



Mastering Negotiations:

A Vital A/R Skill

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How to best negotiate? People around the world do it every single day. A merchant offers a price, a shopper scoffs and replies with an unbelievable lowball number that is one third – or maybe even one fourth – of the original asking price.

They argue back and forth. Maybe the customer threatens to take their business elsewhere. Maybe the vendor claims that they are already losing money on the product and can't possibly go any lower. After all, the vendor says, they are getting a special discount in the first place. Finally, when the debate peaks and all seems lost, the two parties smile and agree on a deal.

Haggling. Negotiations. A standard, expected practice in half of the populated world. Despite its prevalence, negotiating can still be intimidating.

While we are spared the work of haggling for everyday goods at the store, negotiation skills are still tremendously important, especially in our professional lives. Payment plans, long-term contracts, and other major financial deals are often open to negotiation.

Still, far too many people accept a bad deal simply because they do not know how, or are too intimidated, to negotiate.



A Compromise by Any Other Name

We negotiate every day and many times we do not even know it. It may not be over financial deals or mortgages, but think about how many times throughout the day you have to make a compromise with someone. A spouse. A child. A co-worker. What to do for dinner? Whose family do we visit for the holidays? How do we divide tasks to meet a deadline?

The word “compromise” might make you cringe, but it is not a dirty word by any means. Compromise is how we live in harmony with those around us - and it is the name of the negotiation game.

Placing financial negotiations aside for a second, think about how you negotiate with those around you on everyday things. You want something. The other party wants something different. You communicate in order to achieve an outcome that is acceptable to you both. You might not get exactly what you want, but you can certainly avoid something you hate—the latter often being an unhappy second party, damaged relationship, or worse. Good negotiation is a discussion that works towards a mutual desired goal—not an all or nothing battle to the death. A good negotiation is a compromise.

Key Principles

Having outlined the fundamental aspects of compromise, here are some key principles for bringing that everyday negotiation instinct to your world of finance and accounts receivable.



Clear Objectives

If you do not know what you want, how are you supposed to discuss and defend your side of the discussion? The first step in any negotiation is deciding on two things: your ideal goal and your minimum goal.

Your ideal goal is straightforward. It's your moonshot. It's what you would ask for if you knew you would get whatever you wanted. Of course, it has to be couched in some sort of reality. If you make your ideal goal too extreme, the other party will not take you seriously. Still, it should be just enough to make the other party a little uncomfortable. After all, you aren't really expecting them to accept. If agree right off the bat, then you know you didn't ask for enough and you likely could have pushed it further.

Since you are going into the negotiation with the expectation that your ideal goal will not be met, you have to be prepared with compromises. These are your minimum goals. Compromise is good, but where do you draw the line? At what point is it better to cancel the deal entirely rather than accept the offered terms? These are your red lines.

Once you have these two objectives in mind, you are ready to discuss a middle ground somewhere between those two extremes.

Preparation

You can never be over-prepared. The more knowledge you have, the better you can defend your goals and land a compromise that is more in your favor than your opponent's.

If you are negotiating credit terms with a customer, what are competitors offering? What is the customer's payment history? Will better terms lead to more revenue? Can you find trade credit reports? Will they provide a personal guarantee?

When you do research beforehand, you can better counter your opponent's claims and points while supporting your own.

Personal Relationships

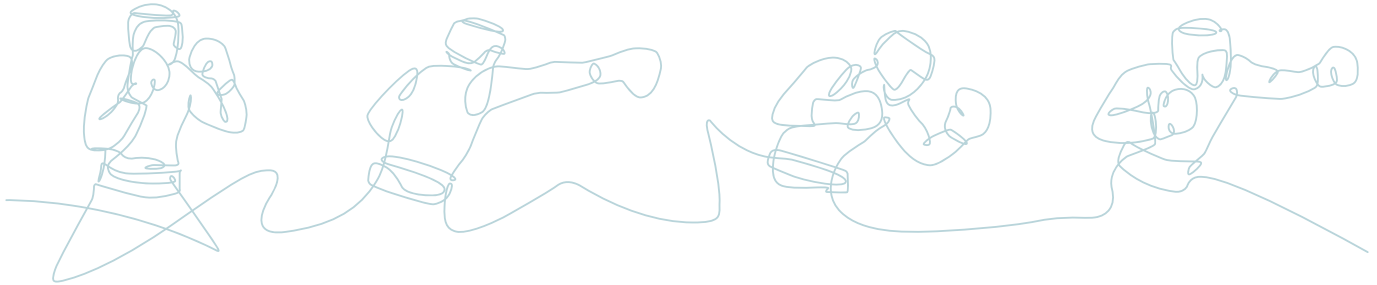
While we negotiate every day, many of these compromises occur with people with whom we have personal relationships. Negotiating with a stranger may be a completely foreign idea to most so, naturally, it can be more intimidating and difficult to negotiate with someone you have never met before.

This does not mean you cannot negotiate successfully in the professional financial world. It simply means that you have to get to know the other party a little bit first. You have to be friendly. Before the time for negotiation comes, take some time to learn at least a little bit about the other person. Build a rapport with the individual. This is easier if you are meeting them over the course of multiple business meetings, but still doable even if you are conducting a one-time meeting and transaction.

Back to the credit terms example, take some time to ask about the customer's business. How did they get started? What are their dreams for the business?

Core Skills

When it comes time to do the actual negotiating, here are a few skills to practice that will come in handy.



Clear Communication

Negotiation requires two parties to fully understand the goals and desires of the other. It sounds simple, but rarely happens in the real world. Think about the last time someone fully, truly understood the idea you were trying to convey solely through sitting down and talking. It likely took a significant amount of clarification, repeating, rephrasing, and adjusting your word usage until you conveyed your idea just right.

If you go into the negotiation using clear and concise sentences that explicitly, and tactfully, state your goals and intent, the discussion will be much smoother with minimal backtracking.

Listen to Understand

Clear communication cannot occur if one side of the discussion does not fully understand the other. This understanding, then, cannot occur if one side is not listening intently to the other. If you listen to your opponent while formulating your response or waiting for any chance to interrupt with your own points, your mind will be too focused on what you want to say rather than listening to what they are conveying. Instead of listening with the purpose of formulating a good answer, listen with the purpose of fully understanding the points that the other party is trying to get across. Then, when your opponent is finished, take a second to think about what they said, ask for clarifications if necessary, and then formulate your response.

Negotiations should not feel rushed. This is not a timed collegiate debate competition, this is real life.

Logical Thinking

Emotion is the worst enemy to good negotiation. When an individual becomes emotionally involved in the negotiation to the point that their feelings start driving their decisions instead of logic, the negotiation becomes incredibly difficult to save.

Negotiation requires logical debate where the two parties can discuss the pros and cons of each point, agreeing on which ones are acceptable and which are not. An emotional individual stops looking at the points logically and could begin attacking irrelevant topics that do not benefit the discussion.

SMART Goals

When going into the negotiation, it helps when both parties have a mutual understanding of the negotiation goals. Using the SMART acronym helps:

- Specific:** What is the specific purpose of this negotiation?
- Measurable:** How do the two parties define a successful outcome? What would be considered a failed negotiation?
- Achievable:** Is there a common middle ground that can be met?
- Relevant:** Are the goals relevant to the purpose of the negotiation? Or are some stated goals outside the bounds of the negotiator's purview?
- Time-Based:** When does the outcome need to be executed and achieved? How much time is available for the negotiation itself?

Concessions

While compromise is the name of the game, a good negotiator is careful not to make too many concessions. If you aren't careful with concessions, you could easily find yourself compromising too far and giving up your minimum goals. Here are a few short rules of thumb:

1. Avoid giving up a concession without getting one in return.
2. Do not give up a concession too quickly or easily. Make the other party work for it. Treat concessions like currency, you only have so many available to barter with before you run out and hit a minimum goal.
3. When you negotiate, picture a scale with the concessions you give on one side and the concessions you are getting on the other. How much does each concession weigh? Is the scale tipping in your favor? If not, you may be giving up too much for too little in return.

The Dos and Don'ts of Negotiating

To conclude, here are a few final things to keep in mind the next time you go into a financial negotiation:

DO

1. Listen to Understand.
2. Be kind, polite, and tactful to avoid emotional override.
3. Always look for the common ground—this is where the negotiation has to end up eventually anyway.
4. Avoid letting emotions take control—if things get heated, disarm the tension with a light joke or compliment.
5. Be gradual in your demands and goals—jumping too far may upset your opponent or cause them to be suspicious of your goals, resulting in less cooperation.

DON'T

1. Blame the other side for anything—this leads to emotions.
2. Criticize or antagonize the other side—stick to logically discussing the goals and concessions themselves without attacking the negotiator themselves.
3. Get emotional—cool heads always prevail without fail.
4. Be afraid to defend your goals or resist concessions—after all, that's part of why you are there.

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