marketing is about engaging with potential customers, learning what they want and explaining what you have to offer – sales is about looking them in the eye and saying 'how many can I put you down for?'

What is a fair price? If an enterprise is a value proposition delivered to a customer the essence of it is found in the gap between how much it costs to deliver and how much the customer is prepared to pay – the gross margin. What you have left after covering your costs is profit. If you haven't got a margin you haven't got a business, and if you are not making enough of a profit to repay your own efforts you may need to think again. Every extra point on margin for the same cost base is an extra point on profit. It drops straight to the bottom line. Many small start-ups under-price their product or service because they are desperate for a sale. Don't make the same mistake. It is sad but true that many a good idea founders because it hasn't got a sufficient margin to survive.

Pricing – a common fallacy is to look at costs and add your margin, a better approach is to find out what your customer is prepared to pay and see how near you can get to it – if no margin then no business. This might vary greatly between customers – target them according to the value and benefits they perceive you are giving them. You already should have established a level of customer knowledge through your marketing activities. Use your common sense – the usual way of establishing an approximate value of anything is to get three quotes.

It's not all about costs it's about the value and benefits you are providing.

Be bold – you can always come down, far more difficult to put prices up.

If you are not selling direct, choose your 'partner' carefully – everyone thinks they would like to supply large high street retailers – the famous names – but they are among the most ruthless enterprises around. On the other hand not too small – they might not be able to help you with other considerations. Remember for start-ups it's not just price – cash flow is paramount. When will you be paid and under what conditions? Do they have an invoice discounting facility? Who will keep the stock? What about delivery? What about returns – both unsold and rejected.

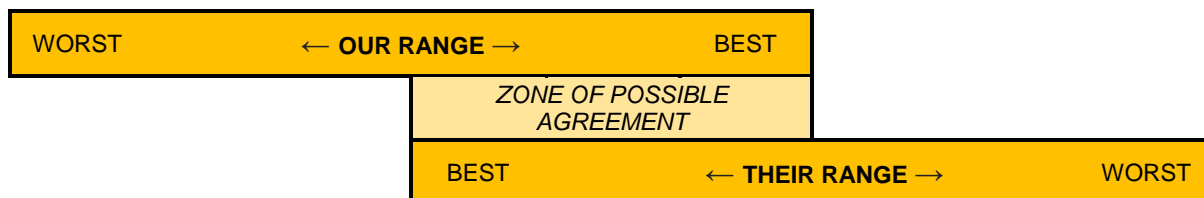
On the other hand if you wish to stay small go appropriately small. Small businesses very often have potentially higher margins.

Negotiating:

This advice is primarily relevant when dealing with agents and organisations larger than yourself. Most of the time you will be negotiating with professionals – actually this is good, imagine the scenario where neither of you knows what they are doing! However, as with everything, be in control of that which you can e.g. do some research – larger companies have published accounts – you can find out their gross margin, they can only guess at yours.

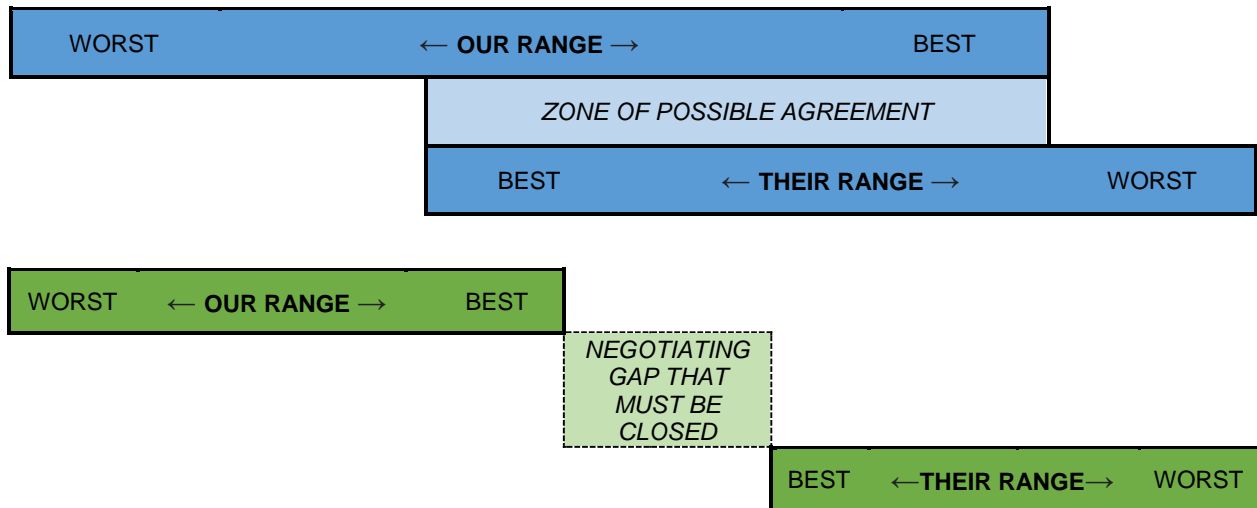
Typically a negotiation has four phases – opening, testing, moving and closing. You should have a maximum of five key points – if you can't reach agreement on these there's no reason to continue.

It helps to visualise the process – each negotiating point might look like this.



Typical negotiating points include Price, Payment terms, Delivery, Returns, involvement beyond mere transaction, future collaboration. Although you may negotiate each separately they are interlinked – a good deal on one allows you to give a little on another.

The graphics below illustrate how making a favourable deal on the blue negotiation might allow you to close the gap on the green one.



You can research which factors are vital to them but are less important for you: larger organisations may have Key Performance Indicator (KPI) and Corporate Social Responsibility (CSR) boxes to tick - you might be able to help them at little or no cost to yourself. You should also be aware of the specific regulatory framework they are operating in - some things will be non-negotiable. For each negotiating point you need to know the best and worst deals that are possible.

Overall you need to know your own best and worst deals and your walkaway price – don't be afraid to leave. It is your business and your choice: most of the time no deal really is better than a bad deal. This sometimes known as your Best Alternative To A Negotiated Agreement (BATNA). If you have a strong BATNA it might be worth letting them know, if not best to keep quiet.

They will also have a BATNA. Hopefully there will be an overlap – if not then best to find out sooner rather than later. The first requirement of negotiation is to discover each other's boundaries and their relative importance to each other. So how to find out? – by asking questions, making opening offers, then testing them by pushing until you receive a 'no'. Phrasing is important – make your ask before your offer: 'if you do X then maybe I could do Y'. By the way, try not to say 'no' yourself – 'maybe' keeps the negotiation open.

This is *opening* and *testing* and needs to be covered for each of your key points before you try to make a deal. Once you have done this you should have an understanding of their boundary on each issue and its relative importance.

Always pause and take a break to absorb this information; it may be that you need to check facts or consult partners, but **always** take a breather before continuing to the main purpose of the negotiation – *moving* and *closing*.

You will know your boundaries and which are most important so try to get the best deals first – trade what is important to you for what is less important to them. If you have a couple of big wins then you can be more flexible with the rest. You should summarise each point before addressing the next and then summarise the whole before closing the deal. A handshake is all very well but **get something down in writing!** One of the easiest ways of doing this is with a follow up e-mail capturing the summaries as you saw them. It is easy to be carried away with enthusiasm and ignore issues which are not mutually understood. Large companies may demand that their legal department gets involved – again if you have researched thoroughly this should come as no surprise.

To return to the point that they are likely to be professionals and you are an amateur – is there anything you can do about that? Firstly, and this cannot be emphasised too much – be in control of those elements that are under your control. Not only does this strengthen your case, it underlines that you are serious and prepared. Secondly, practise through role play. Brief a friend about your upcoming negotiation, explain the framework described above, record the boundaries and then review to see who got the best deal. Costs you nothing.

Finally to repeat some standard advice – you have two ears and one mouth – use them in that proportion. Ask questions rather than make statements, and respond to the answers. Listening is an underrated skill, it allows you to pick up all sorts of signals whilst demonstrating that you are not just waiting for your turn to speak.

