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Keys to Successful Negotiation: Establish a Higher Authority, Don't Blink

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Books are written on effective negotiating, so I don't expect a couple of short columns to equip you to go out and sell your company. In fact, an important point I want to make is when you go looking for someone to help you in a negotiation - whether it's for venture capital or cashing out - find somebody who has done it before. Experience is always valuable, but in negotiations it's vital.

Negotiations are full of subtle rules and personal techniques that people develop after doing it for a while. I've seen very tough businessmen lose in a negotiation because they pushed too hard or talked themselves into a corner. And because they talked themselves into a corner, they ended up blinking. A cardinal rule of negotiating is that the first one who blinks loses. That's why you always have to be willing to walk away. It's also why you have to mean what you say and

be willing to stand by it. But you cannot blink.

When the person I'm negotiating with says to me over the phone, "You know, this looks like it's going to kill the deal," I have to say, "Well, okay, then it will kill the deal." And this happened. When I told this other person that it would have to kill the deal, he backtracked. Once you backtrack, you're dead. Because now it's obvious you're just bluffing, and I called your bluff.

So when you say something is going to kill the deal, you better mean it. And when I say it, I do mean it.

An experienced negotiator can also assess how badly the other person wants the deal. I do this in a lot of ways, but one is by giving my adversary unannounced quizzes. I create difficulties throughout the negotiating process, little obstacle courses. And if the other person gets hung up on these peripheral issues, then I

know it's going to be a hard sell and this person will want it on their terms.

On the other hand, if they are willing to go through the obstacle course courses that I put in their way, then I'd make it tougher. It's a way to test sincerity and eagerness. The more eager somebody is to do the deal, the higher I would make the ante.

Maybe the most important single piece of advice I can offer is this: Anytime you are negotiating for something, whether it's selling your company or terms of a venture investment, have other people waiting in line.

I don't know how many times I've heard entrepreneurs say, "We have to take this deal because there are no other companies prepared to buy this company even for the ballpark of this price." Or, "We have to take this venture capital deal, because there's no one else in line." Once you take on that

mentality, you may very well be the loser.

Even if people aren't waiting in line to buy your company or invest in it, what you want to do is create an aura that there are.

One time I was selling a company and I said, "You know, if you're not prepared to pay 'X' million, then I don't think we should go on."

And the prospective buyer says, "Is that because you've already got an offer for 'X' million?"

I said, "I can't answer that. I don't think it would be fair to whoever may be in line. So I will not tell you that there is. I won't tell you that there isn't."

That created an aura that there were other buyers, but I didn't say that. I didn't lie. I said, "I can't tell you."

It's best if you actually do have people waiting in line. But it's not essential. Just make believe there are.

Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University's Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetli, former Executive Editor of T.E.Q.