

• Negotiation

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NEGOTIATION STRATEGY 4

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BY JAMES K. SEBENIUS

NO MATTER HOW MANY RIGHT MOVES you make at the table—however skillfully you read body language, frame arguments, make offers and counteroffers—doing so at the wrong table can undercut your results. Not only should you negotiate right, you should do the right negotiation. Sometimes this means looking with new eyes for a more promising table.

For example, the owners of a niche packaging company that boasted an innovative technology and a novel product were deep in price negotiations to sell the company to one of three potential industry buyers, all larger packaging operations. The owners' first instinct had been to persuade their bankers of the need for a higher valuation, refine their at-the-table negotiating tactics for dealing with each major player, and try to spark a bidding war.

But my colleague David Lax and I urged the company's owners to rethink this approach. "Why not look for a new, potentially more profitable negotiating table?" we asked. Our analysis suggested that one of their major customers, a large consumer goods firm, might value exclusive access to the company's technologies and innovative packaging products vis-à-vis other consumer products companies.

The company's managers opened negotiations with the consumer goods firm. In doing so, they uncovered a completely new source of potential value—and a much higher potential selling price. They also increased pressure on the larger packaging companies to up their offers, because they would all lose competitive position if the deal went through. By moving to a new table, the company's owners greatly improved their options.

At the outset of the sale process, this niche player negotiated, however skillfully, at the wrong table. Lax and I recently developed a "3-D" approach to address this challenge and a broad range of related issues. You've undoubtedly encountered the first two dimensions of negotiation, staples of managerial training. The third, however, may be less familiar.

- 1-D negotiation focuses on interpersonal skills and tactics at the table. 1-D advice typically teaches you to foster a more effective process, enhance relationships, develop cultural sensitivity, and make better moves and countermoves.
- 2-D negotiation stresses deal design and value creation. 2-D advice adds the art and science of diagnos-

ing value, both economic and noneconomic, and crafting agreements that unlock that value on a lasting basis.

- 3-D negotiation confronts an often-overlooked aspect: moves away from the table to ensure the most promising setup. In a 3-D negotiation, you learn to ensure that the right parties are dealing with the right issues, in the right sequence, facing the right walk-away options—and at the right table, which you have set (or reset).

The 3-D approach recognizes that great negotiators need to be armed with more than just tactics and skills. They also need to know how to set up the right negotiation. This means considering whether to find a new set of negotiating partners, bring new partners to the table, or reduce the number of players in the game.

Setting the wrong table

Consider the saga of a company that developed a hot new technology just as it was going public. The device could detect underground leaks in gas storage tanks much more cheaply and accurately than other products on the market. The timing seemed perfect: the Environmental Protection Agency (EPA) was persuading Congress to mandate that gas storage tanks be continuously tested for leaks. Not surprisingly, the company's board of directors pushed the CEO to get the device on the market, and fast.

The company went into overdrive with its production and marketing plans, and soon it was time for the sales engineers to meet with prospective customers. Imagine how confident the engineers must have felt as they launched these negotiations: "Our technology costs less and works better than the competition's, and it meets the EPA's new standards." Better yet, all of these impressive claims were true.

But to the dismay of the sales force and the entire company, the product was a flop. Their first sale turned out to be their only one. Why couldn't the sales force drum up more business?

The answer lay in how potential buyers assessed the new device. It was highly sensitive, so much so that it could detect leaks as tiny as eight ounces. From the perspective of potential buyers, the product worked *too* well. Right away, they feared the device could get them into needless, expensive regulatory and legal trouble, and create bad publicity as well. If the slightest trickle of gas caused alarm bells to sound, communities and government bureaucrats could

soon be up in arms. The technology company thought "faster, better, cheaper" equaled a sure sale, but potential buyers thought it equaled a sure headache.

From the very beginning, the setup of the negotiation held little promise of success, even in the hands of silver-tongued persuaders and artful deal crafters. A potential buyer's BATNA (its best alternative to a negotiated agreement)—no deal—was superior to whatever package the company offered.

Moving to a different table

When a negotiation reaches an impasse (or, preferably, sooner), it's important to consider that you may be at the wrong table. What other individuals or groups might be able to break the deadlock? Perhaps you should be talking to them instead.

The technology company erred in negotiating exclusively with potential buyers. Early in the process, managers should have recognized the need for a 3-D move away from the customer table. Specifically, they needed to look for different negotiating partners—such as the politicians and regulators who were setting the EPA's new standards.

What if the company had persuaded the government to mandate the higher level of compliance captured by its device? After all, the device was more accurate, less expensive, and easier to install than existing products. If successful, this negotiation would have resulted in lower compliance costs and better environmental results for all. Had

the government been induced to require the use of the "best available" or "best feasible" technology on these storage tanks, the firm would have had the upper hand in an endless string of negotiations. That very sensible deal would then have been the powerful driver of vast sales to industrial customers.

In short: better tactics, at the right table.

Moving to a bigger table

In some negotiations, no matter how sophisticated your tactics, the existing setup offers too little value. By bringing new parties and issues to the table, 3-D negotiators can help everyone claim more of what they want.

In their influential book *Co-Opetition* (Doubleday, 1996), Adam M. Brandenburger and Barry J. Nalebuff describe the value net—the collection of players whose contributions can create maximum benefit for all. 3-D negotiators can create value nets by seeking out players who will expand the array of options for the parties currently at the table. Specifically,

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3-D Negotiation (continued)

they scan beyond their specific transactions for compatible players with complementary capabilities and valuations, and set up new tables at which they can craft agreements that more profitably incorporate these players. By moving to a bigger table, 3-D negotiators are able to craft agreements that allow for tradeoffs among multiple players.

3-D negotiation flourishes in the realm of international diplomacy. Secretary of State Henry Kissinger set up a 1975 treaty between Israel and Egypt by including the United States in peace talks. Each country served as an important link in the value chain, as Janice Stein described in a 1985 article in the *Negotiation Journal*: "Egypt improved the image of the United States in the Arab world, especially among the oil-producing states; the United States gave Israel large amounts of military and financial aid; and Israel supplied Egypt with territory. A bilateral exchange between Egypt and Israel would have failed, as neither wanted what the other could supply."

In the business world, bringing new faces to the table can be just as worthwhile. This was the case in 1997, when WorldCom acquired CompuServe for \$1.2 billion, largely to obtain CompuServe's Internet infrastructure, data transmission capabilities, and key corporate customers.

Because CompuServe also had a large Internet content business and 2.6 million subscribers, WorldCom enhanced the value of the transaction by moving to a bigger table that also included America Online (AOL), which wanted CompuServe's subscribers to augment its then 9 million subscribers. AOL valued these subscribers far more than WorldCom did. As part of the deal, AOL received (1) CompuServe's 850,000 European subscribers (three times the size of the subscriber base AOL then had in Europe), which AOL placed in a joint venture with Bertelsmann in return for \$75 million; (2) \$175 million from WorldCom; and (3) immediate use of 100,000 modems from WorldCom to relieve the congestion that was at that point sharply hurting AOL's performance and reputation. In return, WorldCom received AOL's Internet backbone network and data services to augment those it had acquired in its purchases of UUnet and MFS, along with a five-year major service contract to run much of AOL's network.

By bringing in AOL as part of the CompuServe deal, WorldCom was able to add a player that facilitated several value-creating trades as part of this transaction.

Sometimes new players aren't just helpful, but crucial. Consider a supplier of retail goods that refuses to accept the risks of late payment or nonpayment. The supplier insists on much tougher payment terms than retailers are willing to offer, leading to a negotiation impasse. One solution might be to bring a factoring firm—a company that

frees up cash flow by purchasing accounts receivable at a discount—to the table. The factoring firm would reduce the supplier's financial risks to an acceptable level and allow the negotiation to continue.

Moving to a smaller table

Finally, it's important to note that moving to a new table does not always mean adding new negotiators. Sometimes, the best way to reach agreement is to reduce the number of people at the table.

Consider the case of an industry association that hopes to hammer out a set of production standards with its members. Rather than entering into a full multiparty negotiation at the outset, the association might benefit from first seeking agreement with a few dominant players in the industry. The small-scale deal could then serve as the basis for a larger one encompassing the entire industry. This strategy has the benefit of bringing influential players on board in a manageable, low-risk setting.

Where should you be?

Finding the right table that offers the most promising setup—better BATNAs and/or added value—can be as much art as science. The next time you enter a negotiation, ask yourself:

- What other potential deal crafted at what other table might usefully alter your current counterpart's BATNA or yours?
- What uninvolved parties might more highly value aspects of the present negotiation or provide a needed element more cheaply?

Probing these 3-D questions as part of a brainstorming exercise may trigger valuable insights that lead you to a larger, smaller, or completely different table.

Improving your interpersonal skills and refining your tactics at the table are worthy 1-D goals. Enhancing your ability to diagnose value and craft agreements that unlock it are worthy 2-D goals. But no matter how effective you are at the 1-D and 2-D aspects of negotiation, you won't fully realize the value of your skills until you deploy them at the right negotiating table. ♦

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