

CONTRACT NEGOTIATION FUNDAMENTALS

The goal of any contract negotiation is to secure business with an acceptable level of risk. The starting point is to select the right customer—or, more importantly, to reject the problematic customer. For example, compare the low-margin customer who shops for price, and insists his contract form be signed with no changes, to the higher-margin customer. As opposed to the low-margin customer, this type of customer is looking for a long-term partnering relationship with its vendors. This higher-margin customer is also receptive to a negotiation process that leads to the execution of a customer contract with an acceptable level of risk.

Along with selecting the right types of customers, there are many other negotiation fundamentals that you should keep in mind.

- Tell the customer or vendor early on that your company reviews and negotiates all of its contracts.
- Work on developing a partnership mentality with your prospective customer and vendor from day one. The company who anticipates the needs of those it contracts with and does its work in a highly professional manner will find the customer and/or vendor far more receptive to negotiation.
- For some customers, one negotiation is all it may take. If both you and the customer are pleased with how the first negotiation process went, and the customer is further pleased with your performance and level of customer service, that first negotiated customer contract form may serve as the basis for all future contracts between the two of you.
- Sell the customer and/or vendor on fairness. For example, it is not fair for others to expect your company to defend them from their own negligence.
- Sell the customer and/or vendor on the idea that a company who does not care about the risks contained within a contract form also may not care about the quality of their products or services either.
- Negotiation is an art and not a science. There are certainly wrong ways to negotiate, but there is no one right way.
- Do not begin negotiations until you've had an opportunity to fully present your value proposition. In other words, if the customer views you as selling commodities and offering no value, the customer has no reason to negotiate.
- Understand the objections raised so far during the sales process. Based on these objections, identify your potential customer's motivation or hot buttons.
- Be certain that you're dealing with a person who has the authority to negotiate and make decisions.
- Adopt the right negotiating attitude.
- Be prepared to be patient. This will lead to a higher level of trust between you and your prospective customer.
- Be prepared to work toward a true win/win solution.
- Know in advance at what point the agreement will no longer be beneficial to you and your company, and be prepared to walk away.
- You should listen to your customer/vendor. For example, when selling be prepared to change the value proposition to support price concessions. For example, agreeing to expedite delivery times or fix pricings for a longer period of time.

- Seek to identify agreement on small items to help develop momentum to the negotiation.
- Periodically summarize any agreements that exist between you and the customer. Take notes to demonstrate your commitment to the negotiation, and to help you find opportunities to verbally summarize the smaller agreements.
- After a tough negotiation is completed and a contract is signed, make sure the customer is pleased with your performance. In fact, make sure the customer is so pleased with the first transaction that they will continue to buy on future transactions. Remember, the customer may very well be looking for a good long-term component supplier, viewing this as being less expensive over time than finding a new supplier again and again.
- If no agreement is reached, sincerely thank prospective customers for their time and commitment to the process. Give them an "out." This is an opening for them to come back to you and your company in the future for your next negotiation. If they do come back, review the points that seemed to be open when the previous negotiation ended, and see if an agreement can be reached this next time around.