

PRINCIPAL'S REPORT

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INCREASING MARGINS

Negotiation Helps Achieve Your Vision by Concentrating on the Client's Interest

We are a conflict-avoidance industry, but are conflicts good or bad? **Steve Isaacs**, managing director at the **Advanced Management Institute for Architecture and Engineering (AMI)** in Napa, Calif., says the answer is neither. How you resolve conflict is what's either bad or good. Conflict represents a difference of interest and manifests itself as a difference of positions. Because of this, we negotiate on the positional level and never move into the interest level. The normal resolution to most positional level differences is to split the high and low positions down the middle, resulting in a compromise. "We want creative solutions, not compromises," said Isaacs, and the way to achieve that is to start a dialogue by focusing on the other party's interests.

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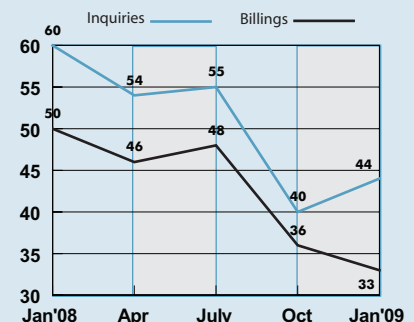
By **William R. Long**

Relationship building is the key ingredient in the buying equation and helps you establish the trust necessary to close the deal. However, it does not happen overnight nor is there a straight-line formula. There is typically more than one decision-maker involved in every project, and each of them has their own issues and concerns. They have their own hot buttons, their own likes and dislikes regarding procurement, for example, or a particular mechanical system. They have their own past experiences with people, firms, and processes, and they have their own personalities. As a result, a lot of firms have developed zippered relationships, where an individual is matched up with another individual so the mechanical expert at your firm lines up with the

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(Source: American Institute of Architects)

Increasing Margins

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Goal versus method. "Is the goal of a negotiation to satisfy your interest, their interest, or both?" asked Isaacs. Conventional wisdom says that satisfying both interests is what we normally call "win-win," but it's actually "lose-lose," according to Isaacs. Negotiations should achieve your interest alone. "The goal of a negotiation is to have a dialogue for the purpose of satisfying your interest, while the method to use is to focus on the client's interest. Not give in to its interest, not satisfy their interest, but focus on their interest. This is a counterintuitive approach to what you're used to," Isaacs added.

You must think differently about negotiations.

Three strategies for negotiating:

1. Achieve my interests by defeating their interests (the "Attila the Hun" technique);
2. Achieve my interests by focusing on my interests only (the "thank you for sharing, but I don't care what you're saying" technique); and
3. Achieve the interests of both sides by focusing on the interests of both sides (the "Kum-Ba-Yah" technique). The likely result is a compromise. Many people think this is the best strategy, except for Isaacs.

Too often, Isaacs hears the following reason for caving in: "We have to maintain the client relationship, no matter what." This goes for whether the client is a bad client, does lousy projects, never pays on time, or you just can't stand the client. "You must think differently about negotiations," Isaacs said. "When a client says, 'I have no more money . . . I can't change that contract term . . . I have to get this done in three months,' instead of saying 'okay,' you ask, 'Why?'" Isaacs explained, "When you understand

the client's real interest, you have an opportunity to do better for yourself. That's interest-based negotiations."

Answer a question with another question? Rather than developing a list of negotiating positions, prepare a list of questions to ask. In the hierarchy of questioning, the method that yields the least amount of information is one that can be answered "yes" or "no." The open-ended question produces the most information and starts with one of three words—"why," "how," or "what"—followed by "what if," "who," "where," and "when." There are at least five levels of "why" that will eventually lead to the root causes of the client's interest, which can then be dealt with. If you stop at the first "why," you won't uncover those deep-seated or hidden issues.

Negotiations demonstrate value. Isaacs has concern about our industry valuing itself inappropriately, especially during any downturn. "Uncertainty is the key word of the day," said Isaacs, "The capability for A/Es to value themselves deteriorates greatly when there is such a growing hunger for work, and the hunger peaks over as the key interest in a negotiation. When every client becomes such a precious commodity, backlog overwhelms everything else," Isaacs added.

Know your BATNA. A/Es don't have the confidence because they believe the client holds all the cards. They don't know their BATNA (best alternative to a negotiated agreement), or option "B." Isaacs added, "They're conditioned to believe that to walk away in a negotiation is failing. They also believe that the client has alternatives and they don't." The Federal Acquisition Regulations (FAR) state that in the beginning of any negotiation, the agency has to state its BATNA, which generally is "if we can't negotiate a fee with you, our selected first team, we are prepared to go to the second."

Impact on profitability. “The greatest impact you can have on profitability of the project is at the beginning negotiation, and it dramatically takes a nose dive after that,” Isaacs pointed out, “and if you give in at the negotiation, it will set the tone for the entire project. After a downturn, firms take much longer to come back to levels of profitability because they have accepted inappropriate fees, conditions, extended scope, and irresponsible schedules during the time that they were desperate for work,” Isaacs added. Firms are in jeopardy more than ever by giving away so much in negotiations that they are putting their firm at risk even more than if they had less work. Every firm should balance the desire right now to have sufficient work and its capability to produce any level of profitability.

Set the stage for a successful negotiation. Negotiations are like amoebas: Both keep changing their shape based on lines of least resistance. “When the resistance is in the fee, you move to the scope. When the resistance is in the scope, you move to the schedule and keep moving around the fee issue,” Isaacs advised. Some other important issues include terms and conditions, indemnification clause, backlog, maintaining client relations, staffing, strategic plans, core values, impact on your reputation, and risk associated with the client or project.

Illusions and roadblocks. There are illusions and roadblocks when dealing with retractable aggressive counterparts, such as:

- Winning equals excellence, getting a “one-up” on the opposition. The goal is not to win, but to achieve your interest;
- Surviving drives our fear of exploitation and leads us to withhold information, because we believe our counterpart will use it against us;
- Competitive skills lead to individual

gains, rather than leading to better communication with the client; and

- Negotiation means competition. The purpose of a competition is to crown a champion; the purpose of a negotiation is to build a lasting agreement.

How to negotiate with aggressive counterparts. Design firms are not comfortable with confrontation, but they are good at joint problem solving. Modify the negotiation from confrontation to opportunities for your counterparts to agree with you and then build on that opportunity. Here’s how you can do this:

- Don’t over-react—look for a way to find the client’s core interests;
- Disarm the counterparts by doing the opposite of what they expect;
- Change the game to something you are more comfortable with.

Architects and engineers are excellent negotiators—for their own designs. “When clients say they don’t have enough money to go on with the project, designers come back with 17 different options and argue for the best one,” Isaacs said, “but when it comes to fees, it’s how low can we go?”

Closing. Document what was agreed on at the meeting. Record how you reached that agreement. Clarify anything that was said that didn’t make it into the agreement and send it to have it on record.

Exert your leadership skills. Conflict resolution and negotiation in all their forms are faced every day by every leader and have to become skills that exist or develop over time to achieve the aims of visionary leaders. The concept of “that’s my vision; I won’t compromise” should be modified to say, “That’s my vision. How do we achieve it together, effectively to satisfy both my interest, the firm’s interest, the interest of the industry, and the interest of my client?” □

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