# Nalco: return on investment in negotiation


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## Business overview

With more than $4.25 billion in annual revenue, Nalco Co. is a 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. This case study's scope is Nalco's water and process services segment and within it the key account management program employing 90 key account managers who form a seasoned, highly skilled team focused on the company's top customers. Solutions for them combine environmental benefits with economic gains stemming from innovative water treatment, process improvements, energy savings, maintenance and capital expenditure avoidance, and product quality improvements.

## Business problems and compelling events

In 2008 when the global economic environment produced one of the most competitive markets in history, Nalco's KAM program found itself scrambling to protect the value of each customer solution. This translated into visible, significant business problems, including margins eroding at an unprecedented pace, account attrition rates climbing and stalled technology deployment and new account production. A formal benchmark study on negotiation effectiveness conducted by Think! Inc. identified the following issues as contributing factors. The percentages show Nalco's cross-functional leaders who agreed or significantly agreed with each corresponding statement.

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

- Procurement was more professional and skilled (100 percent).
- Customers were more price- and commodity-focused and demanded more concessions (75 percent).
- The KAM team faced more irrational competitive behavior (75 percent).

The company's strategic reaction to these market factors was insufficient to meet the market forces:

- The KAM team's negotiation skills were not on par with procurement counterparts. The company lacked a formal training program for strategic negotiation (100 percent).
- Account management/sales strategy was strong, but negotiation strategy was a soft skill left to the assigned KAM's individual capability (100 percent).
- Negotiation decision making was highly centralized, leaving little autonomy in KAMs' hands (92 percent).
- Cross-functional departments that influenced a deal had their own goals and acted independently. This silo approach was often at odds with achieving optimal outcomes in negotiation (52 percent).

Nalco's tactical reaction to these market factors was not as aggressive and structured as desired:

- There was no well-defined process for negotiation but a tendency to react using an ad hoc approach rather than one that was proactive, fact-based and systematic (100 percent).
- There was no well-defined strategy for

irrational competitive behavior (100 percent).

- In exchange for customer demands, the KAM team rarely traded. There was often erosion in Nalco's overall value in a deal (100 percent).

All those surveyed agreed competency in organizational negotiation was needed to combat market conditions. It was decided to choose a solution that would not only tackle the aforementioned concerns but turn a seemingly soft skill – as negotiation is so often tagged – into a hard skill, which is defined as a business process that is measurable and repeatable. The company set out to build both KAM and organizational competency that would heighten courage, reduce outcome variance and produce measurable impact one deal at a time.

## The strategic negotiation solution

### Building an organizational negotiation strategy

Think! recommended that Nalco move away from a series of training events. To change the culture, this effort needed the horsepower of support from executives serious about implementation who fundamentally understood that success in negotiation 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 could achieve those optimal results
- Measuring impact and return on investment. Commitment on what and how to measure was gained from cross-functional internal stakeholders spanning 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 negotiation, incorporating the agreed-upon guidelines and parameters. We defined this effort as building an organizational negotiation strategy.

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### Executing the strategy through deal-level alignment

The framework began with Think! research from 20-plus years tracking business-to-business street-level negotiation. We know that 97 percent of what happens in a B2B negotiation falls into one of two categories: Customers will either refer to their alternative as better and use that leverage to ask for concessions or say, "I can get the same thing cheaper somewhere else." Nalco learned three analytical concepts to anticipate and prepare for the "same thing cheaper" conversation, then used data to present offers. We refer to this pragmatic approach as negotiation blueprinting, and it was easily coached, remembered and integrated upstream into the company's consultative selling process. It is shown in the figure depicting the three concepts: consequences of no agreement, trades and multiple equal offers.

1. Consequences of no agreement

The most important element in negotiation is proving value. In its absence negotiation focuses on price. The first half of the most common tactic in negotiation globally is "same thing." ("I can get the *same thing* cheaper.") What Think! refers to as CNA analysis helps remedy this by finding where the proposed solution meets the customer's objectives better than its alternative in a particular negotiation. Nalco's KAM team needed to prove that its solution for every deal was better than the customer's alternative. CNA involves in-depth analysis of the impact on customers from delaying decisions and using a supplier's competitor. The concept allows Nalco's KAMs to identify its real-time value one deal at a time given its customer's needs and the perceived alternative to reaching agreement. Usually the KAM team finds that the customer's stakeholders have inflated perceptions of how compelling the alternative is or stakeholders have bluffed because their alternative is weak. Either way, understanding this concept empowers Nalco's KAMs to more clearly differentiate value and diplomatically

educate buyers on true alternatives or tactfully call bluffs—whichever the case dictates.

This analysis became especially critical when contract renewal started with one of the company's largest key accounts, a recognized leader in the retail and food service industry. Dangerous momentum built as the customer openly compared Nalco to its closest competitor, stating misperceptions that needed to be professionally and delicately addressed. In short the customer thought the company could be replaced, and it had to work to show its customer's internal stakeholders this wasn't going to be so easy. Nalco began its CNA and determined that the following would occur if it lost this customer:

- $7 million in short- and long-term revenue would be lost.
- The competitor would be empowered.
- A key reference would be lost.
- Nalco would no longer be the sole-source supplier. (It had been the incumbent and only supplier.)
- Access to new markets and applications would be lost.
- Nalco would lose access to a total of approximately $15 million in revenue from all affected sources.

Next the company sized up the customer's CNA and quantified the impact to the extent possible. Highlights included:

- The cost to transition to another supplier = $1 million
- Potential price savings = $500,000
- Management changing at 150 sites = $?
- The loss of a global partner that had delivered past net savings of more than $50 million
- The loss of total-cost-of-ownership projects tagged at $5 million
- Alienating internal supporters = $?
- The risk to production = $?

Though all costs were not completely understood, Nalco's KAM team felt far more empowered and courageous articulating to the customer that changing suppliers would be significantly more painful than staying. The "I can get the same thing" conversation was bypassed; the "cheaper and needing concessions" conversation followed.

2. 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 the loss of value. The team practiced expanding a negotiation's financial pie by adding as many value-creating elements as possible. A more in-depth analysis taught the team 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 compensation for the value extracted during CNA analysis. The company achieved this by cataloging and quantifying as many aspects of its value proposition as possible, prioritizing a deal's approved aspects to give ammunition to the KAM team 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 of low cost to Nalco and high value to the customer and vice versa.

**The company set out to build both KAM and organizational competency that would heighten courage, reduce outcome variance and produce measurable impact one deal at a time.**

When the customer frequently exerts concession pressure during a negotiation, the company is ready. Thoughtful preparation by the KAM team allows it to organize prioritized trades and anticipate push-back from the customer so its answer is never "No" but "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," says Global Marketing Manager Tony Stanich.

3. Multiple equal offers

After identifying value and the trades required to be paid for it, the challenge was to change the typical conversation with the customer from product price to solution value. We refer to the concept articulating this as MEOs. It helps the company develop, formalize and propose these business relationships populated with the appropriate trades associated with a particular solution in a concise format. The concept sends a flexible, creative message to customers in a world where a sales organization's precedents (and its competitors') usually offer just the opposite. MEO examples are as follows:

- Meet bid specifications to drive down cost.
- Continue the partnership and accelerate innovation and technology.
- Globally expand the partnership through sustainable initiatives for water and energy optimization.

"The MEO 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," Stanich says. "This makes their decision making happen even faster. We are able to tailor each offer to our various decision-makers directly—e.g., 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 versus giving the customer one proposal. It has proven to be an outstanding method to bring more value to Nalco and the customer."

**Using technology to create a database for negotiation collaboration**

Nalco's negotiations are no longer a one-off activity. The KAM team uses a proprietary Think! executional platform customized specifically for the company. The "Nalco value blueprint" software produces collaboration and allows for:

- Quicker information gathering and account team discussion through drop-down informational menus that help combat "the same thing" and "cheaper"
- Cross-functional collaboration; functional leaders and KAM personnel see each deal's whole picture.
- Contributions from sales executives, marketing, operations, finance and legal to execute deal-level trades within approved ranges. That enables sales to negotiate and close the best deal every time and fight the centralized approach to decision making in negotiation.
- Real-time adaptation as the market and the company's solutions evolve
- Improved deal quality whether executing one 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," says James Ford, vice president of strategic accounts. "While embedding the fundamental concepts for our key account managers' and marketing teams' use, the tool actually made all 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."

'Strategic negotiation is purposeful communication.'

### Results

Two years since implementation the company has shown impressive results. Going back to the compelling events that propelled Nalco to action, success measures have been captured as follows:

- Concepts are embedded in the sales culture as evidenced by the common language and blueprint technology used in negotiation.
- More than $3.2 million in revenue is attributed to the process.
- New technology deployment is up 160 percent from the previous year.
- New account production is up 40 percent from the previous year.
- The win/loss record against the top two competitors was eight to one and 10 to one respectively.

### ROI

- The total revenue attributed to the process thus far, including specific revenue-related metrics tracked for each negotiation taken through the blueprint process, is $3.2 million.
- The total investment in the initiative thus far, including travel expenses for meetings and marketing and Think! fees, is $439,000.
- The ROI thus far is 728 percent.
- The payback period was a year.

"Strategic negotiation is purposeful communication," says John Stewart, global strategic account manager. "The concepts and knowledge that we've gained through this disciplined process have 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."

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*Additional resources*

For more information on this subject by these writers in SAMA's library, the editor recommends: James Ford and Carrie Welles, "Nalco Co.: best practices for consistently preparing for a complex negotiation," 47th Annual Conference, May 15, 2011, www.strategicaccounts.org.