

# Contract Negotiation



# Negotiation

- Concise Oxford Dictionary definition of “negotiate”: “confer with others in order to reach a compromise or agreement”
- How much information is there about negotiating?
  - “negotiating strategies” – over 500,000 results
  - “negotiating tactics” – over 1,000,000 results
- Contract negotiation
- Negotiating strategy
  - how confident are you that your price will give a return?
  - are you prepared to take a punt to win the contract?
  - do you understand all the risks allocated by the contract?
- What is important
  - turnover is vanity
  - profit is sanity
  - cash is king



## You will almost certainly be at a disadvantage

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- Negotiating contracts that are based on price rather than on value
- Commercial arrangements that capitalise on market leverage
- Disproportionate bargaining power
- Are you prepared to take a punt and hope for the best or stick by your price?
- do you understand all the risks you are allocated under the contract?
- does that price include an appropriate risk premium?



## Get some understanding

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- The rules of the game
  - does it come down to the contract being awarded on cost or value?
- Your weaknesses:
  - competitors
  - risks
  - internal processes and governance
  - does your price offer value?
- Your objectives:
  - win the contract
  - have the contract awarded at a sustainable price
  - understand how your client will behave during the contract
  - understand whether your client will engage external resources who see their task to save money at your expense



## Establish your negotiation authority

- Explain how you will bring added value to the contract:
  - company values
  - internal processes
  - process driven
  - continuous improvement
  - market sector knowledge
  - internal skills
  - collaborative supply chain
  - the right price offered
  - understanding requirements of the contract and specification
  - noncontentious



# Negotiating plan

- Develop your negotiating plan
  - communicate to negotiating team
  - establishes platform for negotiation campaign
  - strategy (consider increasing price if concessions are not forthcoming on the allocation of risks)
  - establish starting position:
    - price vs risks
    - too onerous contract terms
  - develop logical arguments
  - establish your walk away position



# Opening negotiations

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- Present your starting position
- Establish your objectives
  - to make a reasonable profit
  - to operate the contract as written
- Use facts and logical arguments
- Make presentation with commitment
- Identify your walkaway position



# Bargaining

- Aim is to win the contract at the right price
- Establish your bargaining chips (price vs risks)
- Lead negotiator
  - strong leadership
  - work to the negotiation plan
  - use skills of the negotiating team
  - control contributions
  - team work
- Team support
  - follow leader
  - stick to plan
  - keep aware
  - maintain role
  - act professionally

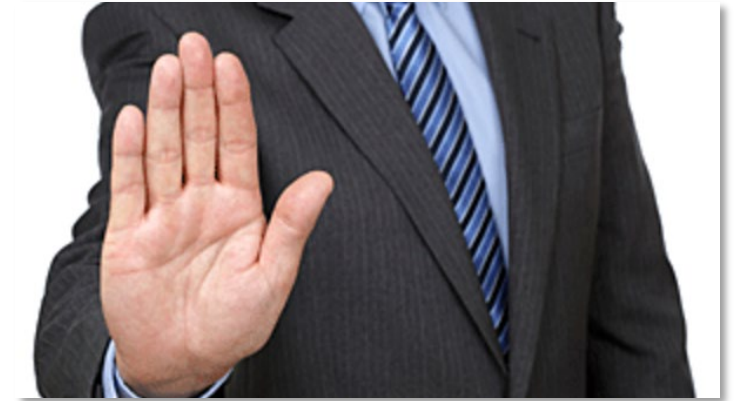




# Objections to what you want

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- Understand the objections
  - listen without formulating response
  - analyse what is being said
  - analyse what is not being said
  - analyse true meaning
- Use humour
- Observe body language
- Capture any agreements and make sure they are reflected in the contract



## Check list

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- Ensure your argument is fully understood
- Present a calm appearance
- Threaten to walk away from the deal if you are confident your price is right
- Insist on your position
- Use reasoned arguments
- Yield to persuasion, not to pressure
- Explore options for mutual gain
- All much easier said than done, particularly if you are keen on winning the contract



# Closure

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- Agreement of issues
  - recognise when agreement has been achieved on specific points
  - check that all aspects have been agreed
  - make sure no issues have been fudged
- Capture agreement
  - make a record of agreement
  - confirm agreement in writing

