

THE POWER OF 1% NEGOTIATION

By Michael Schatzki

It would be wonderful if we could hit a home run every time we negotiated. If we are selling, we want to sell at list price. If we are buying, we want a huge discount with lots of free services thrown in. And sometimes, we will hit that home run. However, most of the time, we will be dealing with smart people on the other side of the table who also want to hit a home run and it won't be that easy.

Successful negotiating can be about big successes, but it is primarily about adding up lots of little successes. If you can consistently improve your results by 1, 2, or 3%, ultimately that adds up to huge increased profitability for your business.

Here is how it works. Let's make up a company. We'll call them Alpha Manufacturing. Let's say that Alpha's total revenue last year was exactly \$100 million. And let's also say, just to make it simple, that their pretax margin was 10%.

You are the Vice President for Sales at Alpha. In discussions with your CEO, you have concluded that you absolutely have to increase your profitability. And you have decided that the way to do that is to train all of your salespeople to become better negotiators. Your goal is modest. All you want to achieve is a 1% average improvement in all your sales negotiations.

Now, if you had had this program in place last year, and if you had achieved that 1% average improvement, your revenue would have gone up by \$1 million to a total of \$101 million. Since your costs would not have changed, all of that additional \$1 million in revenue would have gone straight to the bottom-line.

However, before going forward with this negotiation training idea, you decide to try it out on one of your senior regional sales managers. You lay out your idea and his response is "You've got to be kidding. We're dealing with sales people. Our job is to keep their focus on selling. We'll never be able to teach them how to negotiate as well. But I agree with you, we need to get that extra one million in profit and here's how are going to do it. We're going to rev up the old sales engine, we're going to redouble our effort, were going to capture market share - that's how we will make it happen."

Now, if your margin is 10%, how much new business do you have to sell in order to get that \$1 million in additional profit? With your margin at 10%, you would need \$10 million in new sales to get that same \$1 million in additional profit that just 1% better negotiating would produce.

If your margin is only 5%, which was the case with one of my clients, you would actually need \$20 million in new sales to have the same profit impact as just 1% better negotiating.

And what IS 1%? Let's say the list price for a piece of equipment that you sell is \$1025. What if you just round it off to an even thousand dollars? Well, what's 1% of a thousand dollars? It's ten dollars. If you drop from \$1,025 down to \$1,000, you've just given away 2 ½%.

So sure, go ahead and try to hit that home run. But remember that the real money in negotiating is in always doing just a little bit better. If you can consistently improve your results by 1, 2, or 3%, ultimately that is where the big impact on your bottom line will come from.