by Joan Adams

Negotiations

Customers will kill the deal – if they feel the deal is "unfair."

In business school I took a negotiation class, and I still remember the first sentence out of the professor's mouth: "Every conversation is a negotiation." He paused for a moment to let the idea sink in and then he repeated himself, "Every conversation is a negotiation… not only that, most negotiations are of a long duration."

By now some unsettled mumbling and murmuring was going on around the classroom. Then he added, "And if you don't believe me, here are a few examples." At which point he described two people in the process of deciding where to go to dinner. How was this a negotiation? I wondered. He continued, "It is rare that two people want to eat the same thing or see the same movie. So what happens in the conversation is a subtle negotiation. One person acquiesces saying, 'Okay, Italian sounds fine for dinner,' and what is unsaid but implied in this negotiation is, 'I'll go with your choice this time but next time we are going to go where I want.' As this is an ongoing relationship, it's a good bet that this implied request will be honored the next time a movie or dinner is discussed."

He went on, "There's a negotiation between you and the waitress every time you order. By offering you great service she is hoping you will recognize this and reward her. If you become a regular and you tip well, you will notice your service gets better and better. You never 'discussed' this 'arrangement' with her — yet through signaling, this is understood and the negotiation continues every time you walk through the restaurant door."

The bottom line: All negotiations are about much more than money or property or goods. Nor are all negotiations obvious or direct. Unspoken signaling happens in every negotiation. And most negotiations or conversations are ongoing. Most of our interactions are not one-time events. This is particularly true with customers — it is both our hope and expectation that we will deal with the person again in the future. Thus it is in our interest to keep the conversation/negotiation going.

In short, we successfully conduct quiet negotiations every day — all day long — with friends, family, waitresses and most everyone else we encounter. Why is it that we suddenly get flustered, aggressive and number obsessed when it comes time to negotiate with customers and vendors? Because these look like big important negotiations and all the other subtleties are totally blown away by the fact that money has entered the equation, front and center. The negotiation quickly reduces itself to a zero sum game: We want the customer to pay more, the customer wants to pay less. Every dollar you give up the customer gains (and vice versa).

Now it is time to bring another odd piece of the puzzle into the mix — our notion of fairness. I recently read about an odd experiment on the effect of the perceived notion of fairness on negotiations. The researcher first conducted the "fairness" game with chimps. One chimp was given heaps of food. The chimp was then allowed to pass some of the food to another chimp. All the while, the second chimp could see the total amount of food. Chimp number two could accept or refuse the offer. If he accepted, then both chimps got to eat the food. If he refused, then all the food was removed and neither chimp got any. The researchers played the game over and over again. No matter how much or how little the first chimp offered, the second always accepted the offer. It seems chimps really believe that "something is better than nothing." They don't worry whether the deal is "fair," they take the offer and the deal is done.

Next the researchers played the same game with people. Instead of food, they used money. Guess what happened? When the second human saw the total amount of cash (the amounts varied) and realized he was only being offered 10%, he refused the offer. He was happier getting nothing as he knew the other guy wasn't getting anything either. The amount offered didn't matter — it was the percentage. Nearly all humans "refused" the offer when the percent of the total was less than 20%. This was the invisible "fairness" line. When offered less than 20%, the second human said, "Whoa, hold on here! This isn't fair." At that point he refused the offer and both parties got nothing.

This experiment was pretty basic. There wasn't any history between the participants. Each negotiation was done once. The result was, the actual dollar amount the second party was offered had less impact on the deal going forward or not. The *percent* of the total was the fairness indicator — and the percent determined whether the deal would succeed or fail.

There is something very important to be learned here. Customers will kill the deal — even if the deal will put money in both participants' pockets — if they feel the deal is "unfair."

Let's look at another type of negotiation we have all encountered: Buying a car. A recent poll asked American consumers to rank their worst shopping experiences. The answer at the top was overwhelmingly buying a car — followed by buying a house. They hated it. It felt like a game. The numbers weren't real. They were certain that they were getting shafted. They thought the entire process was skewed and totally unfair.

There are some simple lessons to draw from the experiment and from the car buying experience.

1 The more your customers think you are being fair, the more business you will do.

2 Having inflated "list" prices starts the conversation at the wrong place. By posting these prices you are saying, "Here are our inflated prices. Please call us now and negotiate with us to bring the price down. If you are a good negotiator, you will get a good deal. If not, tough luck." This does not feel "fair." The buyer will be much happier to see real prices. Yes, I am suggesting publishing fixed prices, a radical change in the PVF world. (And just in case you think that's an insane idea, here's an odd historical aside: Louis Comfort Tiffany was the first jewelry retailer in the world to have fixed prices in his store and (big surprise!) the customers *loved* it. They still do. Tiffany's is a remarkably successful brand and store).

3 Transparency = fairness. You can offer discounts for volume orders. Post what the discount is. You can have sales. Post the new discounted prices. The more transparent you are about your pricing and your costs, the more your customers will feel that your company is fair.

There's a whole lot of business conducted every day with fixed prices. Buyers (and sellers) spend a lot less time arguing, negotiating and feeling bad about prices. When pricing is transparent, customers can focus on services. Buyers don't always opt for the low-cost solution. If they did, the only restaurant around would be McDonald's and the only department store would be Wal-Mart. Buyers have many criteria besides cheap: Easy, fast, convenient, solves their problem and here's another for the list — fair. <<

Joan S. Adams has consulted for industrial clients for more than 15 years. She headed DITT, the consultancy arm of the French National Utility, Electricité de France, and was a managing consultant at A.T. Kearney. Later, she started Pierian, a consultancy that brings sustained and measurable success through operational excellence, customer focus, and competitive market strategy. Joan Adams speaks French and Spanish. She has worked on projects in Europe, Central America, Africa, Asia as well as North America. She has engineering degrees from the University of Wisconsin-Madison and MIT. She also has an MBA from the Wharton School. She can be reached at adams@pierian.net.