

FINANCIAL ADVISORY

A Crash Course in Negotiation

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While attending business school, I took a graduate-level class on the art of negotiation. What I learned has saved me a lot of money over the years – whenever I buy a property, a car, or even when I hire someone to make repairs. This article will review some of the main principals of negotiation and is a good start towards sharpening your own skills.

THE GOAL OF A NEGOTIATION

First – the goal of any negotiation should be to keep both the buyer and the seller happy. As a buyer, you may wonder “What do I care if the seller is happy?” Well, if you’re having carpet installed and the seller isn’t happy with the deal he made, he’ll probably do a lousy job for you. It’s pretty much impossible to buy something for an amount that doesn’t make financial sense to the seller. It has been my experience that sellers are more open to a good-faith negotiation if they know that I am willing to let them make a living. (Not a fortune – a living.)

RESEARCH – THE MOST IMPORTANT PART OF NEGOTIATING

Many folks seem to have learned negotiation by watching reality TV, and feel that being a jerk is the

way to get the best deal.

Your research is the most important part of negotiation – much more than what you say or how you say it. Over the last 15 years, I have saved enough money buying cars to have bought me an extra car – and a nice one, too. This is because I don’t skimp on research. I ignore the MSRP of new cars, (since nobody expects to sell them for that much, anyways), and instead focus on the invoice price – what the dealer is paying for the car. I will then do additional research to find out what buyers are paying for cars today. The minimum price that buyers are paying is often below the invoice price – this is due to special incentives the manufacturers pay to dealers and an annual bonus that is paid depending on the total volume of cars sold. Some of these dollar amounts can be found online, others (the annual bonus) can be much more elusive. Now that you have all of this information, you are ready to select a price that you are willing to pay. (This will be your offer.)

FIND THE BATNA FOR EACH PARTY

Next, you’ll need to identify the BATNA of each party in the negotiation. BATNA stands for Best Alternative to a Negotiated Agreement and, in it’s

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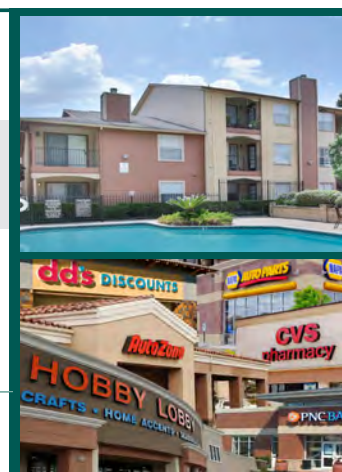


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simplified form, represents what happens if a buyer and seller don't come to an agreement. Examining each party's BATNA will tell you who has the most leverage in a negotiation – who is negotiating from a position of strength. You'll want to design your approach with this strength (or weakness) in mind.

In my car argument above, let's say that I make an offer to the car dealer by telephone. If the offer is rejected, that car dealer has sold one less car this month and the car salesman has lost out on a commission – meaning that he may go home with an empty wallet at the end of the day. I, on the other hand, still have my money in my pocket and still have a car to drive. I need to remember, then, that I have the upper hand in that negotiation.

Let's use another car example. About 10 years ago, I bought my wife a new car (and got a great deal by using my strategies.) We were left with her old car quickly collecting dust on the side of our house. I listed the car for sale online, and a potential buyer came by to look at the car for his teenage son. Let's look at both sides of this negotiation: I have a car that I don't need anymore. The car certainly isn't gaining value while it's rotting away in my side yard, and I really don't have a lot of time to be waiting for and meeting potential buyers. If we don't come to an agreement, my potential buyer will go home with his money in his pocket – he may be motivated to buy his son a car, but he's probably not THAT motivated. I, on the other hand, am stuck with a car that I don't want or need anymore.

I recognized that my potential buyer has the upper hand in this negotiation. Realizing this, my strategy was to make sure the first potential buyer

I saw drove away with the car and left his money in my pocket. I listed the car for a bit more than what I thought it was worth – his first offer was for \$1,000 less than my asking price. Rather than “split the difference,” I wanted to persuade him to buy the car now – so my counter was \$750 less than asking. (\$250 more than his offer.) He accepted, paid me, and drove the car away. We were both happy.

MAKE EACH OFFER A MEANINGFUL OFFER

When I negotiate, I make each offer a meaningful offer. By meaningful, I mean that it is an offer I expect the seller or buyer to take. If an apartment property is listed for \$1 million, I won't pick a number out of the sky and offer \$400,000. If, however, my research into neighboring comparable sales and market CAP Rates indicate that the property is worth \$400,000 – that very well could be my first offer. If \$400,000 is a fair price for the property, and I really like it, I may not want to pay more than \$425,000 for it. If, instead, I expect to pay around \$800,000 for a building; a frivolous offer of \$400,000 is just wasting everyone's time.

This month, we discussed some basic principles of negotiation. Negotiating to buy a car works the same manner as negotiating to buy real estate, to sign a new lease with a tenant or to hire a painter to renovate a unit. Find out what this service should cost, choose your price and negotiate with potential buyers or sellers. As always, it's impossible to fully cover a topic in just a few pages, but this outline can give you a good start and can certainly save you substantial amounts of money the next time you're negotiating for goods or services.



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