NEGOTIATING *with* BACKBONE

[EIGHT SALES STRATEGIES TO DEFEND YOUR PRICE AND VALUE]

REED K. HOLDEN

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Eight Sales Strategies to Defend Your Price and Value

Reed K. Holden

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This book is dedicated to my children: Rebecca and Mark. You are successful individuals in your own ways with lots of backbone. You make a dad proud.

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Acknowledgments

Books don't happen without the support of others. I'm grateful to a wide range of Holden Advisors people for their help as well as clients and friends over the years. All have provided insights and sometimes bruising input to help us craft this new model and the stories that support it.

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Later, when the team started Holden Advisors, I expanded the initial buyer behavior model to include the poker player, and Tom Sant of Hyde Park Partners was an early supporter and cheerleader. He helped put us on track, away from "dense prose," and initially floated the idea of a book on the subject. The model evolved to its current form with the support of a client in Australia. Many thanks to Neil Wilson, Jeanette Conrick, and Mark Johnson for their initial and continued support, and Andrew Jacka for becoming a strong supporter and collaborator as we evolved this model. Subsequent work in different geographic regions included people who were attentive and constructive, and while too many to mention—your help was appreciated.

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I'm an idea guy and storyteller, not a great writer. This comes with the correct word and turn of a phrase. One of two starting editors of this project is John Kador. This is our second project together, and things just keep getting better each time. This one started on a dime and was a fun evolution of thoughts and words. John is a great editor and has become a dear friend over the years.

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This is our first time working with Pearson Education and we can't be more pleased with their professionalism and speed in getting this book to the market. Our Executive Editor is Jeanne Glasser, someone we have worked with over the years. We have learned to trust her advice and instincts and couldn't have been more pleased when she was willing to work with us. The down-in-the-trenches work is done by the Project Editor, Anne Goebel. We have enjoyed her professionalism and inputs in this process. She has been a pleasure to work with.

A special thanks to my mother, Dorothy "Bunny" Holden, who has become a great negotiator and always been a great Mom.

About the Author

Dr. Reed K. Holden is the founder and CEO of Holden Advisors (www.holdenadvisors.com), a firm that specializes in pricing and sales effectiveness. He is the co-author of the second and third editions of *The Strategy and Tactics of Pricing* and *Pricing with Confidence*, two of the leading books in the field. For the past 20 years, he has worked globally with sales and executive teams in a wide range of industries to improve their pricing performance. Contact him at Rholden@holdenadvisors.com.

Reed lives in Concord, Massachusetts, with his wife Carolyn and two golden retrievers Sam and Red.

Introduction

Selling is not as fun as it used to be. That unarguable fact takes its toll on sales professionals and the organizations they represent. If you're reading this, a good chance exists that you're a sales pro who once loved his job. How are you feeling about it today, and more importantly, have you taken a hit on your ability to deliver results? Maybe it's the way you wake up every day wondering where that great get-up-and-go feeling got up and went. Clients put you through the wringer with ever-increasing demands. They organize more and more people to participate in buying decisions. You are put through never-ending rounds of negotiation. More concessions are always demanded, and then even if you score a sale, where's the celebration?

The world is a cost-cutting one for sales professionals. Even salespeople with the *most* valuable products and services—those handpicked by the CEO or CFO—are now negotiated with an economic buyer, better known as *procurement*.

Dealing with procurement is the new normal. To sell effectively in this economy, sales professionals must recognize that the steps of the well-crafted sales cycle have changed. The sales cycle is longer and harder to assess. Customers offer less information and demand more. Until recently, customers in a business-to-business (B2B) sale expected to negotiate and offer discounts with the reward of more volume. Salespeople developed relationships with customers over time, developed a more intimate view of their needs, could anticipate their needs, and earned a measure of trust. In other words, you established yourself as a preferred vendor, with a badge that gave you the freedom to walk the halls of their offices. Now all bets are off.

Although your relationship buyer might still work closely with you, he usually has a new partner—procurement—that runs interference. The proposal might even still be vetted with your closest relationship contact, but that contact no longer makes the decision. Off it goes for another vetting with parties who are not invested in a partnership with you. Rather, they are motivated and compensated to cut costs and save their company as much money as possible. In this fact lies the source of many of the difficulties faced by sales professionals since the recession of 2008 changed the sales playing field.

Procurement teams have been in place and trained to drive tough negotiations for years. They prepare, and even tear apart, the financial statements of suppliers to determine what price the salesperson *should* offer, and they get it with hard-nosed negotiating tactics. Their tactical playbooks have been developed over years of practice "working over" salespeople just like you.

Salespeople who are not prepared for these professionals are often blindsided. The procurement contact might be the nicest person in the world and might even reveal the price point you need to ink the deal. She tests you to see how easily you will meet that price. Now you think you have an easy win. What you might not realize is that now that she knows how easily you dropped your price, she expects that even more discounts can be wrung out of you before she gives you the order.

Are you desperate and up against the wall because it is quarter-end? Do you need to close business whatever the price or cost to your company? Will you cave and give big price discounts? Let me ask you a few questions: Do you know how and why your price is what it is? Can you defend it? Can you demonstrate value that aligns with that price? Do you know whether the cost basis is real and competitive? If you don't know these things, you need to step back and figure them out because price negotiations are going to just get tougher. You need to understand why your prices are the levels they are and what they mean to your company's profitability. You need to know your competitors, how they perform relative to you, and what their price levels are.

Making the decision on how to price a deal is critical, and it needs to be backed up with sound reasoning. I have spent years as a pricing advisor and want to help you better manage the final frontier of good pricing—the customer negotiation. That's what this book offers.

"What separates great salespeople from good ones?" I was giving a lecture on the sales negotiation process when the student raised her hand and asked this important question. I've heard variants of this question many times. The typical phrasing is, "What separates a good salesperson from an average one?" But she asked me what distinguishes truly great salespeople from the good ones who consistently make quota and are welcome on any sales team in the world. I told her that the issue comes down to two things: knowledge and trust. The salesperson's understanding of the customer and his needs demonstrates knowledge. The experience that allows the customer to be confident that the salesperson can be relied upon to act on the customer's long-term interests instead of the salesperson's short-term ones demonstrates trust.

Prospective customers can sense immediately whether you know enough about their needs to be able to offer appropriate solutions. *Good* salespeople use their limited time with prospects to sell them on everything a product or service can do, with unsurprising hit-or-miss results. *Great* salespeople have an uncanny ability to zero in on the specific feature about which the customer cares most. How do they identify what it is? Aha!—that's what separates the great from the merely good. They use a combination of active listening and talking to people with specific knowledge of the customer.

I was speaking at a conference recently when a salesperson I've known over the years approached me. "Can I ask your advice?" he said. "I have a big sales appointment coming up." The salesperson explained that it had taken him more than a year to schedule this sales call and he didn't understand what he was getting into. I congratulated him for getting the appointment and listened as he described the situation. The prospect was a billion-dollar warehouse and storage company. I knew from my contacts in the industry that this company was most interested in increasing its return on invested capital. The salesperson was selling a software tool designed to manage warehouse and storage utilization. He wanted to emphasize the internal cost savings that his software solution could generate. I asked the salesperson two questions:

1. How much first-year savings can you realistically deliver?
2. Can your software help the company track its unused capacity?

The answer to the first question was "half a million dollars." The answer to the second was "yes."

Now, half a million dollars in cost savings is nothing to sneeze at even for a billion-dollar company. Nevertheless, I thought the cost-savings benefit was secondary to the main problem the prospect was interested in addressing. As I saw it, the company had all this underutilized storage and warehouse space sitting around. If the software could help the company increase the utilization of this non-performing space and perhaps avoid or delay building new warehouse facilities, its savings would be in the hundreds of millions of dollars. I suggested the salesperson pitch the ability of his software package to identify, track, and exploit unused capacity. The cost savings could be treated as an added bonus.

What made him a great salesperson? He really wanted to understand his customer's needs and to build trust. Asking for help was the first step. A salesperson who resists asking for help will never be great. If he had gone into the sales meeting pushing the cost savings, he would have fallen flat on his face. Worse, he would have undermined trust and sabotaged his credibility, making it more difficult for him to sell the decision makers on the features they might really care about. By seeking out someone knowledgeable about the industry, he increased his chances of making the sale. I wished him well and asked for a report on the outcome of the sales call. Although there are never guarantees in sales, he called a few weeks later to report success. He had emphasized the ability of his software to increase the warehouse company's utilization of invested capital, and the prospect had turned into a customer.

Why did I recount this story? For one simple reason—I wrote this book to help sales professionals. I want you to know that I've been where you are—I've knocked on doors and I've dialed for dollars. On the other end of the sales spectrum, I have been part of sales presentations that required months of analysis, preparation, and rehearsal. More recently, I've watched the emergence of a procurement function that has added more complexity and uncertainty to the buying center. So as you read this book, please remember that you have a guide who has worked as a sale professional and then developed an internationally recognized expertise in pricing. In 2008, I wrote *Pricing with Confidence: 10 Ways to Stop Leaving Money on the Table*.

Now with this book, I identify key insights, practices, and tools required for success in the procurement sales environment in which we operate. The following chapters offer actionable tactics and strategies to make you a more effective salesperson. That's my promise to you. Now, before I introduce the main themes of the book, allow me to tell you a bit about my sales background.

My first job after school was in sales. Like most people, my career went from job to job, but I always liked selling. There's something very satisfying about learning how to read people, ask effective questions, and close business. Looking back on my sales experience, I can now see that I was mostly wandering around in the dark. I know this because at one point in my career, I decided to be a college instructor and actually teach some of the skills that salespeople need. That decision required me to go back to school to get a doctorate degree. I focused my studies and research on buyer-seller relationships. Conducting this research was an eye-opening experience because although

I was a fairly successful salesperson, I came to understand how little I actually knew about the dynamics of selling, pricing, building trust, and the unconscious motivators of buyers and sellers. The biggest of these motivators, I learned, was trust. Without trust, leveraging the value your company creates for its customers is impossible—and a sale is nothing but a price discussion.

I'm fortunate that in my early years of selling, I had two great managers who taught me how to sell and also taught me to have enough confidence to get the job done without unnecessary discounting. The first was Fred Vorlander. He wanted me to have good technical skills and work hard to meet with customers and find opportunities, but he never put pressure on me to close business at the end of a month—it's just not the way he worked. At Exxon Information Systems, I really learned how to prospect and close a deal. I can still see my branch manager, Jack McGloin, staring me in the face saying "So what?" to push me to get my presentations crisper. He put a lot of pressure on sellers to close deals at the end of the month, but because we couldn't discount the gear, we had to learn to sell without price being an issue—even for large sales. Both jobs were great learning experiences.

It's Not Just Academic

In 1995, I decided to take a leave of absence from my teaching career to put my ideas about trust and value to work. Being in academia is nice, but I missed the rough-and-tumble of the real world. Plus, I was curious whether the material I was teaching had any relevance in sales situations where actual dollars were on the line. I saw a market opportunity in a consultancy that focused on helping companies price the products and services they introduce to the market. So there I was: an ex-professor, now a consultant. In other words, I was a salesperson once again.

I spent months beating the bushes, making cold calls, responding to requests for proposals (RFPs), and searching for clients. I had some dark moments when I regretted giving up the security of academia, but then I hit pay dirt. One of the first clients we signed was Digital Equipment Corp. (DEC, later acquired by Compaq and eventually Hewlett-Packard). DEC, based in Maynard, Massachusetts, was one of the golden stars of the burgeoning minicomputer industry. It was a heady time. DEC's products, software, and services competed furiously for customers in a rapidly changing market. The pricing issues were complex and kept me on my toes. I learned more about pricing and sales in those years than at any other point in my career. DEC seemed happy with my performance, and it seemed to me that we had a mutually respectful relationship.

After some months, however, something shifted. I slowly began to realize that DEC's procurement people were trying to take advantage of me. I had agreed to do a certain project at a negotiated price. That's how consultants operate. DEC seemed satisfied with the services my firm was providing, yet the procurement people used the contracting process to demand that we not only deliver extra services but do it for less money. The procurement manager implied that if we didn't accept DEC's new terms, the company would move its business elsewhere. I struggled with what to do because I was afraid of losing the firm's biggest client. I first got depressed and then I got angry. After all, we had a contract! I thought about calling a lawyer and fighting them in court.

I'm glad I didn't. The reason I didn't is because one day I had an epiphany—I realized it wasn't personal. Also, I understood that it takes two sides to have a conflict. What if, instead of going in and fighting, I withdrew? Would backing off work better than going in swinging? A few weeks later, I had an opportunity to test my theory.

We had agreed to start a pricing project on behalf of a new DEC product. The request for the work had come from Susan (not her real name), a senior executive with whom I had good relations. She asked us to deliver the project on a rush basis, something we were good at. That's one reason Susan reached out to us. She saw value in our ability to respond immediately. We quickly developed a budget and time frame for the work. Susan agreed with our terms, and we began the work even before we signed the agreement. That's what you're supposed to do in a trusting relationship.

About halfway into the project, I received a call from a manager in DEC's procurement department. Jerry (not his real name) trotted out a number of reasons why we had to agree to deliver the project for less money than we negotiated. I replied that we had already agreed to the terms of the engagement and we had a signed letter to that effect from Susan. Jerry chastised me for doing that. He said that I should have known that DEC's procurement policies prohibited direct negotiations with an executive and that he was going to have to renegotiate the deal.

I let a flash of anger pass over me, and then I decided to try out my new negotiating strategy of backing off. Instead of giving Jerry a piece of my mind about trust and fairness, my mind was clear. Jerry was playing a role. It was nothing personal. He was responding to certain incentives. Here's how I handled it.

I told Jerry that I was sorry we were having this conflict. I suggested that we needed to meet in person to resolve the issue, but that I couldn't make the time to do that for several weeks owing to my many commitments. This wasn't true. I really had plenty of time. We were just starting a new business and aside from the work for DEC, my biggest commitment for the next two weeks was cutting the lawn. I wanted to delay the meeting and set up Jerry to get slammed by my contact who was a senior executive. So, I further said that in the meantime, I would shut the project down (this part was true). I wasn't surprised that Jerry readily agreed with this plan. He thought I was bluffing and would quickly fold my tent. I could almost see the smile on his face.

Now, let me say a word about bluffing in negotiations. A bluff is a venture into the unknown. With a bluff, you are calculating the other side will back down or not take the challenge, but if you guess wrong, you will have to walk away. You can't back down from a bluff. If you do that, your future negotiating position is destroyed because the other party will not only conclude that you are always bluffing but that you are a coward. Strategically, bluffing is safest when you have nothing to lose, a situation that certainly didn't describe our position with DEC—but here's the thing: Although I have been known to bluff from time to time, in this particular case, I wasn't bluffing.

So I did exactly what I promised I would do. I shut down the project, which wasn't easy. It meant losing cash flow, and I hated telling my team to go home. I saw clearly what had to be done to preserve my relationship with DEC on terms we could live with. There is no better bluff than no bluff. If you take a position, you must be willing to see it through. Was I really willing to walk away from my biggest client? My team thought I was nuts because they all knew how critical the DEC project was to our young consulting firm, but I got them to all leave the office and not answer their phones. If that's a display of a little arrogance, I plead guilty.

My next call went to Susan, the VP who authorized the project. I left a message for her about what was going on and that we had reluctantly shut down the pricing project until we could get the terms sorted out. Susan must have called Jerry and read him the riot act because it wasn't ten minutes later that Jerry phoned me. Well, I made sure I was out to lunch, which in those years meant I was in the backyard of my house eating a peanut butter sandwich. Yes, I wanted to make Jerry sweat a bit. Over the next few hours, Jerry called six times. Our bookkeeper, Elaine took his increasingly desperate messages. I let him swing in the wind for a few hours, and then I called back. Jerry told me that the original terms were fine after all and requested that we get the consulting project back on track as quickly as possible.

This story offers a number of lessons. Sometimes you have to push back; but when you do, never take it personally and never blow your stack. In other words, be cool. In the musical *West Side Story*, the gang members receive a lesson in survival that applies equally well to those negotiating with powerful companies: "Go man, go/ But not like a yo-yo school boy/ Just play it cool, boy/ Real cool." If the gang members can be cool right before the rumble, so can you. Will negotiations always be a rumble? Of course not. But sometimes they are, and you've got to be ready to "Go man, go."

I can't emphasize this piece too much. Don't ever blow your stack at a procurement person or a senior executive. Above all else, keep your cool. You gain nothing by losing your temper. In many cases, procurement people actually want you to get angry and do something self-defeating. If you say anything nasty, they'll use it against you in subsequent negotiations. You will be on the defensive, agree to something you shouldn't, and end up with less power. As the saying goes, it's akin to the futility of wrestling with a pig—you both get dirty but the pig likes it. So, keep your anger in check and figure out how you can gain some level of control and maybe something that looks like retribution in the process. The best revenge is a deal on your terms.

Another lesson is that although you don't want to lose the business, you must be willing to at least act like you can put the business and the relationship on the line to get the terms you need to survive and hopefully flourish in a business. Salespeople will tell me that they can't afford to put the business on the line. That might be true, but if they act like that, procurement will see their fear and take advantage of that desperation. Instead, appear to be willing to put the business on the line—that's what I did, and it was a very effective bluff in the game.

I went on to develop and grow the consulting firm. With colleagues like Tom Nagle and Dick Harmer, I developed a proven pricing model that has been accepted by hundreds of companies around the world. Along the way, I wrote several books that included the model. These books were addressed to pricing managers and company decision-makers. This book is addressed to sales professionals and the executives who manage them.

I am proud of my first two books, but I acknowledge that neither of them address the day-to-day needs of the salespeople who feel they are out there on their own. These salespeople are in the trenches, dealing with procurement people every day of their lives. Sure, plenty of books exist about selling to companies, getting companies to be loyal, and how to better negotiate, but they all assume one thing—that one model works for all customers.

The problem is that no one-size-fits-all selling model exists. Further, procurement people often know those selling models better than salespeople, and they also know how to short-circuit attempts to develop great relationships and instead get lower and lower prices. In many high-value industries, such as professional services, medical equipment, and software, those short circuits cause companies to lose hard-earned margins and leave money on the negotiating table. That's not good business. This book shows you how to recognize and avoid getting shocked by the procurement's attempts to short-circuit relationships you have with other executives based on trust and the value your firm can provide. You've got to be ready for this and act properly so you don't undermine your relationships, value, or price.

I spent a lot of time in my academic career measuring trust in buyer-seller relationships. I conducted a lot of interviews with procurement people. The research examined trust in seven different industries offering both high- and low-tech products. I studied what analysts had to say on the importance of strategic buying and developing good relationships with suppliers. The results were not surprising: Who would argue with the proposition that definite value exists in creating and maintaining trust with strategic suppliers?

I know many procurement people who operate on this belief and work toward building good, even great, high-trust relationships with their suppliers. They are professionals who treat their suppliers with respect. Unfortunately, given the demands of the globalized economy, these professionals are increasingly in the minority. More and more, procurement is the place in the organization where bullies tend to congregate. The reality today is that 80 percent of procurement managers give the other 20 percent a bad name.

Yes, negotiations can be intense, and procurement managers can be deceptive, but is that necessarily unethical? After all, salespeople on the other side of the table indulge in the same gamesmanship. So let's take a minute and talk about ethics and honesty. I recently attended a class on advanced procurement tactics to help prepare for this book. It was put on by a national association of procurement professionals of which I am a member. The instructor started the class by saying that purchasing professionals should practice high ethical behavior; there should be no substitute for truth and honesty. These high-minded words stuck with me. The professor then moved the discussion from ethics into tactics and described a rich inventory of tricks and swindles to use against salespeople to gain concessions. Some of these tactics seemed deceptive to me and certainly contradicted his earlier pronouncements about ethics and honesty. I challenged the session leader on this inconsistency. All he could do was mumble a weak answer.

As much as professors and instructors like to believe that procurement people should employ only practices that are ethical, in the real world procurement is a highly Darwinian process, long in tooth and red of claw.

Last year my consulting company was hired by a company in Australia to better understand the problems their managers were having dealing with clients that decided to run the relationship through procurement. After a significant number of discussions with both procurement people and people who were managing complex buyer relationships, we developed a buyer behavior model that identified and addressed a comprehensive matrix of selling scenarios that salespeople encounter today. Further, the model we developed not only identifies the selling scenarios but provides specific counter-tactics appropriate to each scenario.

This powerful selling model is the main subject of this book. It is a consolidation of earlier research and numerous interviews with procurement people, salespeople, and senior executives who are dealing with what we have come to call the "procurement pricing buzz saw." It's about selling to a wide range of customers from large to small and a large number of products from commodity electronics to extremely high-value financial services, but you don't have to take my word for it. In the following pages, you will encounter a variety of examples and case histories that support both the model and the advice. Even then, you will probably want to see whether the model adds value to your particular selling challenge. I believe you will be encouraged by the power of my model to help you both meet quota *and* protect your margins.

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Tough Selling—The New Normal

The toughest challenge that business-to-business sales professionals and leaders face today is dealing with the margin-draining games played by the economic or procurement buyer to gain additional discounts. These traps are a part of every purchasing training manual and have been fine-tuned over the years to drain maximum discounts out of even the largest and most sophisticated suppliers.

These professionals don't use the product and apparently don't care about the supplying company, the quality or value of its products and services, or the level of trust in the company's relationship with its salespeople.

The story of the CEO of a high-quality software company seems to be the best example of dealing with this type of buyer. His sales team spent considerable time qualifying and understanding the needs of a large global technology customer and developed great relationships with the committee of customer managers who had been tasked with making the purchasing decision. The team convinced the committee that it had the best solution in terms of value and price. The team had apparently closed the deal.

Suddenly a manager from purchasing showed up and asked the CEO, "Do you know what the stomp is? It's when the big customer stomps the vendor." He sent a clear signal that the deal wasn't concluded until a cascading series of discounts and concessions were extracted from the company. And that's how the deal went down. The discounts were given, concessions were made, and finally the deal was done. The sad part is that it didn't have to happen like that.

This story is being repeated in too many situations throughout the global business community. There was a time when this type of procurement behavior was relegated to commoditized manufacturing businesses such as automobile sales, but it has now spread to the sales of high-value medical devices and professional services. This is the decade of the rise of purchasing, or the economic buyer. These buyers are taking control and driving prices down using every tactic in their well-developed playbook until they are successful in meeting their cost cutting goals and earning a place at the executive table. This state of affairs is the "new normal."

Because of this pricing pressure, high-quality, high-value large companies aren't covering their cost of capital. Profits are draining from once-profitable businesses and companies are going out of business because they don't know how to deal with the "purchasing pricing buzz saw."

One tactic to combat the preceding is to invest in training salespeople to understand customer value and develop better relationships with their customers. Over the past decade companies have been spending more and more dollars on training salespeople. Some estimates point to yearly training budgets of $1,000–$1,200 per salesperson. With an estimate of 15 million salespeople in the U.S. alone, that's a lot of training dollars. This segment of training is also one of the fastest-growing service segments, with an estimated growth of 10 percent in 2011 alone. However, the cost of the training is small compared to the wasted time and unnecessary discounting that occurs because the training doesn't prepare salespeople for effectively dealing with the pricing games that purchasing people play today.

All these efforts around understanding value and developing relationships are wasted on the hard-hearted economic buyers and the games they play to get lower prices. That economic buyer is usually a purchasing professional, but she might also be a department manager or even a senior executive who is being coached by a purchasing professional on how to get high value for low prices. The list of tactics to bluff and win against the hapless salesperson is long and well known. The problem is that nothing in the relationship or value-oriented sales training programs can help salespeople deal with the economic buyer and the games they play.

In fact, many of the training programs teach tactics that fall right into the traps that purchasing professionals use to get high-value products and services for low prices. Just the simple *threat* of putting the business out to bid is often enough to drain dramatic price discounts from a salesperson who is just trying to satisfy the customer. Why? Because salespeople have been trained that customer satisfaction is very important.

If the threat is not enough, another common tactic is to *actually* put the purchase out to bid, qualifying several vendors that are in truth, unacceptable to the customer. They are Rabbits—there simply to drive the price of the preferred vendor or the Advantaged Player down as low as possible. This practice has always been true of commoditized products and industries, but it is now occurring in highly differentiated areas such as software, professional services, and medical equipment.

There was a time when only the big guys, the marquee-named companies, seemed to have all the advantages. They used their scale and brand to squeeze the little guy. Now even medium and small buyers have learned the tactics of the mighty and squeeze their suppliers. Even large, world-class suppliers in high-value industries services are seeing their margins shrink due to run-ins with procurement. This situation is not going to go away when the recession ends. Buyers have learned to get lower prices and will continue to use that power until vendors figure out a way to blunt those efforts with better tactics of their own.

Company-Supported Sales Traps to Avoid

Many tactics can cause salespeople to drop price. Salespeople can learn about those tactics, but before they can successfully play the game needed to ensure increased revenue and profits, they must understand some things that their own companies do that undermine a salesperson's ability to successfully negotiate with a customer. The following sections describe them.

Encouraging Desperation Pricing

In the 1987 film *Broadcast News,* there's a line I like. The failed anchorman played by Albert Brooks says, "Wouldn't this be a great world if insecurity and desperation were attractive qualities?" The reality is that procurement managers are drawn to insecurity and desperation like blood draws sharks. So the first thing salespeople and executives must be able to do is manage their desperation. Having so much faith in the value of your products or services that desperation doesn't even come into play is a better tactic. If you must be desperate, though, for Pete's sake don't show it.

Not showing desperation isn't easy. Desperation comes from something even more scary—measurement. Salespeople have objectives. Executives have Wall Street. Objectives are the ante to get into the game of winning business. They are not just objectives, but hard-to-obtain objectives called sales quotas. Furthermore, the sales quotas are easily measurable. All business people know that they have to hit their numbers. When was the last time you heard of a human resources manager being fired for not making his or her numbers? Salespeople are a special category; they live and die by their numbers—weekly, monthly, quarterly, and yearly. Their compensation is directly related to the last set of numbers. If they slip one month, salespeople know they might have a month or so to make up the difference. If they let it slip much more than that, they know that they are history. Among sales professionals, this reality breeds a certain kind of desperation. When procurement people sense desperation, watch out. All bets are off.

Even if desperation is not there, many procurement people have figured out how to create it. The easiest trick a buyer has is to delay a purchase. The longer they can wait, the more desperate salespeople and their managers become. Because procurement managers know that most salespeople are on monthly quotas, they have learned to wait until the end of the month in the hope that the salesperson will accept virtually any price just so he doesn't miss his quota. This trick is well known to consumers. Heck, even my 89-year-old mother used that trick a few years ago by visiting a car dealership toward the end of the month when salespeople are increasingly desperate to meet their quotas. There was no selling, no thought of value regarding convenience and service. She got a great deal, and it was the first car she had ever purchased!

I wish that this desperation game were simply a tactic created by procurement people, imposed on sales professionals from one end of the negotiating table. However, the sad reality is that desperation often has its origins from the same side of the table that the salesperson occupies. How many times have you been pressured to hit your numbers at the end of the month and quarter? How many times have you seen a manager or senior executive travelling through your territory trying to close business to make the end-of-period numbers? It happens every day. The point is that this type of desperation makes salespeople lousy negotiators because they are too desperate to close a deal and are willing to suffer procurement tactics to get the order.

Succumbing to the "White Horse Syndrome"

I have a name for what happens when sales managers come into the field to "help" the sales reps. I call it the "White Horse Syndrome" to honor the well-intended objectives of the executives. They actually believe their actions are akin to the hero who jumps on a white steed, rides out into the untamed territory, and single-handedly saves the town from the bad guys. The reality is not only do they undermine the sales rep calling on the procurement manager, but they also telegraph even more desperation on the part of the company. Their big weapon? Just a bigger discount.

I learned this lesson some years ago when I was the new marketing manager of a medium-sized technology company. We weren't hitting our numbers. A few days before the end of my third month, the division president (let's call him Bill), paid me a visit in my office. He suggested that I offer a 10 percent discount for large-volume orders as an incentive for us to meet end-of-period numbers. I quickly agreed. After all, he was the boss and I was new—I just didn't know any better. We offered the discount and—guess what?—we hit our numbers that month.

The entire marketing team went out to celebrate, and I was feeling good, but then I closely monitored sales activity for the following weeks. Sales were plummeting. They didn't just get soft, they evaporated. They were as low as Gandhi's cholesterol. So I made some inquiries and quickly figured out what was happening. The 10 percent discount we offered went to our distributors. Now, distributors don't actually consume products. They simply store them and distribute the products to customers who use them in the production of products and then sell those products to the people or companies who finally use them. It's that last activity—coming back for more—that most marketing efforts should focus on.

All our end-of-month discount did was to encourage the distributors to load up the channel. The discount did nothing to encourage sales by the only constituency that matters—the end customers. With the distribution channel loaded, the distributors just sat back until their inventory needed replenishing—something that the low demand for our product predicted would be some months in the future.

You can guess what happened next. At the end of the month, Bill paid me another visit and suggested we extend and increase the discount. But by now I had learned my lesson and I trotted out all the arguments for why this strategy was unsustainable and would do nothing but erode margins. Bill listened carefully, nodding his head as if he understood, and then ordered me to again offer the month-end discount.

This time, even with the discount, we failed to meet our sales goals. The channel—apparently still stuffed from the previous month—couldn't handle any more, nor would it open up until we figured out how to increase real sales to actual customers who would consume the product. Actually, the truth was worse than that, but it would take another month to figure it out.

A month after that, Bill again dropped by, suggesting I approve another discount. This time I held my ground, and we had a spirited conversation about the matter. The upshot is that I won the argument. We put our marketing efforts into demonstrating our value to the customers to stimulate orders and empty the distribution channel. We did that pretty well because something else happened. I started getting calls from our distributors asking when we were going to announce the discounts they had come to expect. This time, we didn't grant the discounts, and the business revenues returned to a reasonable and much more profitable level. The distributors had been delaying their orders in anticipation of yet another panic discount. This time, we held our ground. It had only taken us two months to train our dealers to wait until the end of the month. But I'm happy to report that it took only two months to retrain our customers to change their ordering behavior. Both our revenues and margins increased.

I won the battle but lost the war. Bill fired me a few months later because he got tired of arguing with me. Some managers just don't like being upstaged by their subordinates. Losing a job is no fun, but I learned a lot from that experience and was glad I had the confidence to do what I knew was right in serving the company and supporting my sales team. I got a better job, and Bill lost his job six months later.

There Is Hope if You Play the Game Right

Yes, salespeople and their leaders have responded by mindless discounting, hoping to make up any losses through higher volume. Unfortunately, discounting is a fool's response. Those who live and die by discounting don't live very long.

Sales professionals labor under the assumption that all the power is on the customer's side. That's because the inevitable response is price discounting. Discounting becomes an addiction that actually undermines the long-term health of the business. It decreases profits and erodes the quality of customer relationships. The sad fact is that panic discounting happens even in organizations that provide significant value to their customers. This value is overlooked, underestimated, or flat out ignored when, in fact, it is the key to breaking free of the conventional wisdom of folding your cards and just discounting.

To the extent sales professionals believe they must trade margins for revenues, they undermine the success of their business, which needs profits more than revenue to survive. To make matters worse, they train their customers to expect a price concession each and every negotiation. They validate the tactics that customers use, and they fall into the procurement pricing trap each and every time.

Vendors have a number of tricks and tactics available to fight back, protect their margins, and keep the business. Negotiating in these customer situations is not supposed to be surrender. Remember, the bigger they are, the bigger their appetite. This is true for both suppliers *and* customers. The big secret is that procurement is sweating the deal just as much as you are, but they just learned not to show it. They have learned how to bluff in the big poker game of purchasing, and they know that their bluff will work each and every time.

The name of the game today is maintaining margins. To do that, you must outplay the games of procurement. A way exists for salespeople to blunt the price focus of procurement professionals and not fall prey to their tactics. A way exists for them to assess the "game" the customer is playing and adopt tactics that preserve precious profits from mindless discounting. A way exists for business executives to provide the direction and support that allows salespeople to be effective players in the great game of procurement.

The way is to consider the negotiation with the economic buyer as a game of poker. The game has positions that the seller will fulfill. Based on that position, specific tactics exist that can preserve profits and resources. Those tactics redefine the game so that value can be leveraged, discounts can be minimized, and orders can be closed at price levels that are fair to both parties.

Consider the game of the Advantaged Player—that salesperson is at the negotiating table with a customer. Other players (competitors) are probably also at the table, and the buyer spends a lot of time talking about how the other competitors' prices are much lower than the Advantaged Player's. In fact, some yelling might be going on about how the Advantaged Player has to lower prices to close the deal. Does he have to? Nope—it's all a poker game. In fact, the more yelling that occurs, the worse the hand—for the customer. The Advantaged Player has the winning hand. He doesn't have to discount; he just has to play the game and close the deal.

Fred was a junior partner in a professional services firm negotiating with the CEO of one of his clients to do $300,000 worth of consulting work. The company was a long-term client, and Fred had a good relationship with the CEO. The CEO said that he would agree to let Fred do the work if he dropped the price to $200,000. Fred knew that the company needed to get the work done and that his firm was the best one to do it. He knew that he was an Advantaged Player and held to his price. The CEO, who was just trying to test Fred, placed the order for the work two weeks later—at the full price.

Compare Fred's position to the position of the Rabbit—that is, the salesperson who is added to the bid list to drive down the price of the Advantaged Player. The Rabbit has no chance of winning the business. He has no contacts with the real decision maker and no chance to sell value. The Rabbit has the losing hand and is better off just not playing the game, especially if the time needed to prepare a bid is more than two minutes. It's just a flat waste of his time.

Consider Sally, who was a business development person with a global general contracting firm that specialized in design build for chemical plants. She had been trying to do work with a global pharmaceutical firm and was frustrated that she could never get beyond the purchasing department. One day, her contact asked whether she was interested in bidding on a new plant being built in India. Of course, she was interested. She assembled a team that worked for two months putting together a proposal to do the work. It was gorgeous and provided everything the customer asked for. She even had the lowest price. But that only lasted until the potential client convinced its preferred supplier to match the price. Sally lost the order and wasted hundreds of thousands of dollars' worth of time and effort pursuing a piece of business she had no chance of winning. That's the game of the Rabbit.

The preceding examples describe two of the games salespeople and executives play in the great game of procurement. There are eight easy-to-identify games and tactics associated with each one. If you understand your position in the game, you can play the game better—walking away from the table if you have a losing hand but outbluffing the customer if you have the winning hand. Playing the game properly is not that hard, and it's a heck of a lot more fun. It does require a concerted effort of both salespeople and executives who are committed to understanding the game and using the right tactics to make sure they protect profits and revenue along the way.

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