Creating Leverage

Power in a negotiation is less a product of the situation and more the result of the actions one takes. By thinking creatively, negotiators can find, build and deploy a wider range of leverage opportunities.

Most of us experience the power of leverage for the first time as children on the playground seesaw: Very quickly we learn that if we place the board in the right place over the fulcrum, a small child can easily lift a much larger kid at the other end. But, there is more than just power involved; there is also trust. After all, if the smaller child jumps off the seesaw, it comes crashing down hard.

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Leverage, and the power that comes with it, is a critical element of any negotiation. Yet, too many people are tempted to think of leverage as something they either have or they don’t; in other words, they see power as a product of the situation, not as the result of actions they can take. Just like moving the seesaw board forward or backward over the fulcrum to change the dynamic on the playground, there is much either side can do to find, build and develop leverage in any negotiation. By thinking more creatively, negotiators can find a wider range of leverage opportunities. Like most tools, the challenge is to pick the right one for the job: With the right tool, the work gets done faster and with greater success.

When meeting with clients, Mobus Creative Negotiating suggests that there is a spectrum of negotiations that runs from hard bargaining to creative deal making. We also suggest that there is a leverage spectrum. At one end of the spectrum is the consequential leverage that comes from showing the counterparty why they need you: Buyers may point out how important they are to a supplier’s business while presenting the options—or consequences—if the supplier does not cooperate. This is especially the case in one-time or highly contentious transactions.

At the other side of the spectrum there is the positive leverage of cooperation: offering help and new opportunities to the counterparty, with the expectation of reciprocation over time. This type of leverage is most common in the context of a mutually beneficial, long-term relationship.

Movement along either the negotiation spectrum or the leverage spectrum has the potential to move the relationship with the other party. That’s why we say that the interaction of the negotiation and leverage spectrums produce a third spectrum—the relationship spectrum—that can run from one-time transactions to long-term partnerships. What matters most on the left-hand side of the relationship spectrum—price and
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quality—becomes only a part of the picture on the right-hand side of the spectrum.

In this article, we will explore why leverage matters and explore some principles about leverage: Don’t exaggerate the other side’s leverage, think of leverage as a tool box rather than a just hammer and consider using positive leverage as well as consequential leverage in negotiations.

Why leverage
Negotiations are largely about getting the other party to agree to do something. Many times, the other side starts out with inflated expectations. Leverage is a way to convince the other party to agree to negotiate and then to compromise. Leverage is a way to gain influence to have the other side see things more your way. Leverage is always a factor in every negotiation, though sometimes one, or both, parties do not understand this and so do not use their leverage effectively.

In the modern economy, as procurement becomes more complex, leverage matters not only at the point of sale/purchase but also during the course of execution of a deal.

complex deals, driving a hard bargain in the initial negotiations may not be as important as setting up a deal in such a way that you have the leverage to ensure that the counterparty is committed to doing a good job over time.

At each point in the leverage spectrum, there are ways to find, build and deploy leverage. However, the techniques used to develop leverage change as one moves along the leverage spectrum. That is, the ways to develop consequential leverage are more contentious, such as pointing out that the marketplace offers other alternatives, while the ways to get positive leverage are more cooperative, such as offering to help build value in their business.

Don’t exaggerate the other side’s leverage
The most natural and most dangerous approach in any business relationship, including negotiations, is to forget about how things look from the other side. It is easy to see one’s own needs and weaknesses. It is not as easy to think about what the other side needs and what they may see as their weaknesses.

That is particularly true for buyers, who often think of themselves as just another customer for the supplier. A buyer should consider why that supplier needs them: why their firm is a great customer and how important their business is to the supplier. The buyer should consider the “value proposition” they offer—something over which sellers typically obsess. If the buyer has a reputation for always paying on time, if the buyer’s order is a vital part of the supplier’s sales, if the buyer is known for respecting the agreed terms, if the buyer is known for being easy to get along with rather than repeatedly escalating minor differences into huge drama—then the buyer is a valued customer, and that gives the buyer leverage.

The buyer could also point out that there are things the purchaser can do for the supplier besides paying a high price. The obvious issue is whether the buyer can offer the seller additional work. More importantly, the buyer may be able to open the door for the seller to go after other business. Sellers are often well aware that the sale to one particular buyer will impress others in that industry or community; buyers are frequently not as attuned to how much an opportunity their purchase can create for the seller. A buyer’s potential order may be a small part of the seller’s business, but if that order opens the door to a new and potentially lucrative market for the seller, the buyer
can be an important part of the seller’s plans. Rather than ignoring the leverage this provides, a buyer can build on it, advising the seller on other markets where they can sell their products or services. The seller can also offer to help the buyer develop as a firm, pointing out such things as ways to make their products better or lower their cost to be more competitive.

It is often good to point out to the other side that they are replaceable. Even if the supplier is a sole-source, the purchaser might be able to make it in-house instead of buying from them. A large purchaser could buy them out or merge with one of their competitors. This becomes particularly important in long-term relationships, such as a sole-source contract, as a way to overcome the natural shift in leverage that occurs once a deal is signed.

Before the deal is inked, the buyer has the greater advantage: It is the seller who has to persuade the buyer why to do the deal. But after the contract is signed, the advantage often shifts to the seller. Now, it is up to the buyer to persuade the seller to live up to the terms, or better yet, over-perform. That is often a challenge because unexpected things happen, raising questions about the interpretation of the contract when reality turns out differently from what is specified in the contract’s terms and conditions. For instance, if the software will not work without being tweaked because of unexpected features in the buyer’s hardware, which party is responsible for any extra costs and what is a reasonable time-frame to fix the problem? It is unrealistic to expect that any contract, no matter how carefully prepared, will cover all eventualities. The better approach for each side is to think through what will give them leverage in the complications that will inevitably arise before signing the deal.

In short, in almost any situation, each side has ways to find, build and deploy leverage. Buyers in particular are often not as aware of the leverage they have because they fail to use it.

**More than a hammer**

It’s easy to think of leverage as an instrument of power, like a hammer, to extract a better price. But, even a hammer can be used in a variety of ways, from breaking a window to nailing together the pieces of a wooden sculpture. Similarly, leverage can be used in more creative, and subtle, ways to enhance a relationship.

Approaching leverage as a toolbox, and not just a hammer with one purpose, requires you to think about more subtle ways to use power that not only limits destructive resentment but also opens the door to new opportunities. If a purchaser tells a supplier that the buyer’s firm is winnowing its supplier base, that is alerting them that they can decide if they want to go the extra mile to be on the team or, if not, the buyer will be searching for others to take their spot.

A savvy purchasing colleague we know put it this way to a long-term supplier: “We can continue to do business. We don’t need to hurt each other. But we do have future goals and objectives. If you won’t work with us now to meet these goals that’s okay, but we will be looking for and developing other suppliers who are willing to perform for us.”

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Perhaps the biggest barrier to reaching for a new, unfamiliar tool is that one has to go from demolition to construction. When the two sides are just hammering away at each other, they are in open conflict—seeing who has the most leverage to pry a better price out of the other. The challenge is to shift mental modes from conflict to being open to what the counterparty is proposing. At the simplest level, that means just listening to their suggestions. We described above a variety of ways in which a buyer can point out what they can do for the seller, such as open doors to other sales.
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Even though the points are somewhat self-serving—designed to give the buyer more leverage—a smart seller will still listen carefully, because they may be something the seller had not thought of. Leverage is not always a club; sometimes it is a magnet that attracts both sides and offers ways they can benefit by coming together more closely.

If the other side proves trustworthy, a good negotiator should be prepared to open up so that the two parties can search for ways to create new value in the deal. If either party is so tight-lipped that the other doesn’t know what their counterparty needs, the result can be missed opportunities. The most successful deal for a buyer is not necessarily the one that delivers the lowest price; the greater profit may come from finding an unexpected way to work with the supplier.

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Positive leverage, valuable partnerships

When approaching a negotiation, there are any number of old sayings, such as, “Which came first, the chicken or the egg?” and “Should we use the carrot or the stick?” While we have yet to form a solid opinion about the origin of poultry, we strongly believe there is a third option beyond the carrot and stick that should be considered for relationships between customers and suppliers. It is the tool of positive leverage. To understand the power of positive leverage, consider this anecdote from a real experience we related in Positive Leverage Can Build Valuable Partnerships, a blog we posted on scmr.com in December 2016.*

The call came late one Friday afternoon. It was the kind of call no one ever wants to receive while production is ramping up in preparation for the peak selling season. A major mechanical failure had caused a complete process shutdown. They would not be able to fix the equipment for several months, so they had to cancel all orders. They were very sorry, but there was nothing they could do.

Fortunately, this product was multi-sourced. The “how do I deal with this problem” call went out at almost 5 p.m. on a Friday to a factory owner who was in a time zone seven hours ahead. He picked up his cell phone around midnight his time, listened to the situation, and said: “Don’t worry about it. I will start my machines tomorrow morning and will take care of this problem for you and I’ll hold my prices as-is. You can get me a formal PO next week. I trust you. Enjoy your weekend.” Without valuable partnerships, this could have turned into a major crisis for the company. One partner had the courage to immediately call and report the problem. The other had the motivation to solve the customer’s problem, not to seek additional opportunistic margin, and to apply some positive leverage to the customer relationship.

The type of positive leverage illustrated in that example only works when one is on the right side of the relationship spectrum—that is a partnership and not a one-off transaction. The two key criteria that make positive leverage a good strategy are the character of the other side and the on-going nature of the interactions.

On the first point—the character of the other side—both parties need to trust each other. That is more than being certain the other side is honest; each side needs to be sure the other will reciprocate and not, like the playground seesaw, jump off suddenly and let one party come crashing down. It would be a serious error to plunge into offering favors when one has little experience with the other side; they may just pocket the favor and expect more in the future. The positive leverage strategy doesn’t work if one side proves untrustworthy, or is opportunistic, taking advantage of unexpected situations rather than “looking out” for the relationship and their partner. Indeed, one of the most vital skills in modern business is learning how to choose with whom to partner.

On the second point—is the relationship on-going—positive leverage only makes sense if the two sides will be doing business with each other regularly for quite some time. From a strictly business point of view, there is little reason to do a favor for a supplier or customer with whom
one is unlikely to have any future dealings. By contrast, there is a good argument for going out of the way to help a partner with whom one will be dealing time and again for years to come.

If the two sides are in a mutually beneficial long-term relationship, and they have built up trust among themselves, then positive leverage is a powerful tool. Each side should be prepared to gain credit by doing something that helps the other even while gaining nothing and possibly inconveniencing themselves. Doing the other party a favor is more than a random act of kindness; it generates positive leverage for building a valuable partnership. In such situations, the relationship is more important than the single transaction at hand. If the other side needs help, sometimes the right approach is to use that as a way to cultivate and nurture a beneficial partnership, not to seek additional opportunistic margin at the expense of antagonizing the other party.

Done correctly, positive leverage is a long-term investment from which great efficiency follows: things run smoother, get done faster and with greater success. Remember: Beneficial partnerships don’t just happen; they are cultivated and nurtured. The partnership described in the above anecdote existed because the purchasers had spent years applying positive leverage with the supplier through honest, purposeful supplier development activities. They challenged the supplier to improve while providing how-to help along the way. They gave the supplier new opportunities to manufacture new product lines, and as a result the supplier experienced exceptional growth with this customer and others. Positive leverage built a strong partnership.

Positive leverage only makes sense if you are constantly monitoring the state of the relationship. Even in the best of circumstances, the two sides have to divvy up the winnings, and on that, their interests conflict. A common problem in long-time business relationships is that one side gets too close to the other side. If the balance of favors has become unbalanced to the benefit of the supplier, the buyer should point this out, even though that may be an uncomfortable conversation, raising the prospect of conflict with someone who may have become a personal friend. If one side nurses its grievances without discussing them with their partner, eventually there will be major problems.

**Multi-faceted leverage**

As we’ve just demonstrated, leverage comes in several flavors. It can also be used in several ways—or as we put it, there is a leverage spectrum. In many situations, leverage is primarily an instrument in a conflict of wills—what we refer to as consequential leverage.

If the two sides are in a mutually beneficial long-term relationship, and they have built up trust among themselves, then positive leverage is a powerful tool. Each side should be prepared to gain credit by doing something that helps the other even while gaining nothing and possibly inconveniencing themselves.

But even when the bargaining is only over price, the best way to think of power is not just as a hammer but as a toolbox that helps to not only get a better price, but also to get the other side working to help you.

Sizing up the situation is a vital prerequisite before deciding how to apply leverage. The more the two sides can build trust, the more they can open up so as to search for ways to make the deal better for both sides—that is, to apply positive leverage. If the two sides have invested in creating a long-standing mutually beneficial relationship, then when the other side is in a pinch, their counterparty should put the relationship first above the potential to make a fast buck.

To shift metaphors, sometimes leverage is a club but sometimes it is a magnet, in which your side’s leverage comes from the advantages you offer for your counterparty. In particular, buyers would do well to think more about the value proposition they offer the seller.

* scmr.com/article/positive_leverage_can_build_valuable_partnerships