

Negotiate Your Way to the Top of the Stack!

Dear Friends:

Of the many diverse skills required of today's successful credit managers, the ability to negotiate effectively is one of the most important. Credit managers must negotiate every day, with the sales department and others in their organizations and, of course, with customers. This issue's feature focuses on the latter; specifically, how to convince a debtor who is probably in debt to many to pay you first!

We had a terrific time at the annual Szabo holiday party. It was a great opportunity to acknowledge the accomplishments of our talented employees and gear ourselves up for the challenging year ahead, as our exciting industry continues to grow and evolve.

Happy New Year to you all!

Best wishes,



Pete Szabo, President
Szabo Associates, Inc.

The account is sizeable and past-due. Your customer has informed you that it is experiencing a "temporary cash flow problem." You visualize a stack of overdue invoices waiting to be paid to who knows how many creditors "just as soon as the problem is resolved." So how do you move yours to the top of the stack? The answer is, negotiate!

Although to some people the term "negotiation" implies that they will have to settle for less than they are due, this is not necessarily the case. Negotiation means simply "the process of arranging or settling by discussion and mutual agreement."

Successful negotiation leaves you feeling good about what you have received as a result of the process. From a credit manager's point of view, that means meeting your immediate objective of getting paid as well as the longer-term objective of preserving a good business relationship.

Win-Win vs. Win-Lose.

Perhaps the reason many people believe that negotiation means getting less than they should get is that traditional negotiation uses an "advocacy" or "positional" approach, otherwise known as "haggling." In this process, one party stakes out a position or claim and the other party makes a counter-offer. At the end of this back-and-forth exchange, they reach a split-the-difference agreement that often leaves both parties feeling unsatisfied. The tone

of the dialog can easily escalate from making demands to outright hostility. This approach is often labeled "win-lose" because each party's objective is to obtain the maximum result, which by definition frequently means the least result for the other party.

An alternative approach that has gained many converts in recent years is called "principled" negotiation, also sometimes called "mutual gains bargaining" or "reciprocal" negotiation. This is a "win-win" problem-solving approach that strives to achieve two goals — reaching a favorable settlement and maintaining a good relationship. While still remaining firm, the negotiator engages the other party collaboratively, focusing on underlying interests and motivations. The approach is based on the premise that the most favorable result possible for both parties can be achieved this way.

While positional negotiation may sometimes seem to lead to a higher collection, at the same time, it can put the relationship with the customer at risk. Trust can be a casualty, and resentments can develop that can later lead to lost revenues, not to speak of damage to the relationship between credit and sales.

Given the importance of relationships in the media industry, the principled approach is most advantageous; however, it is not easily achieved. The adversarial approach comes

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more naturally to most people, while the principled approach requires participants to view negotiation as a process and a discipline. In order to be effective, it must be learned, planned for, and practiced.

Issues, Positions, and Interests.

Understanding the distinction between an issue, a position, and an interest is key to cultivating a principled approach to negotiation. An issue is the subject on the table for resolution. A position is the stand a party takes on the issue. Interests are the underlying concerns that drive, and will be affected by, the outcome of the negotiation. So while positions reflect underlying interests, they are not identical. Addressing your customer's interests involves an understanding of how those interests relate to the issue at hand and to the customer's position.

For example, the issue may be your customer's outstanding \$5,000 debt; the customer's position is that it is willing to pay \$2,500 of that debt; the customer's interest is that it is experiencing a cash-flow problem but recognizes the value of continuing to advertise with you.

In the positional approach, one party establishes a starting point from which a bidding process ensues and, if incompatible positions finally converge, there is a deal; if not, the negotiation ends in an impasse. In this example, you might establish the starting point by insisting that the entire \$5,000 be paid, and until that happens, no further credit will be extended. Principled negotiation, on the other hand, attempts to reconcile the underlying interests first and allows interests to frame the terms of the agree-

ment. In this situation, you might propose a payment schedule that the customer can comfortably accommodate while continuing to extend reasonable credit.

As this example illustrates, what differentiates principled negotiation from positional negotiation more than anything else is its focus on determining, understanding, and addressing the underlying interests of the other party. When you uncover the needs, desires, and hopes that form the basis for your customer's positions, you can address them directly, providing a greater probability of resolution and averting intractable position-taking. Additionally, this approach provides an opportunity to discover an outcome that may not have been considered by either party, but which is more satisfactory to both parties than traditional adversarial negotiating would have achieved.

Of course, in the real world the situation is often much more complex. Consequently, despite the clear advantages of an interests-driven process, there can be a strong tendency to fall back to focusing on positions instead. There tends to be a hard-wired assumption that the interests of the two parties are incompatible and hence the only choice is a zero-sum game where one party's win is the other's loss. To circumvent this outcome, the successful negotiator needs to prepare well for the negotiation process and know the techniques to keep the "win-win" process on track.

Here are 15 suggestions from the experts that are key to effective principled negotiation:

1. Cultivate the right attitude. Principled negotiation needs to be approached in a somewhat detached manner. Separate the people from the problem, and start with yourself! This detachment allows you to effectively manage emotions during the negotiating session and helps create the best mindset to effectively

investigate the situation and develop alternatives.

Recognize, of course, that emotions cannot be entirely dismissed from the situation. Even though you are prepared to take an interests-driven approach, that very well may not be the case for the other party. An adversarial or defensive attitude will often be the other party's default in a collection negotiation. If yours is an analytical or hard-driving social style that prefers a "just the facts, ma'am" approach, remember that other people may not be wired that way. It is actually best to acknowledge emotions and get them out in the open at the outset so that they can be minimized as obstacles. It can be helpful to offer, in a diplomatic way, a few empathetic words that indicate you recognize and respect how the other party might be feeling.

2. Understand your customer's interests as well as your own. Try to get inside the head of the other party to really understand what their "win" is. Take this to the personal level, too, by trying to learn about the individuals you will be meeting with, their negotiating style and personalities.

Explore your own interests before you begin to begin to explore acceptable alternatives. What will be the likely consequence if you cannot reach agreement with the other party? How does the value of the relationship with that customer compare with the amount you are trying to collect? What monetary value should be placed on that relationship? You must understand all the specifics of the situation, both on your side and on the side of the customer, before crafting alternatives.

3. Know the authority of the other party. A mismatch of the negotiating individuals is one of

the most common problems encountered, and it can easily derail the process. If that person cannot make decisions on the alternatives you may offer, then you will need to escalate the matter in the customer's organization. Know what the decision-making process is in the other company. This can be difficult to do, and time-consuming. To accomplish this, you may need to enlist the assistance of sales.

4. Be prepared for objections. While you may have your own positions well thought through and you are ably prepared to articulate them in a non-threatening manner, you can be quickly thrown off your stride by an unanticipated position or approach by the other party. Give serious thought to what issues may be raised by the other party to each of your alternatives, and be prepared to explore the basis for the objection and creative ways to work around it. Rehearse these in advance in your mind's eye.

5. Plan the meeting logistics carefully. Here again, position-

al negotiators will take a different tack than principled negotiators. The adversarial approach suggests arguing that the negotiation be at your place of business or, failing that, a neutral location, but never at the other's party's location. The principled approach stresses that since set and setting can significantly affect comfort levels, being flexible about location, as long as your own interests are also being met, is most conducive to a collaborative spirit. Choose a location where you both can be relaxed yet have a totally frank discussion. Make sure you will have the privacy you need, out of the range of all uninvited ears. Setting a time limit in advance will help the discussion remain focused and stay on topic.

6. Start the negotiations off on the right foot. Shake hands, sit down, and smile. Be relaxed. Try to establish as good a person-to-person relationship as possible in order to focus everyone's energies towards analyzing the issues and collaborating on possible solutions.

7. Resist the temptation to put a number on the table. Even if the other party does so first, early in

the discussion – which by the way is preferred in the adversarial method – it is best to not directly respond and instead redirect the conversation. After all, what's the hurry? Putting down a number – in negotiating parlance, the “anchor” – too soon may close off the opportunity to explore interests, which you prepared to do. That can undermine your whole strategy.

Instead, move the process along by using questions. You have previously investigated the situation and developed possible interest scenarios with accompanying alternatives. Now is the time to begin testing those assumptions and to determine first hand what the interests truly are. Posing questions also sends a positive emotional signal, demonstrating respect for the other party's interests.

8. Use “party-neutral” language. Keep your conversation in third-person language; the less you can say “I” or “we,” the less the other party will feel that he is making concessions. Take note of what you are thinking as you are speaking, to make sure that your behavior is perceived as genuine and constructive.

9. Clarify your understanding. As much as possible, limit your own talking and use “active listening” to determine the thinking behind the words. As you dig to learn the other party's interests, continually paraphrase back to the other party what you have heard. This provides edification for the other party, as well as for yourself, and facilitates personal bonding.

10. Consider options together. Prepare yourself before the meeting to brainstorm different options with the other party that go beyond the alternatives you developed. As interests get put on the table, begin considering options together,



“Well Boss, our negotiations with Mr. Smith for payment of his overdue account were not going well, so we decided to try a new approach.”

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leveraging where applicable the alternatives you prepared. But do so always in the third person, collaboratively. Avoid making demands or commitments.

Brainstorm together to find “out of the box” solutions. When there are disagreements, try to offer independent, objective reference points such as industry norms or past settlements to arbitrate the difference, rather than taking a dogmatic stance.

11. Re-emphasize the value of the business relationship to both parties. Especially if your two companies have done business together for some time, that represents a significant resource investment that would be costly to replace. Make sure that the other party recognizes that a positive, open, trustful relationship encourages future business dealings and flexibility in business transactions.

12. Maintain an atmosphere of respect. Having the contract “on your side” can create the temptation to take on the mantle of

authority, which may be counter-productively perceived as condescension or “muscling” by the other party. Most relevant thoughts can be shared as long as they are expressed as perceptions or interpretations rather than arbitrary statements of fact or rigid judgments.

13. Pay attention to non-verbal behavior. Pay attention to how your remarks are perceived. Watch the other person’s body language for indications of defensiveness or hostility, such as pushing away from the table or crossing arms. Remember that your non-verbal behavior can distract from or even contradict what you are saying. Watch your own voice pitch, intonation, facial expressions, gestures, and proximity. Sit attentively and maintain good eye contact.

14. Manage negative behavior. What if, despite your best efforts, the other party gets hostile or tricky? Once again, separate the people from the problem, and redirect the conversation with questions that may uncover underlying interests. Try tasteful and non-critical humor. Perhaps redirect the conversation from a

negotiation on the issues to a negotiation on how both sides will negotiate. In other words, acknowledge the tactic the other party is using for what it is and then suggest getting back to business.

15. Put all relevant points in writing. As the framework for an agreement begins to emerge, summarize each point of consensus as it is reached and write it down. If there are action items, write those down, too. At the end of the session, review your notes, obtain agreement that everything is correct, and re-confirm the agreement. Later, follow up with a formal hard copy to cement the understanding.

Successful negotiation can mean the difference between getting paid or not, needing the services of a collection agency or not, and preserving a customer relationship or not. At Szabo, we take pride in using principled negotiating techniques that protect and preserve our clients’ relationships with their customers. And by using the same approach, you may reduce the amount of business you need to send our way! ♦



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