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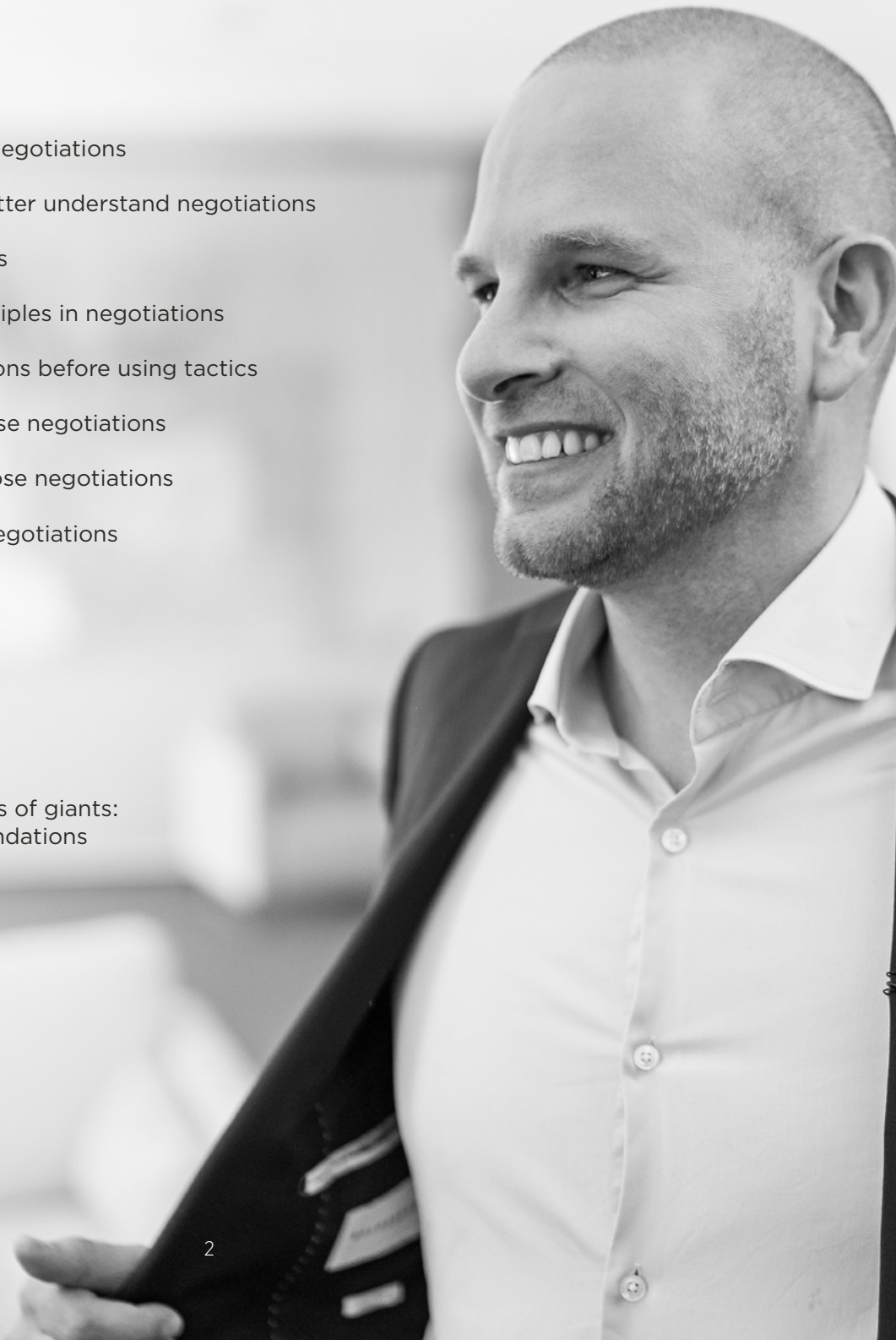
Prof. Dr. Niels Van Quaquebeke

THE PSYCHOLOGY OF NEGOTIATION

Master the human side of deal making

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COURSE CONTENT

Negotiations were part of my upbringing – not as something to be dreaded, but more as a kind of dance. It was all about learning how to dance to the music that surrounds all of us.

A good dance requires certain elements. First, you have to listen to the rhythm and melody in order to anticipate how you need to move. You have to understand the movements of your dance partner, and you have to be in a position to move at the right time, be able to lead and maybe follow or even to start improvising. And all that without falling over, stepping on somebody's toes, or actually bumping into other people.

Negotiations are similar. Only, to move confidently on the negotiating floor, you need to have a good understanding of the psychological dynamics of the parties involved. This is precisely what you will get out of this course. This course is designed as a crash course in psychology, condensed to cover those parts that are most important for negotiations.

But don't worry. Just like in a dance lesson, we will take it step by step. We will start with basics, then look at human aspects before moving on to analyze the negotiating situation and the involved parties. After that, we will look at two central, but fundamentally different, approaches to negotiations. On the one hand, there are distributive approaches, also known as »win-lose«, and on the other there are value-creating and other creative approaches, which are often classified as »win-win«. At the end of the course, we will deal with negotiations in the digital world and consider fundamental ethical considerations, such as whether you should lie in a negotiation.

DEFINITION

Let me begin with a definition of what we will be talking about in this course.

Negotiation is an interpersonal decision-making process that becomes necessary whenever we cannot achieve our objectives single-handedly.

If you do not need the other party, you are not really negotiating – you could just demand, order, or do.

There are always at least two parties involved in negotiations, such as you and your boss, or a buyer and a seller, but there are also, of course, negotiations with many different actors – like, for example, in highly complex multinational business deals. In this course, however, we will concentrate on simpler dyadic – or two-party – negotiations because these work best for illustrating the fundamental negotiation dynamics.



STRATEGIC
VECTORS

TWO STRATEGIC VECTORS IN NEGOTIATIONS

There are basically two kinds of negotiating strategies:

- 1 Win-lose strategies, which are also called value-claiming or distributive strategies. These strategies are about splitting up the proverbial pie. The principle here is that whatever one party gets, the other does not.
- 2 Win-win strategies, also known as value-creating or integrative strategies. Here it is about finding ways to expand the pie or to divide it up so that both parties are happy in the end, because both get what they want without having to compromise. Maybe one party wants the pie's crust and the other the inside?

However, in practice, it is often not possible to make a clear distinction between the two strategies. This is because, to be honest, in most negotiations both types of strategies are used.

THREE BASIC MODELS TO BETTER UNDERSTAND NEGOTIATIONS

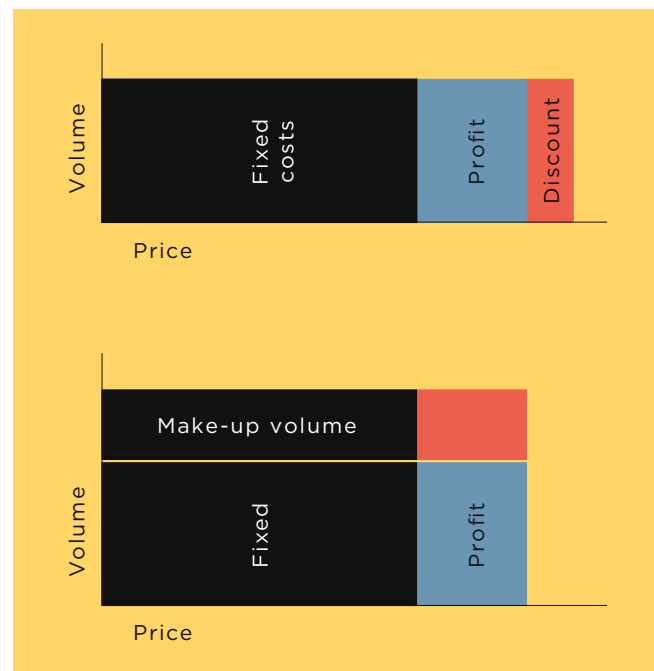
To better understand the basics of negotiations better, I will walk you through three models: the discount model, the Kano model, and the Kraljic matrix.

1 UNDERSTANDING DISCOUNTS AND THEIR IMPACT

Discounts are negotiated most often in both private and professional settings. The discount model helps you to understand better the impact that discounts have on profitability.

THE DISCOUNT MODEL

If you (as in the top graphic) give a discount of 10%, you will have to (as in the lower graphic) sell 50% more in order to regain the profit lost



BASIC MODELS

You sell 1,000 units of a product at a price of 500 euros. This means there is a total volume of 500,000 euros. The customer now asks you for a discount, and you offer 10%. The customer agrees, and you are very pleased with yourself because you have just concluded a deal worth 450,000 euros.

But let us take a slightly closer look. First, let's subtract fixed costs from the total volume. These come to 350 euros per unit. In the graphic you can now see that the 10% discount on the total volume is equivalent to 33% of your profit margin – or, to put it another way, your discount has reduced your profit by 50,000 euros. That already sounds different, doesn't it?

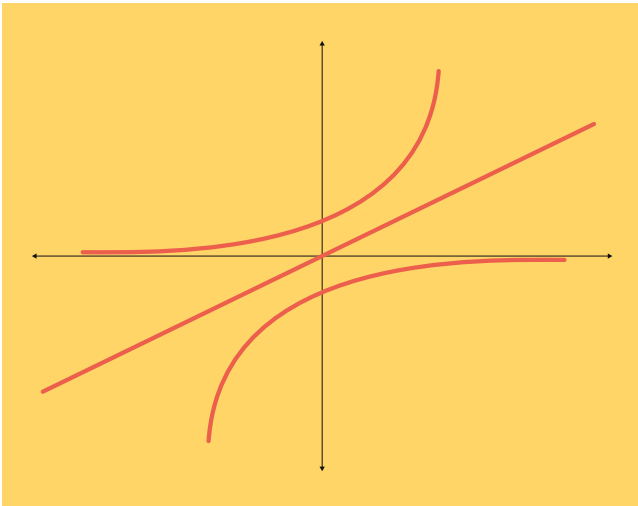
To make matters worse, the 33% that you have lost from your profit will have to be recouped somewhere else. In other words, you have to generate earnings to compensate. The share of profit that was taken off by the discount now has to be added on again under the same conditions. However, in order to achieve this compensatory profit, you now have to earn again an additional 50% of the value of the contract that you have already signed.

To put it simply, in this model, if you give a discount of 10%, you will have to sell 50% more under the same conditions in order to achieve the same profit in the end. The model thus nicely illustrates why even small discounts have an enormous impact on profitability – especially if your fixed costs are high – and that a lot of additional effort will be needed in order to recoup that profit.

BASIC MODELS

2 UNDERSTANDING CUSTOMER SATISFACTION VIA THE KANO MODEL

The Kano model of customer satisfaction is another easy-to-understand model that can give you important insights for your negotiations.



THE KANO MODEL

In the model, the execution of various customer-satisfaction measures is on the x-axis; the more customer measures you implement, the further to the right they are. The actual satisfaction of customers is then to be found on the y-axis.

Many people implicitly assume that customer satisfaction rises linearly with the implementation of particular customer-centric measures. More implementation means happier customers, and in a consistent ratio. Fewer measures mean unhappier customers.

However, this assumption is far from the truth. Take this handout for the online course, for example. The font is easy to read, the illustrations easy to understand. The dark letters appear crisp and clear on a light background so that you can easily read the sentences. Are you excited about

this? Probably not. You are not unhappy, but you are also not particularly happy about it, either. This is because these features cover what we describe as »basic needs«. Meeting these particular needs will never make you truly happy – you will merely be unhappy if they are not met.

And then there is a second type of action: Let's say that when you download this handout, you are briefly asked for your social media handles. Then, opening the generated pdf-file, you notice that the language in the book is not only personalised to your name, but also contains a section on your personal negotiation profile, which was automatically generated based upon your publicly available social media data. How would that be? I assume you would be surprised, and probably even pleasantly. And perhaps you would immediately recommend this course including handout to others without working through it to the end, or at least give it a shoutout on your social media.

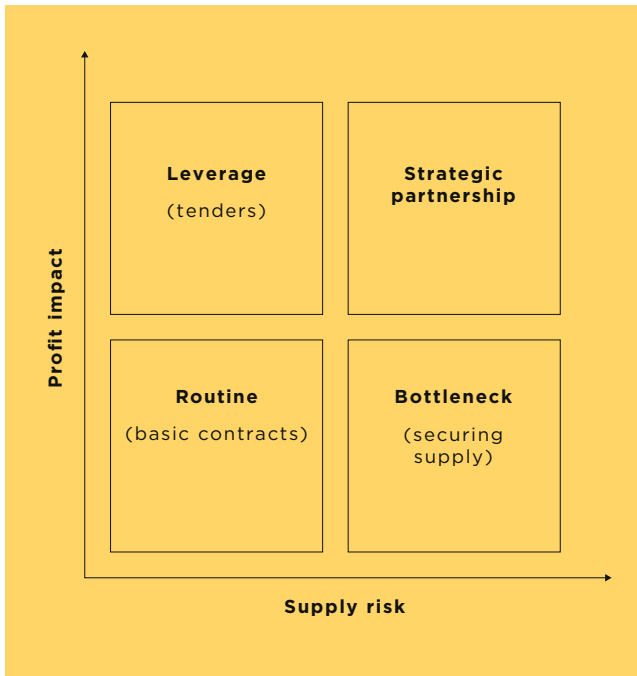
If there was no personalisation, you would not be unhappy. These kinds of unexpected measures are referred to as »delighters«. In negotiations, many people concentrate on basic needs and are surprised that customers do not appreciate their efforts – certainly not in terms of the price they are willing to pay. Why is this? It is because the customers expected that service. Above a certain threshold, additional investment in basic needs do not convert into increased customer happiness, even if that investment costs a certain amount of blood, sweat, and tears. Meanwhile, investment in additional services, and especially in unusual, out-of-the-ordinary »delighters«, is forgotten, even though these can make customers very happy and may not even cost all that much.

To get back to the issue of negotiations: good negotiators understand these mechanisms and use them to their advantage by offering delighters that others are not able or willing to provide. Ultimately, this makes much more sense than slaving away to trying to perfectly satisfy a customer's basic needs.

BASIC MODELS

3 UNDERSTANDING NEGOTIATING POSITIONS VIA THE KRALJIC MATRIX

The Kraljic matrix is the third model for understanding negotiating situations. Let me explain its logic with a graphic.



THE KRALJIC MATRIX

The basic assumption is that the choice of the best negotiating strategy depends on where you are in the matrix between the supply risk on the x-axis and the profit impact on the y-axis

According to the Kraljic matrix, what and how you are able to negotiate depends on how unique your offer is in the marketplace and what financial value your offer has for the other party. The matrix is divided into four quadrants.

Bottom left: In this quadrant, from the seller's perspective, they are negotiating on a product or service where there is a low supply risk and whose impact on profitability is similarly low. In other words, these are routine matters. Think of cleaning services for your company's office areas. Many operators offer this service, and all of them are probably not particularly expensive. As a buyer, I would like to conclude a basic contract in this case. For my negotiating strategy, I can simply formulate my needs, obtain three different quotations on that basis and then choose the cheapest, without a lot of effort.

Bottom right: The bottleneck quadrant. Here, although the supply risk is higher, the impact on my profitability is still low. As the buyer, my main objective is to secure the supply, ideally on a long-term basis, and again without a great headache.

Top left: Let us jump over to the opposite end of the spectrum: the leverage quadrant. Here, the services or products have a low supply risk for me but a high impact on my profitability. Here, it makes sense for me to invest a lot of time and energy in getting various providers to compete with each other, so as to maximize the result for me. Accordingly, tenders or auction rounds are a usual method, because the sellers will have to try to overbid or underbid each other in successive rounds.

Top right: In the last remaining quadrant, strategic partnership, both the supply risk and profit impact are high. For buyers, the recommended negotiating strategy in this quadrant is to bring about a long-term strategic partnership that is beneficial to both parties.

You are now familiar with the matrix from the buyer's perspective.

BASIC MODELS

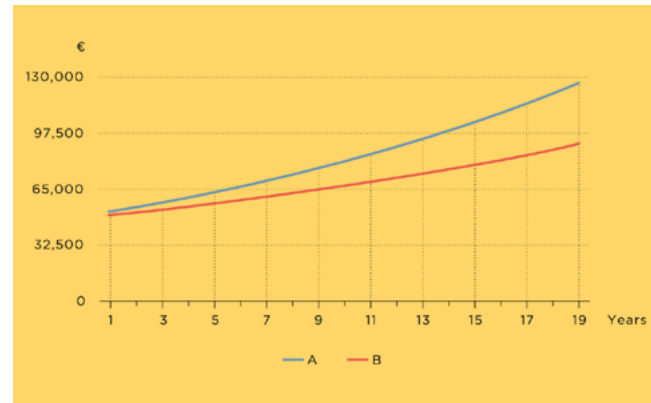
If you are selling and do not want your business to be dependent on the buyer's whims, your strategies have to be concentrated on the right-hand half of the matrix, where there is little supply. In addition, you should focus upward – in other words, achieve greater profit relevance.

Incidentally, positioning on the matrix does not only depend on the two negotiating parties but is also determined by external circumstances that can suddenly change the available supply or make your own company's product or service more valuable than previously. For example, space for sea freight has become much harder to come by during the Covid-19 pandemic. As a result, the negotiating position of shipping companies, which for decades had known only falling prices, has suddenly improved radically.

ONE MORE THING: THE COMPOUNDING LOGIC

The basic idea behind the compounding logic is that recurring negotiations build on the foundations of agreements negotiated previously. This means that, with every fresh negotiation, you are trying to improve the existing agreement.

The clearest example of this probably comes from salary negotiations. As a rule, what is discussed for a salary increase is not an absolute figure, but a percentage. Here is one example. As an employee, you ask for a salary increase every three years. Since you are not especially confrontational as we all want to avoid conflict, you ask for a modest 10%. Over time, this then results in the following curve: 10% more every three years (curve B).



THE COMPOUNDING LOGIC,

presented as an exponential function

Here is a second example. A colleague has attended this negotiating course. In it, she has learned to be more ambitious about the starting salary, and also about salary increases. This includes, for example, not waiting too long to demand a salary increase. Inspired by the course, she was more courageous and demanded an increase of 6% every year. She knew that she would not always get that, but it is still 5% on average (curve A).

Certainly, she starts a little higher than on the curve sketched out for her colleague – but not much. However, she then receives 5% more every year. Again, you can see the impact of the compound interest effect. Also, whereas the differences between the curves were maybe not particularly striking at the start, after 19 years the picture already looks very different.

The message, therefore, is this: Although you will not notice the advantages or the impact of better negotiating skills immediately, the impact of your negotiations will add up over time. This applies not only to your salary but also to everything else you negotiate in your life.

INSTRUCTOR



Prof. Dr. Niels Van Quaquebeke

is an organizational psychologist and professor. He has been working for more than 15 years on the subjects of psychology of leadership, conflict management, and negotiation. An internationally recognized expert, he has been researching and teaching at Hamburg's Kühne Logistics University since 2011. His research there extends from improving leadership structures in humanitarian aid to the digital substitution of leadership. In line with his philosophy of »understanding people, moving people«, Prof. Dr. Niels Van Quaquebeke advocates for a better understanding of human nature to enable better leadership.

IMPRINT

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