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Negotiation: Definition, How It Works, and Why It's Important

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Negotiating is a very important part of the business world. And it also shows up in our day-to-day lives. Companies negotiate contracts, governments negotiate trade deals, and parents negotiate allowances with their children every single day. Regardless of what you're negotiating, being a successful negotiator means listening, compromising, and accepting the other party's position. But being argumentative never gets you anywhere. So knowing what to do when things don't go your way can help you reach your end goal.

What Is a Negotiation?

Negotiation is a strategic discussion that resolves an issue in a way that both parties find acceptable.

Compromise is normally the basis of negotiation.

Negotiations can take place between buyers and sellers, an employer and prospective employee, or governments of two or more countries.

Negotiating is used to reduce debts, lower the sale price of a house, improve the conditions of a contract, or get a better deal on a car.

When negotiating, be sure to justify your position, put yourself in the other party's shoes, keep your emotions in check, and know when to walk away.

How Negotiations Work

Negotiations involve two or more parties who come together to reach some end goal through compromise or resolution that is agreeable to all those involved. One party will put its position forward, while the other will either accept the conditions presented or counter with its own position. The process continues until both parties agree to a resolution.

Participants learn as much as possible about the other party's position before a negotiation begins, including what the strengths and weaknesses of that position are, how to prepare to defend their positions, and any counter-arguments the other party will likely make.

The length of time it takes for negotiations to take place depends on the circumstances. Negotiation can take as little as a few minutes, or, in more complex cases, much longer. For example, a buyer and seller may negotiate for minutes or hours for the sale of a car. But the governments of two or more countries may take months or years to negotiate the terms of a trade deal.

Some negotiations require the use of a skilled negotiator such as an advocate, a real estate agent/broker, or an attorney.

Where Negotiations Take Place

Many people assume that prices and offers are firm and final. But that's not necessarily true. In fact, many are actually flexible. Negotiating can be a way to come to agreements in a variety of areas. Some examples include:

Reducing debts

Lowering the sale price of a house

Improving the conditions of a contract

Getting a better deal on a car

Say you want to buy a brand new SUV. The negotiation process usually begins between you and the salesperson with the manufacturer's suggested retail price (MSRP). This is the price the producer recommends the dealership uses to sell the vehicle. What many people don't know is that most dealerships typically sell below the MSRP—unless the make/model is very popular. You may approach the dealer with an offer below the MSRP price—one that the dealership may accept or counter. If you have good negotiating skills, you may be able to drive away with a great deal, even lower than the vehicle's invoice price. This is the price the manufacturer actually charges the dealer.

Negotiation is also an important skill when accepting a new job. The employer's first compensation offer is often not a company's best offer, and the employee can negotiate different terms such as higher pay, more vacation time, better retirement benefits, and so on. Negotiating a job offer is particularly important because all future increases in compensation will be based on the initial offer.

Key Factors in Negotiations

When it comes to negotiation, there are some key elements or factors that come into play if you're going to be successful:

The Parties Involved: Who are the parties in the negotiation, and what are their interests? What is the background of all involved, and how does that affect their position in the discussion?

Relationships: What is the relationship between the parties and their intermediaries in the negotiation? How are the parties connected and what role does that play in the terms of the negotiation process?

Communication: How will the needs of the parties involved be best communicated in order to secure their agreements through negotiation? What is the most effective way to convey the desired outcomes and needs? How can the parties be certain they are being heard?

Alternatives: Are there any alternatives to what either party initially wants? If a direct agreement is not possible, will the parties need to seek substitute outcomes?

Realistic Options: What options may be possible to achieve an outcome? Have the parties expressed where there may be flexibility in their demands?

Legitimate Claims: Are what each party requests and promises legitimate? What evidence do the parties offer to substantiate their claims and show their demands are valid? How will they guarantee they will follow through on the results of the negotiation?

Level of Commitment: What is the amount of commitment required to deliver the outcome of the negotiations? What is at stake for each party, and do the negotiations consider the effort that will need to be made to achieve the negotiated results?

The Stages of the Negotiation Process

Negotiation is a very important part of our everyday lives. We're often negotiating even when we don't think about it. You may be negotiating your salary or it can be as simple as negotiating a curfew with your teenager. Regardless of what you're negotiating and with whom, there are usually several steps that are involved. We've highlighted the key steps that most negotiations need from beginning to end.

1. Prepare

The first stage involves a lot of preparation work. Going in unprepared won't help you at all. This often starts by establishing and laying down the foundation. Make sure you answer some key questions, including:

What are your expectations?

What do you hope to gain?

What compromise are you willing to make?

What happens if you don't get reach your end goal?

Determine what your negotiating strategy is and how you intend to do it. Are you competing, accommodating, or will you be collaborative? You'll have to adjust this strategy according to your end goal(s) and what you hope to accomplish. This is followed by research. Find out as much as you can about the other party.

For instance, come prepared with information about why you deserve a raise if you're meeting your manager. Concrete examples of where you succeeded with hard numbers and results, along with testimonials from clients and/or coworkers, and any plans you may have to further your career can help firm your stance.

2. Exchange Information

Now that you've laid down the groundwork for your negotiations, it's time to sit down with the other party, who has probably also done their homework before meeting at the table. This is the point where both sides are able to lay down what their arguments are that can help them reach their end goals.

Communication is key here. Being able to articulate effectively and thoroughly is critical to the negotiation process. This means you shouldn't skimp on the details. As long as you lay your cards out, there will be fewer details to iron out later.

So if you're negotiating a contract, offer any details you have as to what you intend to bring, what your conditions are, and why you're hoping to gain. You can do this verbally, in writing, or in a presentation.

3. Clarify

By this point, you've both explained your positions and where you stand. You should have a firm grasp as to what the other party is looking for and they should know what you want. This step is very important because you want to be sure that you and the other party are on the same page.

If there are any wrinkles that need to be ironed out, any additional information that you need, or any questions that are left unanswered, now is the time to ask. And be sure that the other party is satisfied with your position, too.

4. Bargain

Now that all the information is exchanged and you both have clarity, it's time to start bargaining. This is where the true negotiation begins. And it can take time, so be sure you don't rush the process.

Be sure you pick up on any cues given by the other party (verbal and nonverbal) that may help you get to your end goal. Listening, reading body language and understanding the other party's tactics, and responding in a manner that will be accepted are critical when you're bargaining.

The key to this step is to refrain from being argumentative. This can actually take you away from the point. Be sure you're ready to compromise if the need arises. After all, negotiating involves a little give and take on both sides.

5. Closure

Once both parties are happy and satisfied with the results, it's time to end the negotiations. The conclusion involves coming to an agreement and solidifying it. This can come in the form of a verbal or written contract. The latter is usually a better idea as it clearly outlines the position of each party involved. Make sure there are clear details and expectations for each party. And include any concessions/consequences if one or more of you fail to live up to your end of the deal.

Tips in Negotiating

Not everyone has the skills needed to negotiate successfully. But there are a few things you can do to better help you make your position known:

Justify Your Position: Don't just walk into negotiations without being able to back up your position. Come armed with information to show that you've done your research and you're committed to the deal.

Put Yourself in the other party's shoes: There's nothing wrong with sticking to your ground. But while you shouldn't go over your limitations—such as spending more money if you're buying a home or car—remember that the other party has its own restrictions as well. There's nothing wrong with trying to see things from the other person's perspective and why they may not accept your offer.

Remove the Emotion: It's easy to get caught up and be swayed by your personal feelings, especially if you're really vested in the outcome. The best thing to do is to keep your emotions in check before you start.

Know When to Stop: Before you begin the negotiating process, it's a good idea to know when you'll walk away. There is no use trying to get the other party to see where you stand if the talks aren't moving forward.

Skills Needed to Be a Good Negotiator

Negotiating doesn't always come easy for everyone. That's why it's often called an art. Regardless of which end of the spectrum you lie on, there are several skills you need to make you a good negotiator. Among them are:

Listening

Thinking clearly, concisely, and on your feet

The ability to work well under pressure

Articulating your thoughts

Being able to persuade

Flexibility

Knowledgable and being prepared

When Negotiations Don't Work

Even the best negotiators have difficulty at some point or other making things work. After all, the process requires some give and take. Perhaps one party just won't budge and doesn't want to give in at all. There could be other issues that stall the negotiation process, including a lack of communication, some sense of fear, or even a lack of trust between parties. These obstacles can lead to frustration and, in some cases, anger. The negotiations may turn sour and ultimately lead parties to argue with one another.

When this happens, the best (and sometimes only) thing the parties can do is to walk away. Taking yourself out of the equation gives everyone involved a chance to regroup, and it may help both of you come back to the bargaining table with a cool and fresh mind.

Why Is Negotiation So Important?

Negotiation is so important for so many reasons, whether it's done for individual, corporate, or government interests. It allows you to advance yourself and get ahead in your career and/or in life. Being able to negotiate also helps people resolve conflicts and create value for themselves.

What Makes a Good Negotiator?

Some of the key characteristics of a good negotiator include the ability to listen, think under pressure, be articulate, and have a willingness to compromise. It also helps if you're able to persuade and come prepared with some background about the other party.

How Do I Negotiate My Salary?

The best way to negotiate your salary is to come prepared. Have concrete examples of why you merit a raise or a particular salary. If you have numbers to back up your success (sales figures, months were you've met or exceeded quotas or goals) and any testimonials from clients and coworkers, these can help back up your request.

What are the 5 negotiation styles?

Blog, Negotiations / By Andres Lares

People have different communication styles. Individuals bring sets of experiences, skills, and tools that affect the way they interact with others, both at home and in the workplace. Individual communication styles also translate into how they negotiate. From these patterns of communication, five distinct negotiation styles have emerged: competing, collaborating, compromising, accommodating, and avoiding.

Negotiators often fall into one or more of these five styles whether they are trying to reach an agreement or resolve a conflict with multiple parties. Master negotiators know how to use their primary negotiation style to their advantage and when it's beneficial to introduce the others. Read on to learn about the common characteristics of the five negotiation styles:.

Negotiation Style: Compete

A competitive negotiation style follows the model of "I win, you lose." Competitive negotiators tend to do whatever it takes to reach their desired agreement – even when it comes at the expense of another person or entity. They are results-oriented and focused on achieving short-term goals quickly. Their desire for success motivates them, though the process of negotiation can blind them to potentially harmful impacts.

Competitive negotiators use all tools possible to boost their negotiation success, including:

- Their position within a company structure
- Their personality and humor
- Aggression

- Their economic prowess
- Their company's strength and size
- Their brand's visibility and influence

A competitive negotiation style is beneficial when you need to reach a short-term agreement quickly. If the terms of an agreement are critical and must be complied with, a competitive negotiator will be your secret weapon. If the second negotiator is also competitive, having another competitive negotiator on your team will be able to counter-balance their aggression.

Competitive negotiators work best in a highly competitive industry or for once-off sales, such as selling a home or a car. However, for negotiations with another highly competitive body, it is best to blend negotiation styles to avoid gridlock between two competitive negotiators.

These types of negotiators may focus more on winning than reaching a mutually beneficial agreement with the other party. Business relationships might break, and a company's reputation may tarnish if a negotiation style is too competitive and crosses the line into bullying.

If you are a competitive negotiator, make sure to blend your style with a bit of accommodation or collaboration. Invite a partner to balance out your natural competitive streak. Business is as much about building strong relationships as it is about closing deals!

Negotiation Style: Collaborate

In contrast, a collaborative negotiation style follows the "I win, you win" model. Collaborative negotiators focus on making sure all parties have their needs met in an agreement. They value strengthening, establishing, and building relationships without compromising their company's best interests.

Collaborative negotiators often evolve into this negotiation style from another. As time goes on and a negotiator gains confidence in reaching agreements, they become more comfortable advocating for their needs. They also become skilled in finding a mutually beneficial balance between their needs and the other party's.

Individuals with a collaborative negotiation style are willing to invest time in finding innovative solutions and building business partnerships with other organizations. Other negotiation styles are often too impatient to invest this time, but collaborative negotiators are confident that they will benefit in the end.

A collaborative negotiation style is effective in most business negotiations. Collaborating with competitive negotiators is something to be wary of, however; since this negotiation style focuses on winning the most for their company, they might not be interested in developing a collaborative relationship. As a result, the more collaborative company can lose out – so be careful and always keep track of the agreement's value.

Negotiation Style: Compromise

Many students of negotiation styles confuse the collaborative style with the compromising one. Unlike the “win-win” collaborative style, the compromising negotiation style follows a “I win/lose some, you win/lose some” model. When reaching the terms of the agreement, compromisers often relinquish some terms in favor of gaining others.

For example, if two governments are trying to reach a trade agreement, a compromiser might give the other government greater access to their country's dairy market to gain protections for digital media trade. Simply put, a compromising negotiation style is a form of bargaining. Compromisers split the agreement's value between the two parties versus finding a solution so that everyone benefits from an agreement's full value. A competitive negotiator can easily take advantage of a compromising negotiator.

A compromising negotiation style is most useful in situations where the opposite party is trustworthy, and the agreement is under a tight deadline. However, compromising will cause your company to lose out on collaborative partnerships and innovative solutions.

Negotiation Style: Avoid

An avoiding negotiation style follows a “I lose, you lose” model. People who identify with the avoiding negotiation style highly dislike conflict and tend to talk in vague terms about the issue at hand rather than the issue itself. If an agreement is reached and an avoiding negotiator dislikes the outcome, they may try to take revenge on the opposite party before the party even knows that they were unhappy with the agreement.

Since avoiders dislike conflict and struggle with direct communication, they come off as passive-aggressive. This can cause rifts in interpersonal business relationships. Avoidance is a typical reaction when a negotiator is pitted against someone who is highly competitive. Avoiding negotiation styles work best in situations where the negotiation concerns a matter that is trivial to both parties. In conflict resolution, avoiding negotiators work best in situations where the investment of time to resolve the issue outweighs the outcome of the discussion.

Negotiation Style: Accommodate

An accommodating negotiating style follows the “I lose, you win” model – which does not seem to be in a negotiator’s best interest. Accommodating negotiators are the direct opposite of competitive negotiators. They focus on preserving relationships and building a friendly rapport by sacrificing some of their company’s interests in favor of the opposite party’s interests.

Accommodators tend to try to win people over by giving in to their requests. They tend to share more information than they should. They are often well-liked by their colleagues

because of their kindness – but kindness doesn't work in every negotiation situation. Accommodating negotiation styles work best in situations where your company has caused harm to another and needs to repair a significant relationship. These negotiators are skilled at peacemaking between different bodies.

However, don't send a pure accommodator alone to a negotiation with a competitive body. They can easily be taken advantage of. An accommodating style can easily turn into a collaborative style with proper training and teamwork.