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NEGOTIATION REVIEW

Negotiating Joint Business Plans

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Joint business plans

Joint business planning has become the recognised process embraced by many organisations as a means of negotiating collaborative agreements which reflect both mutual benefits yet also seek to ensure and protect that value during the life of the agreement itself. Organisations who are tirelessly seeking ways of improving profitability have adopted JBP as a sustainable way of building value, and where the opportunity exists, deserting the historical, transactional nature of combative deal making which at best attracts short term gains and promotes low levels of trust between those involved.

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Even the larger operators are now embracing JBP

Sam's Club, part of the Walmart family, announced today a new Joint Business Planning approach to foster collaboration with all its suppliers across all product categories to increase value for its members, provide profitable growth and returns as well as drive innovation for both the company and its suppliers. More than 350 representatives of the company's top and key suppliers attended the event held at the company's Home Office in Bentonville USA – March 9, 2010

Yet JBP is not for everyone

In July 1998 AT&T and British Telecom announced a $10bn joint business venture, Concert, designed to improve the connectivity of their global customers. The opportunity was certainly there, the business market was crying out for a globally-linked up telecommunications service. BT had started the venture in 1994 with MCI (now a subsidiary of Verizon) but as that struggled to get off the ground, AT&T pro-actively sought to work with BT. Market confidence was high that these two experienced and capable companies would deliver a solid, market-leading product between them.

However, as they started to put the framework for the new company together, the levels of trust between them started to erode as the details were hammered out. The underlying plan was that the two companies would share customers and technology to benefit from their enormous global scales of economy. Instead BT and AT&T managers started to compete with each other; ring-fencing customers, not sharing switching equipment. The Concert management team were left without the authority to make decisions in the best interests of the new company.

Whilst there may have been the most positive of motives for this joint plan at the outset, the lack of three key drivers (Trust, Climate and Authority) for JBP made it extremely difficult for the joint plan to work. And just three years after the fanfare announcement, AT&T and BT called it quits on Concert, respectively charging $5.3bn and $1.7bn to their 2001 balance sheets as a result of the dissolution. Certainly there were other factors (dot com failures, management changes, over-optimistic forecasting) but analysts say the two parent companies' managements never quite walked the walk when it came to making Concert do the job it was founded to do: bring together all their international business.

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Clearly, relationships between negotiation partners are neither homologous nor static. A good way to depict the different types of negotiation relationship is the following "Clockface" (figure 1)

The position of any party negotiating on the clockface is determined by 3 primary factors;

Complexity
The more variables involved, the more likely it is that the appropriate strategy is to be found on the left-hand side of the clockface. In a negotiation of low complexity, strategies between 2 and 4 o'clock would be more common.

Dependency
Similarly, high levels of mutual dependency between two negotiation parties would point to a 9–12 o'clock strategy as the appropriate choice. Lower levels of dependency would more likely encourage a negotiation round towards the early stages of the clockface.

Trust
The greater the levels of trust needed between two parties to both conduct and implement a negotiated agreement, the more likely it is that a strategy in the later stages of the clockface would be the appropriate choice.

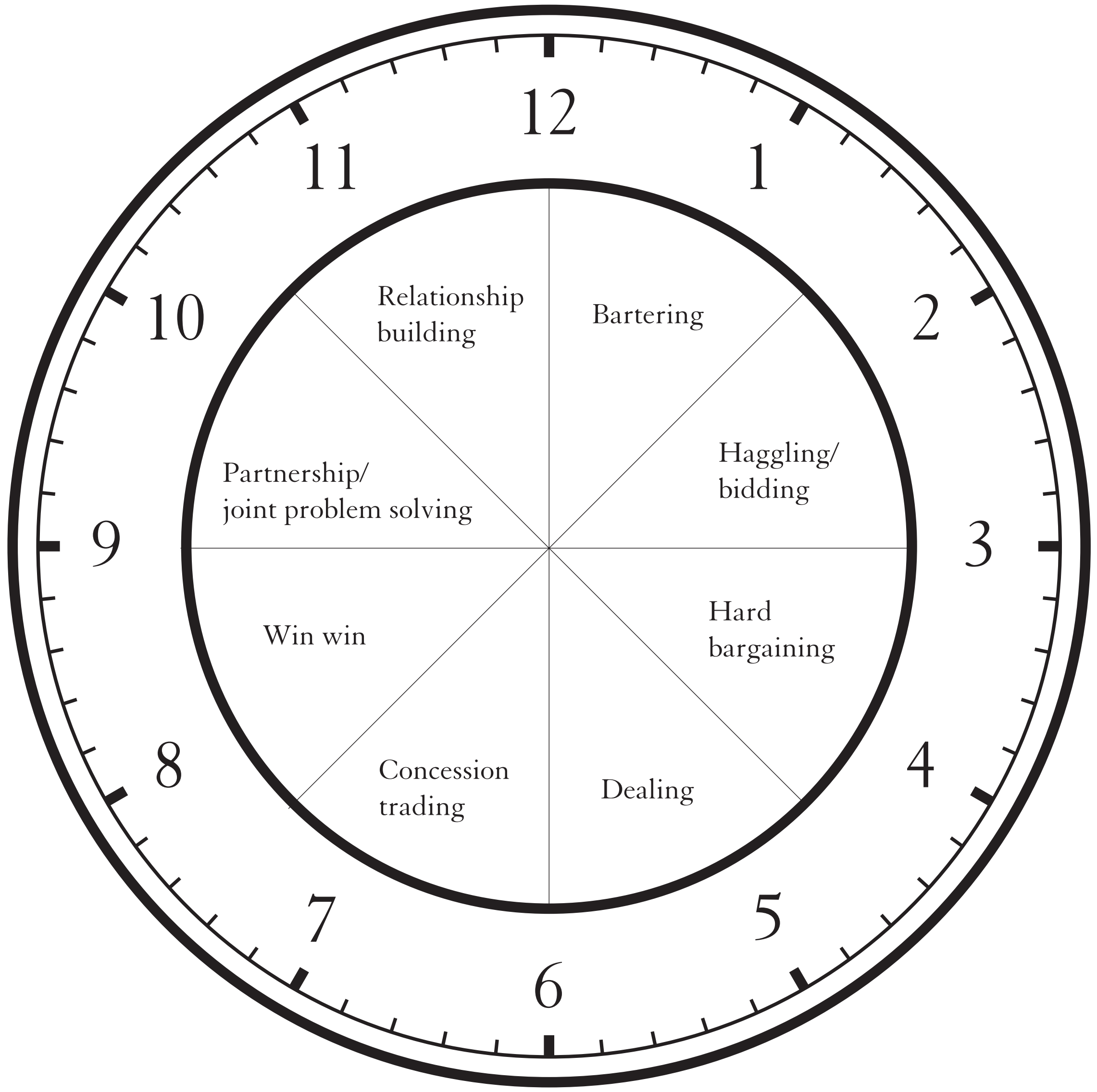
The area on the Clockface which is most appropriate to operate in to generate the most amount of value for long term joint partnerships is the top left hand quadrant, or 9 o'clock to midnight. Here the level of creativity is highest, the level of trust and dependency is highest and the possibility of rewards for both parties are the highest.

A skilled negotiator can work much more effectively with another skilled negotiator as they both understand the value of working on the deal and the agreement rather than working against each other. Trained negotiators understand the value of sharing some information to engender a sense of debt in the other party. Also, increases the likelihood of reciprocation with information and this in turn helps to improve levels of trust.

Another way to move your negotiation relationship further around to the left hand side of the clockface is to develop a joint vision statement. This will plainly lay out what both sides are trying to achieve and is a useful point to come back to if the negotiations get bogged down. If you have clearly agreed your joint intention to work together it will increase your chances of conducting business together collaboratively.

It is important to note that there is a crucial difference between the actual clockface position and the desired position. At the risk of over-generalisation, the majority of suppliers desire to conduct customer negotiations from 7-11 o'clock, but many customers conduct the actual negotiation from 4-6 o'clock. This is an observation based on the fact that where there are more suppliers than buyers and that buyers enjoy a choice, the result is that buyers will often use this position to drive a better short term agreement for themselves.

Figure 1



Research conducted by The Gap Partnership in 2010 involving the examination of account managers and buyers involved in JBP arrangements concluded that where successful relationships worked there where 7 key areas (detailed overleaf) which were regarded as fundamental to the two parties working together.

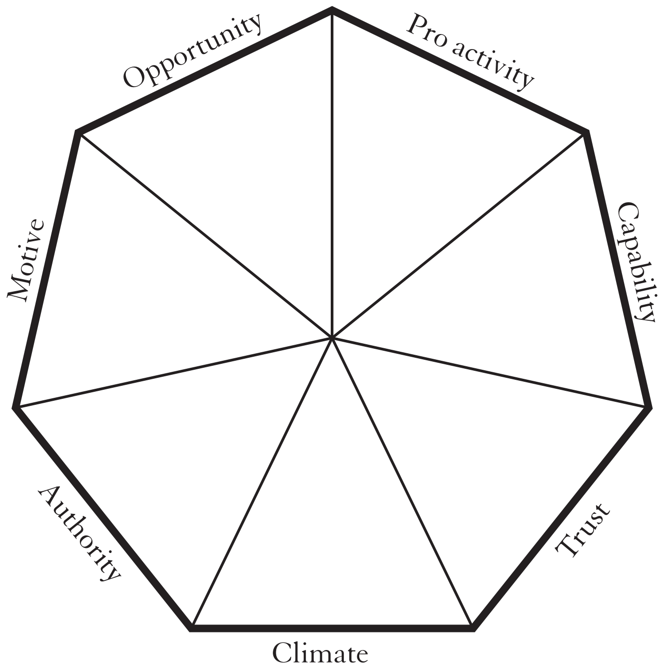
The seven JBP negotiation drivers

The seven key factors that influence the success of negotiating a JBP. Each of these considerations were regarded as critical in strengthening the way buyers and sellers approach and execute JBP meetings.

1. Opportunity

Quite simply determine if there is enough business taking place between you to make it worth your joint investment of time and energy? Is the size of the opportunity and potential synergies enough to motivate both parties to invest the effort. If either party do not regard the opportunity as worth the effort then motivation will quickly dissolve.

Figure 2



2. Pro-activity

JBPs are clearly a forward thinking activity. It requires you to be forward thinking, pro active and to invest the preparation time before you even sit down with the other party.

3. Capability

The other party needs to have the ability to understand the complexity of working in a pro active manner and with one that includes trust within a partnership context. The skills of developing and managing the accurate reporting required to keep all relevant stakeholders informed as well as negotiating the agreement itself will be critical to the overall concept working.

4. Trust

Building a JBP starts with developing a sufficient level of trust. This will involve sharing information with them that could be damaging if used in an inappropriate way. Paradoxically, sharing your sensitive information will increase the likelihood of the other party sharing with you and thus you can build the trust between you.

5. Climate

The appropriate climate will include being constructive and accommodating of the other party in your dealings with them.

6. Authority

Those involved in discussions have to have the authority to agree to a deal that will actually make a difference to the operation between your two companies. Implementation can only be as good as the planning that goes into the agreement so involving the relevant stakeholders and dealing with those who can follow through commitments is the only way that discussions can remain meaningful.

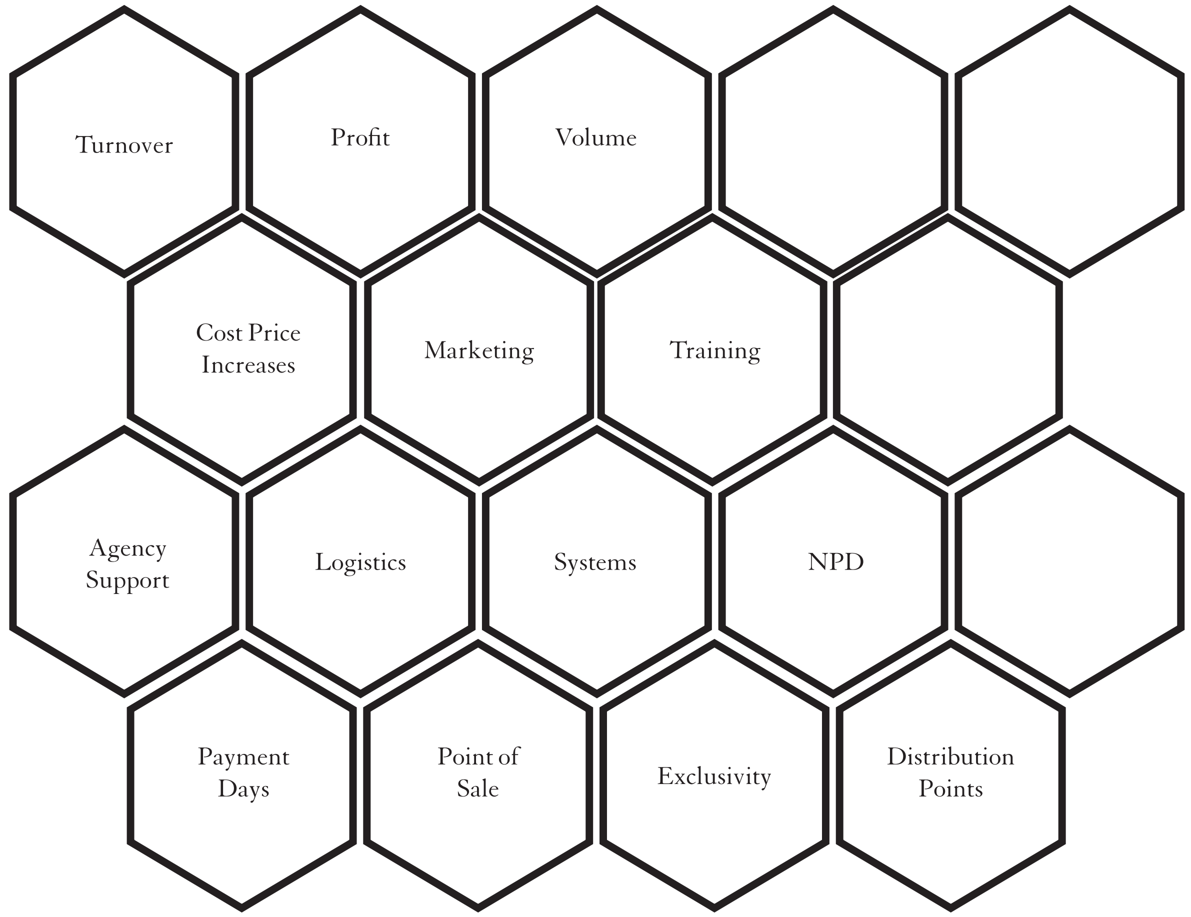
7. Motive

Remember why you are doing this. Its an opportunity to build more value for both parties. If you can increase your profits, turnover and volume and recognise and are prepared to support them with their motives, then you should be able to maintain the motivation of all involved.

"The most effective variables to trade in a negotiation are ones that cost your organisation very little but are extremely valuable to the other party"

The most effective variables to trade in a negotiation are ones that cost your organisation very little but are extremely valuable to the other party. In return, you want to attract commitments that are valuable to you but cost your partner very little. This is known as "High Value – Low Cost" rational based negotiation.

Figure 3



“Both companies should have an agreed set of ‘alarm bells’ that will sound if certain thresholds are crossed.”

How to negotiate a JBP

If you have decided to adopt a JBP the approach for you and your customer then you still need to approach this negotiation like any other and you will need to plan for it. Considering the variables in figure 3 will put you in a good place for planning, but then you will need to behave appropriately in the meetings.

Some key behaviours:

Provide satisfaction

People derive satisfaction from getting you to move from your opening position. As you move, you can engender reciprocity in the other party and get them to move. Thus you must ensure your opening positions are stretching but credible. If you start by asking for too much, this will lower trust and reduce the chances of agreement. The more intangible variables (risk related, convenience, flexibility) you have in the negotiation the more opportunity you will have to move.

Repackaging the deal

It is not always necessary to put new investment on the table with each move. It is legitimate in negotiation to move variables down as well as up. If during the course of the negotiation you discover that some variables are more important to the other side than previously understood, it may be appropriate to give more ground on these issues as long as you get back in return something of equal, or preferably greater, value than the concessions that you are offering.

Nothing is agreed, until everything is agreed

Try to avoid locking down specific items as the negotiation progresses, especially if there are ‘easy-to-agree’ items. If you do this, you may be left with only the challenging trade offs remaining towards to the end of discussions which will serve to prevent progress and stifle the desired conclusion. If this does happen, you can re introduce earlier variables which had previously been parked to help ‘unlock’ the tough deal breakers.

Keeping it alive

All of this can quickly come to nothing if you don’t keep it alive. How many times have you built a year long plan (eg a personal development plan) and then once signed off, put it in the drawer and not looked at it until the end the year when you are writing the next one? Just as it takes time, energy and resources to set up a JBP, it also requires feeding throughout its lifespan. Two critical tools for keeping a JBP alive are Scorecard and Regular Reviews. Ensure you have put in place a regular and robust measurement process that is simple to understand (at all levels of both organisations).

Scorecards

As this is a joint business plan, it will need to have joint measures. Try not to have too many; focus on 3-5 measures that are important to both parties. If possible have each measure broken down into manageable time segments (eg monthly, by promotion period etc) so you can track the progress frequently. Get as much of the tracking automated as possible. Make use of data dumps from sales & profit measurement systems from both companies to generate a small suite of user friendly reports that you can make effective business decisions from.

Regular reviews – at all levels

Account managers/buyers should be checking sales figures weekly and raising any issues to their counterparts immediately. Team leaders should review with their contacts monthly, highlighting not only under-performing areas but also over-performing ones. It is often easy to drive a rising balloon faster than drag up a sinking one. Senior level directors should monitor at quarterly or half-yearly looking for trends and keeping the strategic direction on track. Both companies should have an agreed set of ‘alarm bells’ that will sound if certain thresholds are crossed. When, not if, this happens it is appropriate to have considered and agreed your likely joint response beforehand.

Managing performance

The only thing you can be sure of when involved in JBP is that at the end of the planning process things will look different to how they did at the beginning. Some things will work and some things won’t. When they go right we celebrate. When they go wrong the risk is that we look to blame someone. This can clearly put at risk the relationship and possibly even the whole partnership itself.

For this reason those involved in JBP tend to develop contingency plans aimed at ensuring that undesirable performance can be managed in a rational, controlled and predictable manner instead of focusing on “who’s right” try to focus on “what’s right”; this will more likely deliver a solution that benefits everyone. Whilst doing this, however, it is important to consider a few things to ensure you remain in charge of the process. Because if you are not in charge of the re-negotiation your partner will be and its during these challenging times that you want to ensure that the pre agreed contingency plans are adhered to.

How to keep control

Have a set of metrics that both sides are agreed upon in your Scorecard and you take the ownership for measuring them and updating both your partners and your internal stakeholders. Develop a warning system (eg traffic lights) that allows you to see when potential issues are likely to surface so that you can proactively call a meeting.

Use the original plan as a basis for starting renegotiations for both areas that are lagging behind the plan and areas that are performing ahead of plan. If things are lagging, tell them specifically what you need them to do to get the numbers back on track. If things are flying, tell them what else they need to do now you are both making more turnover and more profit than planned.

Aside from the business measures that you are tracking, it’s an idea to keep an eye on key generic market information that may affect your joint business. Obvious ones are interest rates, inflation indices, currency exchange rates, relevant commodities. If you can see a trend in these ahead of it affecting your joint business plans you can take the initiative and change the plan to your mutual advantage rather then let events overtake you.

How to stay collaborative

If the spirit of the JBP is going to remain at 9 o'clock on the clockface, it is important that there is still a desire for both parties to collaborate. This will have to be managed from the top of the organisations. However, the people at the top are unlikely to be the best people to resolve the actual detail. They need to be given the relevant metrics and be allowed to come to a conceptual agreement that continuing with the JBP is in the interests of both parties.

It is then essential that this agreement is effectively communicated to everyone concerned. You need to ensure that the relationship remains collaborative and this is not achieved by rejecting the other parties ideas. Instead of reacting with an immediate 'No' try to think 'Under what circumstances could we do that?' Explore these circumstances and options with the other party.

When the going gets tough

Just because there is an issue do not allow this to cloud the overall aim of the process which is that there is more value for everyone to split out. See the issue as an opportunity. Look for other areas of value that can be brought to the table. Things will have moved on in both businesses – what other ideas could be traded?

Consider having another brain storming session to tease out these ideas into more concrete plans – always looking for the High Value – Low Cost variables.

In summary, JBPs are not for every relationship. To effectively reap the rewards requires a partnership mindset from both parties. There needs to be trust between you which will come from greater listening and greater understanding on both sides and mutual purpose. Current and future plans must be shared and aligned to ensure that the level of transparency and business visibility is at its highest level. And most importantly, there must be joint ownership and responsibility for both the process and performance and compliance consequences at all levels in both organisations.

JBPs are an incredibly powerful tool that can deliver prizes to both parties with those prepared to invest time, energy and resources and, yes, sometimes money.