# Power Up Negotiations By Power Bargaining

Every year, billions of dollars are left untouched in business transactions due to the use of typical negotiation methods. Some negotiators only compete for success in the zero-sum game – a transactional model in which there can be only one winner and one loser. Others miss out on value by fearing the bargaining process. Seeking an easy 50/50 split of the pie, they roll over at the first sign of disagreement.

Today's high-risk negotiation climate calls for a new style of negotiation – one in which cooperation builds powerful partnerships that allow hidden value to be found. Once uncovered, the extra value is skillfully debated and divided. Known as Power Bargaining™, this process requires going far beyond understanding the ins and outs of a contractual agreement; it involves creating trust, sharing information, and dividing up a deal that's far bigger than either party initially thought was possible.

## How Power Bargaining Works

The difference between Power Bargaining and the typical negotiation is that Power Bargaining requires a major shift in a negotiator's mindset mid-way through the deal process. When beginning, the negotiator must partner with the other party by building trust and sharing information to create added value, but then he or she must shift to a zero-sum style to divide it.

Negotiations should begin as a joint project where the goal is to find the most cost-efficient solution, minimize the risks, and create improved earning possibilities.

Some examples of ways to create high-value solutions include when parties:

- Benefit from comparative advantage
- Avoid miscommunication
- Have different tolerances to risk
- Leverage different costs and physical conditions
- Utilize economies of scale

After the added value is created, negotiators must shift their mindset to zero-sum and work to get their piece of the optimized value. This stage can be tricky and requires the negotiator to address each bargaining process on an individual basis.

## The Creation of Added Value

Acme Manufacturing has bought metal parts from Fall River Steel for the last 10 years. Every year the contract comes up for review and terms such as price, discounts, and payment conditions are negotiated, but for the most part the deal is left the same. The price for the parts order typically ranges from $865,000 to $910,000.

This year the Acme Manufacturing negotiator was told by management he needed to reduce the costs of the transaction. Consequently, he begrudgingly told the other negotiator, “If you cannot accept $795,000 dollars for the order, we will find somebody who will. Accept our demand or we will have to walk.”

Facing tight budgets, both negotiators decided there must be an alternative. They decided to examine all the elements of the production, delivery, and storage of the parts, step by step. It was discovered that 20 percent of the parts Acme Manufacturing purchased had to undergo time-consuming repairs before they could be used. These repairs ended up costing $155,000 annually. Additionally, Fall River Steel stated that they typically incurred $110,000 charges due to the waste created from cutting and shaping the parts. In total, these issues were costing over $265,000 between both companies.

Realizing that these were the costs were the real source of their problems, they began to brainstorm solutions. The Fall River Steel negotiator realized that part of the reason for Acme Manufacturing’s need for a high percentage of repairs was due to the way the parts were stored. For an extra $15,000 dollars, Acme Manufacturing could have their order shipped encased in storage material that would double the shelf life and Fall River Steel would guarantee it. It was also found that by stamping instead of machining two of the parts, Fall River Steel could lower their labor, maintenance and wastes costs by 40%. This created combined savings value of over $184,000 per parts order!

**How is the Added Value Going to be Divided?**

The new method of stamping and storage gave the parties a new problem. Who is entitled to the gain of $184,000 that the parties have achieved together?

An impulsive decision might be to share the value evenly with a 50/50 spilt. This approach is typically a sign of fear of the bargaining process. Many negotiators feel uncomfortable after creating added value through cooperation and then transitioning to a zero-sum mindset to divide it. However, this is actually the most powerful and effective way to negotiate.

While every negotiation must be examined under its unique circumstance, four possible ways to go about doing this include:

- Work towards a prearranged goal: “If we can present a solution where we have squeezed the costs down from X to Y, then we will pay you Z.”
- Agree on the division in advance and establish how possible savings are to be distributed among the parties.

- Divide the savings so that the gain is distributed in relation to the parties' work effort, costs, or risk. This can be tricky because both parties typically over-emphasize their own efforts.
- Gain insight into the opponent's calculation. Compensate for all the increased costs, provide a modest profit, and retain the majority of the pie.

Not every negotiation will yield a perfect compromise. But without being open and honest about costs and underlying motivations, many negotiators become stuck in gridlock. The current NFL labor talks are a great example of how negotiations can be derailed by lack of cooperation. Unlike the Manufacturing example, both parties in the NFL are unwilling to share basic financial information and therefore are making it extremely difficult to get to a point where they can share the annual revenue or create added value.

By identifying the source of disagreements, two parties can leverage their differences in costs, expectations, physical conditions, and tolerance for risk to devise a creative solution. In the manufacturing case, the negotiators could have wrestled over their initial $70,000 difference until the deal fell apart – instead they can figure out how to split $184,000 in savings.

***About Keld Jensen***

Keld Jensen has more than 20 years experience in international management, negotiation, and communication from his post as managing director of a listed Scandinavian company. He is chairman of the Centre for Negotiation at Copenhagen Business School, and has authored 16 books on such topics as management, business ethics, and negotiation. Visit www.KeldJensen.com to learn more.