

Are You Getting The Best Deal? Negotiating in the Financial Services Industry

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There are few, if any industries that have escaped the impact of multiple types of change over the last decade. However, of the extensive range of industries that have experienced wide-ranging change there can be few that have been more profoundly affected than banks and other financial institutions.

From the relatively stable environment of two decades ago, the world of banking and financial services has evolved from low-tech to high-tech, from stable to highly competitive, from banker-focussed to customer-focussed and from hierarchical to much leaner, flatter and more cost-conscious. Inevitably, as customers' expectations become more sophisticated and financial institutions seek to operate more cost effectively, the management of client relationships can experience difficulties. In this feature, PAUL HAZELL, an experienced facilitator in the field of negotiations training, identifies how training in negotiation skills can help people operating in the financial sector to manage client relationships in such a way that they benefit both the client and the service provider.

Today, the name of the game for those whose clients are corporations or high net worth individuals is to aim to maintain long-term relationships. Within these relationships the financier or banker must work both strategically and in the short-term to identify the needs of the client and create and sell solutions to meet those needs. Those solutions have to be sold on terms that represent value for money through the eyes of the client and make a profit for the service provider. The need for both sides to perceive value in the deals they agree inevitably gives rise to a tension that can be difficult to manage for the untrained negotiator.

Who Has The Upper Hand?

It is a fact that when we have discussed negotiation issues with both clients and their bankers, it is quite common for each to perceive that the other has the upper hand. In many cases, where experienced but untrained negotiators are involved, this results in deals that fall short of what the negotiators had hoped to achieve or sometimes in no deal at all. Worse still, sometimes – deal or no deal – the negotiating process can damage these crucial relationships. Such damage to banker/customer relationships and other such liaisons leaves the client coping with the inconvenience and expense of looking for an alternative financial partner. Simultaneously, relationship managers can find themselves having to explain why valuable clients have been lost and performance targets have not been achieved.

Example 1

A large, international bank had opened an office in an off-shore tax haven and had successfully built a clientele of healthy individuals. So important were the clients perceived to be that relationship managers were afraid to charge them for the service they received or to say 'no' to any request. The bank was operating ineffectively and staff even found themselves walking the clients' dogs. After negotiation skills training, they were more confident to apply fees appropriate to the services provided and the time taken.

“Win-Win” – Aspiration or Reality?

Analysis of the process of negotiation reveals a range of patterns of behaviour that tend to lead to varying degrees of deal satisfaction and leave business relationships in a similar spectrum of resilience, trust and potential longevity. This spectrum ranges from strategic alliances at the successful end to total breakdowns at the other. There has been ample literature published on the subject of negotiation in recent years but what has emerged is the clear picture that whilst nearly all negotiators aspire to achieve “win-win” deals, most instinctively resort to “fight or flight” tactics when facing a counter-party at the table. As a result, valuable time is lost, emotions can flare and opportunities are missed.

The need to overcome instinctive reactions with a more emotionally intelligent approach is where training can make a big difference – to both the deal itself and the way the negotiators get there. A deal that has been struck in an atmosphere of undue pressure and resentment is doomed to failure – no matter how good it may look on paper. The tactics used at the table do much to determine the atmosphere of the negotiation and the resulting ability of the deal to stand the test of time. It is the tactics – the behaviours used by the negotiators – that can make the difference to the financial specialist as to whether the relationship between them and the client is consolidated or creates an uphill struggle for the next time they meet.

Example 2:

A corporate banker had been contracted to achieve particularly demanding fee targets. It was near the end of the quarter and a major client requested a loan to finance an urgent, last minute project. The banker – going against his better judgment – enforced unusually high fees to ensure he achieved his quarterly target. The client desperately needed the loan and agreed to the fees and the banker achieved his target. Six months later, when the annual account review fell due, he discovered that the client company had opened accounts with a competitor bank and did not wish to renew facilities with him. After negotiation skills training, he identified a number of changes to make to his approach with clients and this enabled him to generate sufficient fees to meet targets without jeopardizing relationships.

How Can Negotiation Skills Training Help?

So, in summary, negotiating from intuition and instinct alone can be a time-consuming and expensive business. Effective skill-based training can provide even the most experienced negotiator with a series of behavioural frameworks that can help them take more control over the process, deliver better-value deals for both parties and strengthen the relationship between them, even when the going gets tough.

At the same time, these behavioural frameworks provide a practical, protective shield against the unscrupulous negotiator who seeks to use pressure tactics, rather than reasoned, logical influencing to cause you to move. Understanding how and when to move in a negotiation can make a dramatic difference to the value to your organisation of the deal you strike. It is quite common for participants on our “Negotiating Effectively” programmes to report afterwards that they have quickly recouped what they paid to attend the course by applying the techniques they learned!

Some Practical Tips

So, if so much is understood about negotiation, what are the pitfalls that make learning from experience alone so expensive? Well, there are many and there would not be space here to address any of them in depth. What we can do however is signpost some of the

key areas where costly mistakes are made and offer some practical tips. Training will help the negotiator develop the skills to apply these techniques so as to avoid these pitfalls. We have identified six key areas and summarise them using the acronym VAPORS:

V – Value – Negotiate value, not costs.

We find that most negotiators seek to base their negotiations on achieving a margin over their costs. Inevitably, this leads to discussion focussing more on fees than on the benefits delivered by the service. Superior returns, money saved by the client and the prestige of doing business with the financial institution are all overlooked! By emphasising the value that your services bring to the client, the focus can be more readily shifted away from price and on to other variables. How confident are you that you have developed the techniques of value-based negotiating?

A – Assess the Power

Negotiators often tend to assess the strengths of the other party and the weaknesses of their own. Emphasising the advantages of the other party subconsciously affects the way you behave at the table. Try assessing the strengths and weaknesses of both parties. Effective preparation can help you do this. Be warned though that we find that time spent in preparation often does not correlate with being well prepared. Effective negotiators use a systematic approach to negotiation. Have you been trained to prepare effectively and systematically for negotiations?

Example 3:

During a negotiation skills workshop, an experienced relationship manager told of having recently lost a major account to a competitor because his organisation's fees were too high. After learning of the techniques of generating effective movements in negotiations, he requested the client to return to the table. He gained back their business for a guaranteed three- year period without deviating from his targeted level of fees!

P – Principled Negotiation

There are seven principles that form a framework for effective, "win-win" negotiators to turn the "win-win" approach from an aspiration into a practical reality. Most negotiators do not do this instinctively. Without the guiding framework provided by the seven principles, negotiators are more open to the pressures exerted by counter-parties and by their own organisations. Would your negotiations pass the "Principled Test"?

Example 4:

A team of relationship managers attended negotiation skills training together but expressed the view at the start of the workshop that in their current, difficult market conditions, it would make little difference. They agreed to keep a note for 3 months after the workshop, of any measurable gains they made as a result of techniques they had learned during the training. At the end of the 3 months, all 10 reported feeling far more confident. 8 of them were able to point to specific, bottom-line gains arising from using the principled tactics they had learned and practised in the training. Those gains amounted to approximately 90,000 Euros and were expected to be repeated every quarter from then on.

O – Organisational Issues

Frequently, when we research the issues undermining the negotiations undertaken by our customers, it is the internal negotiations that are most problematic. Negotiators often feel constrained by what they feel their head office or credit committees will allow yet rarely

negotiate with those internal parties the scope available for agreement with the client. They expect to negotiate with clients and suppliers but miss opportunities to negotiate internally. Effective negotiators identify internal constraints and negotiate them. Similarly, IT projects often suffer "project creep" because IT specialists do not negotiate the implications of requests to "just do this..." or "make it possible to do that"!

How often have your efforts been thwarted by a lack of internal co-operation?

R – Responses – Respond to the other party's needs, not their position.

Many negotiations are "skin-deep" – they focus on persuading the other party to change their position rather than searching for ways to meet their needs. Reacting to the other party's position is likely to end up in arguing about price. How often do the people with whom you negotiate leave the table with the perception that you "didn't understand where they were coming from"? How confident are you that you have the techniques to identify the underlying needs? Furthermore, untrained negotiators often try to do this at inappropriate stages of the negotiation process. How confident are you that you use the appropriate behaviours at each stage of the process?

S – Style – Develop your Personal Negotiating Style

As we mentioned at the beginning of this article, there are patterns of behaviour that have emerged from research into the way people negotiate. If you understand your own preferred style, you can work on it to develop and adjust your repertoire of behaviours so as to come closer to the style that represents the "win-win" approach.

Do you know your own style? – How similar is your view of you to the way others see you? What unconscious signals do you send out when you are negotiating? Others will respond to those signals whether you are conscious of them or not.

Example 5:

A very senior, regional representative of a well-known insurance company had long experienced difficulties internally when he struck deals with corporate clients. He was of the opinion that the company's staff were incompetent and regularly told them so. He was nominated for executive negotiation skills training and learned very quickly that he was perceived to be a bully. On reporting this to his wife, she told him "I'm glad someone has told you, because you're like it at home too!" He further discovered that his own staff had given him highly favourable 360° feedback because they were too afraid to say what they really thought! At the end of the programme, he said that he had learned a lot about himself and wished that someone had told him twenty years earlier

In Summary

So then, in summary, negotiating is a process that we tend neither to understand fully nor follow effectively until we are given guidance. Negotiation Skills training can help us understand the stages of the process and become more conscious of our instinctive and intuitive behaviours so that we can develop our natural style into one more conducive to "win-win" or mutually beneficial deals.

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