

As training budgets continue to tighten, it is becoming even more important to strike the best deal—and to forge a working relationship.

How  
to

By Michael Rosenthal

# Partner

With a Training  
Supplier



it's imperative that learning and development professionals maximize the return-on-investment on every dollar spent on training. As the lagging economy presses organizations to cut budgets, professional development managers are faced with a growing need to negotiate the most favorable terms possible with their vendors.

The question is, How?

It seems that the most common dilemma that any negotiator faces is whether he or she should be nice or work hard to get the terms wanted. Often, people feel that one approach comes at the expense of the other: "If I'm nice and focus on maintaining a good relationship with my vendor, that means I'll wind up making concessions and pay a higher price." Or, "If I want to make sure I get the terms I want for my company, I'll have to play hardball and I might upset the vendor...and who knows what ramifications that will have in the classroom?"

Rather than choose between those two options, you'll reap better outcomes by adopting a negotiation framework that enables you to achieve improved deal terms while protecting, if not enhancing, the relationship with your suppliers.

Here's how.

#### Identify their interests and yours.

Perhaps the biggest mistake negotiators can make is to confuse their negotiation "position" with their underlying "interests." *Positions* are the demands that one makes in a negotiation—for example, "I won't pay more than US\$9000 per training day." *Interests* are the factors that lead one to a stated position—such as, "I have only \$9000 left in this year's budget."

Another example might clarify more: A mother walks into a room to find her son and daughter arguing over who should get the last orange. Trying to

be equitable and satisfy each child to at least some degree, she cuts the orange down the center and hands each child half. Her son peels the orange, discards the rind, and eats the fruit; her daughter peels the orange, discards the fruit, and grates the peel for a cake recipe. In that example, the children's positions were "I want the (entire) orange" and "I want the (entire) orange." Their interests were "I want the fruit component of the orange" and "I want the orange rind." Had the mother been able to identify the interests underlying each child's stated position, surely she would've suggested a better solution than just splitting the orange.

Similarly, if you can clearly identify your interests and share them with your training vendors under the umbrella of trust and good faith, you'll likely generate creative solutions that will meet your needs. Ideally, suppliers will reciprocate by sharing their interests with you. Together, you can explore many options for creating a deal that makes everyone happy.

I've had great success in my business by putting that theory into practice, uncovering and addressing a client's underlying concerns and constraints while openly discussing our own. Once I get past the barriers of "positions" and find out what challenges they face, clients often are surprised (and delighted) to find that we can meet their interests even though initially it seemed that we wouldn't be able to meet their position.

For example, clients who began dialogues by stating that their budgets preclude them from contracting our services ultimately engage our services when they find that we're willing to be creative on a payment schedule. But we first have to discover what their underlying interests are, before we're able to generate possible solutions.

So, don't be afraid to tell suppliers what your challenges are, including any internal hierarchical or political issues. You'll be surprised how much easier that makes your job.

#### Understand your alternatives.

When we're negotiating terms for something we really want, we often think that we have no alternatives—things we could do without the negotiation counterpart's involvement. More specifically, alternatives can be thought of as walk-away plans: "If I don't sign a contract with this vendor, what can I

do?” The most obvious alternatives that usually come to mind when negotiating with a training supplier are using another (unknown) vendor to teach the same course topic, developing and delivering the course internally, or eliminating the course entirely.

To be a truly effective negotiator, one must proactively identify as many alternatives as possible. The more walk-away possibilities you have, the stronger your position will be in the negotiation. Of course, like most things that yield reward, that takes some effort and discipline. Alternatives aren't always as obvious as we'd like them to be.

For example, a less obvious alternative to contracting a particular vendor for in-house training is sending members of your staff to a train-the-trainer course from a licensor. That could save your company the time and monetary costs of developing a course internally. Or, send key employees to open-enrollment courses until your budget allows you to contract the vendor for in-house training.

Knowing the competitive landscape for individual training submarkets is invaluable. Not only will that help you understand your vendor alternatives, but it will also help you know what a fair rate really is.

### Determine what's fair.

All too often, negotiators operate without a yardstick against which to measure an offer. When we look to buy a used car, we're accustomed to referencing the Kelley Blue Book or the classified ads, and to hiring independent mechanics to help determine the prevailing market price for the car in question. Yet, when we are negotiating business contracts and other agreements, we tend to overlook the usefulness of such important data points or standards of legitimacy.

A common question I'm asked is whether it's advantageous to make the first offer. That's a complicated issue, but one factor involved is knowing what the offer should be. Having an independent, unbiased standard to cite makes it easier to answer that question. It also gives you the necessary ammunition to imply courteously that a vendor's pricing is inappropriate and to negotiate a lower price without antagonizing the vendor. Imagine you've identified a supplier that offers a course topic you're looking to fill (such as, negotiation) and that this supplier seems to be of high quality. However, the vendor tells you the charge is \$12,000 per training day—

something beyond your budget. Now imagine how empowered you'd feel if you could turn to the vendor and say, “I'm very interested in your course, but I'm having a little trouble understanding how you came up with \$12,000 per day. I've done some research on negotiation training, and I've found that the market price for in-house training ranges from \$5000 to \$7500, plus travel expenses. Perhaps if you tell me why your course is priced approximately 200 percent higher than the industry average, I'll be in a better position to decide.”

Notice that also opens a dialogue. The vendor might have a good reason for charging more than its competitors—reasons you might not be aware of. For example, the vendor might tell you that the price includes travel expenses or a two-trainer model that accommodates larger class sizes, while the industry norm is one trainer. That type of information might affect your interpretation of the data and your decision. But more often than not, the vendor will find that its high-balling approach to the negotiation is futile and that it should lower the price to win your business.

The important thing is, that approach is different from haggling. We often measure our success in a negotiation by how much we made the other side move from its opening position. In the example, you might have felt great if you had haggled the vendor down from \$12,000 to \$8000, saving your company 33 percent. But by using objective standards, you'd see that the so-called discounted price still exceeds the alternatives in the \$5000 to \$7500 range.

### Exhaust your options.

Unlike alternatives, which don't include the vendor, options are limited to things that do involve your counterpart. Options are all of the possible terms or aspects of a potential deal with the counterpart in question. Exploring your options is where value is really created rather than just shared. Grow the pie instead of splitting it.

A huge error committed by many negotiators is that they fail to explore all of their options. They simply accept a deal as soon as the terms are acceptable. When the parties fail to explore more options, value can be left on the table.

For example, when I forge working relationships with clients, I recommend other vendors and courses, share information about events and resources

that might be of interest, identify low-cost training aids and facilities, and introduce them to other t&d professionals, as well as offer a host of other gestures that add value to the client—all with little or no cost to my company. In turn, we ask that clients introduce other prospective clients either within their organizations or in other companies. That has no cost to them but has tremendous value to us. Although both parties have agreed to a contract price, we both realize that there are many other ways we can derive value from our relationship. Therefore, we don't limit our dialogue to pricing.

The next time you're ready to sign a vendor contract, consider whether there's anything you can provide to the vendor with little or no cost to you and whether there's anything you can ask of the vendor in return. For example, one of my clients offered to give us the names and contact information of colleagues at other companies that might be interested in our services and to contact those companies to let them know that we'd be calling. In return, they asked that we consider any engagement culminating from those introductions toward a volume discount. My colleagues and I were excited by the prospect, and we readily agreed.

So, the next time you're about to sign a deal, ask yourself whether there's anything you can throw in that would come at little cost to you but that would be valuable to the vendor. And don't be shy. Make sure you ask the supplier what it can do for you. Before you realize it, the value of your contract will be much greater than initially contemplated and you'll have increased your goodwill with your counterpart—goodwill that might get you an even better deal or preferred treatment in the future.

Think back to the example of the orange. One option was to split the orange. A better option was to give the entire fruit component to the boy and the entire rind to the girl. We're often too quick to split the orange. If we take time to uncover the underlying interests and generate creative options, we're more likely to make deals that better meet our goals.

### Put it all together.

A few years ago, a preeminent investment bank approached my company to deliver a series of workshops; I spoke with the t&d director, "Emily," when she called. She'd heard about our services from Tony, a colleague who engages our company to deliver

similar training to various departments within his pharmaceutical company. I asked Emily what she was looking to accomplish, and she told me that she wanted to replace her pre-existing vendor that delivered one-day workshops to traders, brokers, and other investment professionals. Within a few minutes, it seemed as though Emily was convinced that our workshops would be perfect for her staff: We had extensive experience in her sector, and we'd create different simulations for each audience.

Then the conversation turned to price. When Emily heard our pricing, she said that she "was going to have to pass" and remain with her in-place vendor. I was surprised. I knew that our pricing was in line with the market (standards of legitimacy) and, after all, our clients had chosen our courses over those of our competitors. So, I asked Emily why she was willing to walk away from something that she'd just implied was perfect for her needs. She said the pricing wasn't what she expected. "I don't pay any of my vendors that."

Because her response didn't seem to make sense to me, I decided to persist. "I know that your bank hires top-level vendors," I continued. "What do you normally pay?"

"Roughly 70 percent of what you suggested."

"But that doesn't seem to be in line with what the vendors that I know charge for a full-day course." (standards of legitimacy)

"The truth is, we don't usually need or conduct full-day courses." (their interests)

"Oh, then it might not be fair to compare our pricing to the other supplier you use for shorter courses (standards of legitimacy). Are you sure you want a full-day course? (their interests)

"As I think about it, it might be difficult for traders to take a full day off from work. In the past, a lot of them skipped the full-day course because they couldn't afford the time." (their interests)

"So, let's start talking about what you really need: a half-day course. If we're talking about that, we can lower our pricing by 20 percent. We can't lower it by 50 percent because of our opportunity cost. The facilitators won't be able to deliver any training to other clients that day." (my company's interests)

"Oh, I understand that. But if you can lower it by 20 percent, I think we might have a deal."

"Let's hold off on closing the deal. You mentioned that you've had trouble attracting traders to

# Seven Tips for Negotiating a Better Deal

1. Prepare for a negotiation by identifying what your underlying interests (not positions) are and by guessing what your negotiation counterpart's interests might be (realizing that you might be wrong). Then, before speaking with your counterpart, generate some options that would meet the collective implied interests.
2. Ask your counterpart what his or her underlying interests are. We often spend a lot of time guessing what the other side wants instead of just asking outright.
3. When counterparts won't openly discuss their interests, float some options. Their responses—or their objections—might disclose what's important to them.
4. Begin the dialogue with shared interests (the outcomes both sides want, such as a successful training session). That helps build rapport and momentum in the negotiation.
5. Once commonality is established, address differing interests (the things one side wants badly and the other side is indifferent about) by trading one for another. For example, "I'll give you a written endorsement if you develop a promotional piece I can use to attract participants."
6. Use standards of legitimacy to resolve opposing interests (things both sides want but in opposite directions. For example, the client wants a low price and the vendor wants a high price).
7. When you reach a deal you're satisfied with, continue to think creatively about how you can expand the pie, by introducing more options that enhance the deal for at least one side. That will lead to a stronger relationship and better terms in the future.

the course. At the same time, you said that you want the traders to take the course. What do you think the problem is?"

"They don't want to take training when the markets are open, and we can't do it after the 4 p.m. close because vendors don't work in the evenings." (their interests)

"Well, what would happen if we offered a course that began at 4 p.m. and ran to 8? Would that be good for you? (option)

"You bet! We'd be able to train our people without interfering with our business." (their interests)

"That would be better for us, too, because a late start would lower our opportunity cost." (my company's interests)

"Great. Where do we sign?"

"Hold on. As explained, we have a declining price schedule. The more training days you contract at once, the lower the per-day rate. Up until now, we've been talking about the training we could do for your equities division. Do other divisions offer negotiation training? If so and your colleagues would want to contract my company, we could look at the entire bank, as opposed to each division, as

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one contract and reduce your daily rate (option). That would be good for you because it lowers your daily rate (their interests) and would be great for us because it would mean more business with minimized effort. You'd essentially be doing the marketing to your colleagues on our behalf (my company's interests)."

"There's a good chance they'd be interested."

"And maybe we can throw in an additional workshop you could invite your most important clients to (option). It would be a good relationship-building or marketing tool for you (their interests) and a good marketing vehicle for us (my company's interests)."

"I like that. I'll pass it on to marketing."

"One more thing. Assuming that we receive unusually high participant evaluations on the first 10 workshops we deliver, would you be willing to provide my company with a written endorsement (option)? Although it wouldn't cost you anything (their interests), I think an endorsement from your bank would improve our marketing efforts and make it easier for us to attract new clients (my company's interests)."

"I'll have to check up on our company's policy regarding that. But assuming there's nothing to prevent it, I'd be happy to write a recommendation once you've proven yourselves."

The dialogue actually continued. In the end, we were able to strike a deal that was better than what the client had originally expected and was great for my company. Since that time, we've increased our scope of work with that client and consider her to be one of our most important contacts. Although I initiated the dialogue in this example, the approach

would be equally effective if the client were to take the lead.

#### A new paradigm

As we recognize that business is becoming more and more sophisticated, we must abandon the old paradigm of haggling and adopt a more advanced approach to negotiation. To be sure, for a negotiation to be deemed successful it must meet all of our interests—we must achieve all of the substantive goals we've laid out—and it must protect, if not enhance, the relationship with our negotiation counterpart. After all, we must satisfy all of our company's objectives, including maintaining a level of goodwill with the business community and the public.

To accomplish that, we should consider abandoning positional negotiation for a dialogue that addresses each party's motivational issues and concerns. Based on years of experience, candor and creativity have proven to be more effective negotiation tools than quietly working within the confines of convention. Strength is achieved in fairness and in garnering your walk-away plans. When those elements are combined, you stand to achieve negotiated outcomes you might never have thought possible—such as, meeting all of your training objectives while saving money and other resources on behalf of your organization. TD

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