

Think! Inc.

business negotiation, redefined

Negotiation Return on Investment Case Study



Business Overview

With more than \$4.25 billion in annual revenues, Nalco is the global leader of sustainability solutions for water, energy, and air. The company’s 12,500 employees – 7,000 of whom are sales engineers – serve 50,000 customer locations in more than 150 countries. The scope of this case study is Nalco’s Water and Process Services segment, and within that segment, the Key Account Management (KAM) program, employing 80 Key Account Managers who form a seasoned and highly skilled team focused on Nalco’s top customers. Solutions for these customers combine environmental benefits with economic gains stemming from innovative water treatment, process improvements, energy savings, maintenance and capital expenditure avoidance, and product quality improvements.

The Business Problem & Compelling Events

In 2008, when the global economic environment produced one of the most competitive markets in history, the Nalco KAM program found itself scrambling to protect the value of each customer solution. This translated into visible and significant business issues, including margins eroding at an unprecedented rate, account attrition rates climbing and stalled technology deployment and new account production.

A formal negotiation effectiveness benchmark study conducted by Think! Inc. identified the following issues as contributing factors; percentages shown below indicate Nalco cross-functional leaders who “agreed” or “significantly agreed” with each corresponding statement:

External market factors impacting negotiation were on the rise, such as:

- More professional and skilled procurement buyers 100%
- Customers were more price and commodity focused, demanding more concessions 75%
- KAM team was facing more irrational competitive behavior 75%

*Nalco’s **strategic** reaction to these market factors was insufficient to meet the market forces:*

- KAM team negotiation skills not on par with procurement counterparts..... 100%
- Account management/sales strategy was strong but negotiation strategy was non-existent 100%
- Negotiation decision making was highly centralized, leaving little autonomy in the hands of the KAMs 92%
- Cross-functional departments who influenced a deal were acting independently, each with its own goals and objectives. This ‘silo’ approach was often at odds with achieving an optimal negotiation outcome..... 52%

Nalco’s **tactical** reaction to these market factors was equally insufficient:

- No well-defined process for negotiation, i.e. tendency to react and take an ad hoc approach rather than a proactive, fact-based, systematic approach 100%
- No well-defined strategy for irrational competitive behavior 100%
- KAM team not trading in exchange for customer demands, i.e. they were giving things away without getting anything in return 100%

100% of those surveyed agreed that an organizational negotiation competency was needed to combat market conditions, and the decision was made to choose a solution that would not only tackle the concerns listed above but would also turn a seemingly soft skill, as negotiation is so often tagged, into a hard skill (defined as a measurable and repeatable business process). Nalco set out to build both KAM and organizational competency that would build courage, reduce variance in outcome and produce measurable impact, one deal at a time.

The Strategic Negotiation Solution

I: Building an Organizational Negotiation Strategy

Think! Inc. recommended Nalco move away from a series of training events. To change the culture, this effort needed the horsepower of support from executives who were serious about implementation and fundamentally understood negotiation success did not reside with the KAM team alone. We focused on three areas:

- Gathering all cross-functional stakeholders who either touched or influenced key account negotiation to gain common ground on guidelines and parameters for optimal deals.
- Introducing a common process by which the KAM team would achieve those optimal results.
- Measuring impact and ROI. Commitment on what and how to measure was gained from cross-functional internal stakeholders that spanned executive leadership, key account and sales management, marketing, pricing, operations, finance, legal and human resources.

With everyone’s voice captured we went to work introducing a common framework to consistently prepare for a negotiation incorporating the agreed-upon guidelines and parameters. Think! defines this effort as building an Organizational Negotiation Strategy.

II: Executing the Strategy Through Deal-Level Alignment

The common framework begins with research by Think! Inc., stemming from 20+ years of tracking B2B street-level negotiations. We know that 97 percent of what happens in a B2B negotiation falls into two categories: customers will either refer to their alternative as better and use that leverage to ask for concessions or will say, “I can get the same thing somewhere else cheaper.” Nalco learned three analytical concepts to anticipate and prepare for the “same thing” and “cheaper”

conversation, and then used that data to prepare and present offers. This pragmatic approach is referred to as *negotiation blueprinting*. It is easily coached, easily remembered and easily integrated upstream into Nalco’s consultative selling process. The blueprint is shown below depicting the three concepts; CNA (Consequence of No Agreement), Trade and MSO (Multiple Solution Options).



Consequence of No Agreement or (CNA)

The single most important element in negotiation is *proving* value. In the absence of value, the negotiation focuses on price. The first half of the most common negotiation tactic globally is “same thing” (I can get the *same thing* cheaper). What Think! refers to as CNA analysis helps to remedy “same thing” by finding where the proposed solution meets the customer’s business objectives better than their alternative in this particular negotiation.

The Nalco KAM team needed to prove their solution for every deal was better than the customer’s alternative. CNA involves in-depth analysis of the impact to customers of delaying decisions and using your competitors. The concept allows Nalco KAMs to identify Nalco’s real-time value one deal at a time, given their customer needs and their perceived alternative to reaching agreement with them. Usually the KAM team found that these customer’s stakeholders held inflated perceptions of how compelling their alternatives were (or they were bluffing if their alternative was weak.) Either way, understanding this concept empowered Nalco’s KAMs to more clearly differentiate value and diplomatically educate buyers on their true alternatives or diplomatically call their bluffs – whichever the case dictates.

This analysis became especially critical as contract renewal began with one of Nalco’s largest accounts, a recognized market leader in the retail and foodservice industry. Dangerous momentum built as the customer openly compared Nalco to their closest competitor, stating misperceptions that needed to be professionally and delicately addressed. In short, they felt Nalco could be replaced, and Nalco had to work to show their customer’s internal stakeholders that it wasn’t going to be that easy.

Nalco began with their own CNA and determined the following headlines if they were to lose this customer:

- Loss of \$7 million in short- and long-term revenue
- Competitor would be empowered
- Loss of key reference
- Loss of sole-source supplier (Nalco was the incumbent and only supplier)
- Loss of access to new markets and applications
- Combined total of approximately \$15 million revenue

Next, they sized up the customer's CNA and quantified, to the extent possible, the impact. Headlines included:

- Transition to another supplier = \$1 million
- Potential price savings = \$500K
- Management change for 150 sites = \$?
- Loss of global partner who had delivered past net savings of \$50+ million
- Loss of total cost of ownership projects tagged at \$5 million
- Alienating internal supporters = \$?
- Risk to production = \$?

Even though all costs were not completely understood, the Nalco KAM team felt far more empowered and courageous in articulating to the customer that the pain of changing suppliers would be significantly more than staying with Nalco. The “I can get the same thing” conversation had been bypassed; the “cheaper and needing concessions” conversation followed.

Trades

Ultimately, the concept of *trading* for something of equal or greater value avoids value-detracting concessions and expands the opportunity for all. This was a good first step in helping the KAM team prevent value loss. They practiced expanding the financial pie of a negotiation by adding in as many value-creating elements as possible. A more in-depth analysis taught them how to prioritize and articulate the risks (terms and conditions) and investments (prices) for both sides. Simply put, this concept put direct focus on protecting Nalco's value and getting compensated for the value extracted during CNA analysis. Nalco achieved this by cataloging and quantifying as many aspects of their value proposition as possible, prioritizing the approved aspects of a deal to give the KAM team ammunition to consistently execute deals with minimal variance. Choosing to protect or give away value within any given deal has become systematic, not muddled. The team now actively looks for trades that are low cost to Nalco/high value to the customer, and vice versa.

When the customer frequently exerted concession pressure during the negotiation, Nalco was ready. Thoughtful preparation by the KAM team allowed them to organize prioritized trades and anticipate pushback from the customer so their answer was never “no,” it was “yes, if...”

“The prioritized catalog of trades now allows Nalco marketing management to give back autonomy to the KAM knowing that they understand what they can and cannot offer a customer”

– Tony Stanich, Global Marketing Manager

Multiple Solution Options (MSOs)

Having identified value and the trades required to get paid for that value, the challenge was to change the typical conversation with the customer from price of products to value of solutions. We refer to the concept that articulates this as Multiple Solution Options. This concept helps Nalco develop, title and propose these business relationships, which are populated with the appropriate trades associated with that particular solution, in a concise format. This concept sends a flexible and creative message to customers in a business world where sales organization precedents (including their competition) usually offer just the opposite. An example of MSO titles is as follows:

<p>Meet Bid Specifications to Drive Down Cost</p>	<p>Continue Partnership and Accelerate Innovation and Technology</p>	<p>Expand the Partnership Globally Through Sustainable Initiatives for Water and Energy Optimization</p>
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“The MSO format allows us to put structure around the deal and align each one next to each other so the decision makers can visually see the different offerings. This makes their decision making happen even faster. We are able to tailor each offer to our various decision makers directly, i.e. procurement, engineering and finance. Because there is a formalized process in place, it has empowered the KAMs and has given them confidence. Early on there was skepticism about whether this format was going to be effective vs. giving the customer one proposal. It has proven to be an outstanding method to bring more value to Nalco and the customer.”

– Tony Stanich, Global Marketing Manager

III: Using Technology to Create a Negotiation Collaboration Database:

Negotiations at Nalco are no longer a “one-off” activity. The KAM team uses a proprietary Think! executional platform customized specifically for Nalco. The *Nalco Value Blueprint* software produces collaboration and allows for:

- Quicker information gathering and account team discussion through drop-down menus of information that help combat “same thing” and “cheaper”
- Cross-functional collaboration: functional leaders and key account management see the whole picture of each deal
- Contributions from Sales Executives, Marketing, Operations, Finance, and Legal to execute “trading” with approved ranges at the deal level. That enables sales to negotiate and close the best deal every time and combat the centralized approach to negotiation decision making
- Real-time adaptation as the market and Nalco solutions evolve
- Improves deal quality: whether executing 1 or 100 deals

“The Value Blueprint software gave us the ability to quickly and effectively share our most creative trades and best practices across our company. While embedding the fundamental concepts for our Key Account Managers’ and marketing teams’ use, the tool actually made all of the best practices readily available at their fingertips. We’ve found that putting the tool into use maximizes our probability of success in every negotiation we pursue. Without the customized electronic blueprint as an integral part of our deployment plan, Nalco would not have achieved such rapid success in our negotiations and strong payback from our investment with Think! Inc.”

– James Ford, Vice President, Strategic Accounts, Nalco Company

The Results

Less than two years into implementation, Nalco has shown impressive results. Stemming back to the compelling events that propelled them to action, success measures were captured as follows:

- Concepts are embedded in our sales culture as evidenced by common language and negotiation blueprint technology used
- More than \$3.2 million in revenue attributed to process
- New technology deployment up 160% over previous year
- New account production up 40% over previous year
- Win: Loss against No. 1 and 2 competitors was 8 and 10:1 respectively

ROI

- Total Revenue attributed to process (includes specific revenue related metrics tracked for each negotiation taken through the blueprint process)..... \$3.2M
- Total investment in initiative (include travel expenses for meetings, marketing fees, and fees to Think! Inc. \$439K
- Return on investment 728%
- Payback period 12 months

*“Strategic Negotiation is purposeful communication. The concepts and knowledge that we’ve gained through this disciplined process has allowed us to build a well thought out negotiation plan, every time. We now proactively drive the negotiation; putting choices in front of our customers that make them **think** and discuss new areas of value creation that we have introduced. We are able to stay the course more easily and maintain the integrity of our offers when we use this process. With all opportunities worth winning these are principles we will apply.”*

– John Stewart, Global Strategic Account Manager at Nalco

Think! Background

Think! Inc. is an international sales consultancy offering improvement processes that will transform your sales team into efficient and effective negotiators. Think!’s easily integrated blueprinting process is proven to deliver more value in the sale, and normally unattainable ROI.

Think! Inc. provides specially tailored solutions based on the findings of a thorough negotiation diagnostic analysis. This upfront preparation leads to the most efficient and effective delivery of spot-on negotiations process implementation.

Think! Inc. offers a wide range of services from two day Strategic Negotiation™ workshops to consulting and technology to implement organizational negotiation solutions. These solutions assist our clients in development of an organizational approach to negotiation with common goal, language and process, resulting in consistent customer and competitor messaging, internal alignment, and creation of true business value.

Think! Inc. was founded by Max Bazerman, author of *Negotiating Rationally*, *Negotiation Genius Inc.*, and a professor at the Harvard Business School and Brian Dietmeyer, author of *Strategic Negotiation* and *B2B Street Fighting*.