

4. Negotiation skills for entrepreneurs

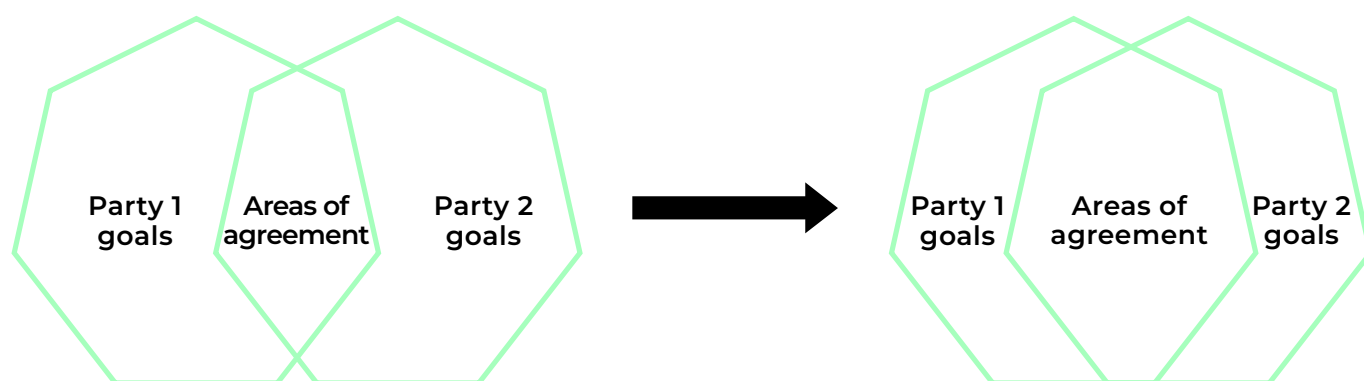
Personal business and enterprise skills

Leadership and negotiation for entrepreneurs

Every successful innovation is the result of repeated negotiations through which the different viewpoints of technologists, designers, manufacturers, customers, and investors are aligned, and areas of agreement are identified. A successful product or service lies at the centre of these different areas of agreement. This means that the innovation and startup process is not purely one of technical development but one that also requires empathy and emotional intelligence to balance competing priorities and focus on what matters most.

Negotiation in enterprise

A negotiation is a discussion between two or more parties to resolve points of difference and reach an agreement that all parties find acceptable. It is not an argument but a collaborative effort to identify and maximise a 'win-win' outcome:



Negotiation is an essential skill which helps entrepreneurs and their teams answer the fundamental 'why?', 'for whom?' and 'how?' questions they need to ask.

Negotiation	Who is involved?	Win-win outcome
company mission and vision	cofounders	a compelling vision on which to build a successful enterprise
technology development	technical specialists	optimum balance of performance v cost
product design	cofounders, technical specialists, designers, customers	maximised customer value at acceptable cost
investment	cofounders, investors	required investment and expertise at acceptable ownership %
product pricing	company, market	effective price point that delivers acceptable profit
sales	company, customers	strong customer relationship based on value and profit

Each side in a negotiation will seek to achieve the best possible outcome. However, **every negotiation takes place within a relationship**. Effective negotiation requires not only assertiveness but also emotional intelligence and fairness to maximise agreement and maintain a positive relationship.

Check your understanding:

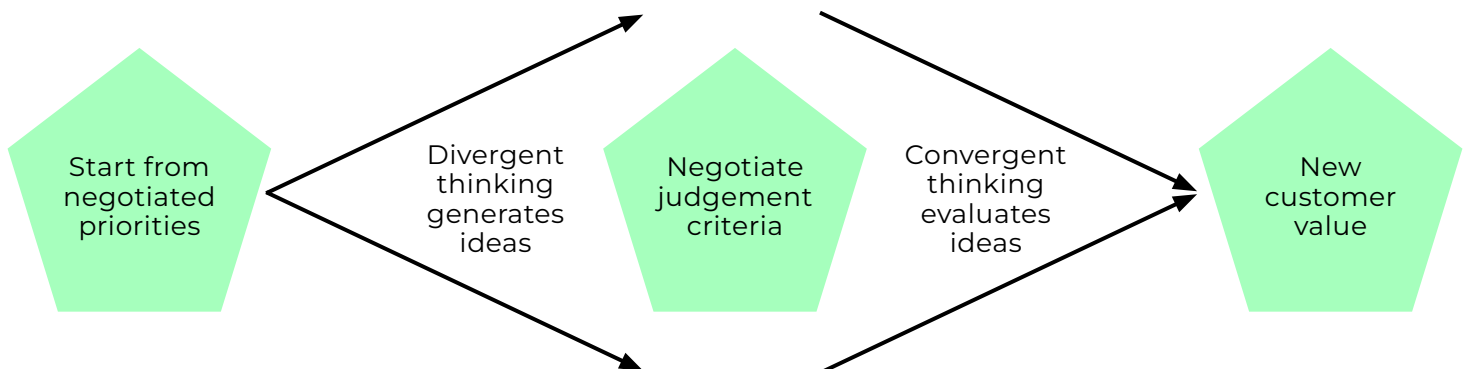
1. Suggest when and why negotiation might be important when a startup recruits its first key employees.

Negotiation in innovation and design

Negotiation is embedded in innovation and happens at every stage of the technology development and design process. It starts with agreeing what the cofounders seek to achieve.



At first you will apply divergent thinking to generate ideas. When brainstorming, do not judge ideas and, instead, build and improve them. However, negotiation is necessary to first define and clarify whose interests you are seeking to support. Are you generating applications for a technological innovation ('technology push') or looking for new ways to satisfy a customer need ('market pull')? Negotiation helps your team define who matters, what is important, and what to ignore.



As you evaluate your ideas, negotiation helps the team focus on your priorities and define effective criteria to identify and converge on new customer value. Agreeing criteria for judgement focuses your critical thinking on the problem you want to solve and not the people involved in the process. This negotiation process continues as you evaluate competing priorities when developing a viable product and design, balancing multiple technological and financial requirements.

In this way **negotiation creates and maintains alignment** – within the team and between the enterprise and its customer market – supporting an effective and energised team that works towards the right goal and is an appealing prospect for investors.

Check your understanding:

2. How might a startup negotiate with potential customers to clarify what they want?
3. Suggest how negotiation may continue to be important as investors monitor a startup or spinout's progress from proof of concept to production.

The negotiation process

A **structured approach to negotiation makes a win-win outcome more likely**. Your approach begins with the right intention: to be fair, build trust, and have due regard for the other party.

Start with detailed **preparation**. Know the pertinent facts and understand your best-case goal, the worst-case scenario you will accept, any 'red lines' you are unwilling to cross and your reasons for these. Consider the other party's points of view and likely goals.



Begin your negotiation by **clarifying** the process and any rules you want or need to follow, so both parties understand how the negotiation will work.



The heart of the negotiation process happens as you **trade alternatives and compromises** that help both parties maximise the areas of agreement. This may take place within a single meeting or over a series of meetings, in between which each party takes the time to review its goals and red lines, and identify an acceptable way forward. It requires an open mind and a commitment to seek creative solutions that can sidestep obstacles.



Your negotiation should end with a formal **agreement** that clarifies the exact nature of the terms or decision, to which both parties can refer as you **implement** your agreed plan.

Your enterprise skills form the foundation for your negotiating success, including planning, communication, critical thinking, and creativity. Strong **emotional intelligence** – your ability to understand and manage your own emotions and those of the other party – is essential, as is your ability to be **assertive** and communicate your position with honesty and confidence, but without aggression.

Aim for agreements that strengthen, not erode, your relationships with colleagues, investors, and customers.

Check your understanding:

4. Explain the importance of fairness, trust, and seeing the other party's perspective when negotiating.
5. How can you respond if the other party acts in bad faith and doesn't negotiate with the right intention?

Case study: Negotiations in a startup

Background

Eva is a materials engineer who has developed a new form of alloy lattice that is 'grown' rather than machined from a block, giving it many useful properties. Eva has obtained patents on the material and how it is produced.

Through her personal network, Eva knows Johannes, who works in the chemicals industry and understands potential customer needs for products that would use the alloy lattice to deliver new forms of customer value.

Eva and Johannes have agreed to be cofounders of a new startup to develop and apply this new technology. They need to meet to agree their vision and mission, and then meet again with a potential investor who can provide seed funding to develop the technology and a prototype product.

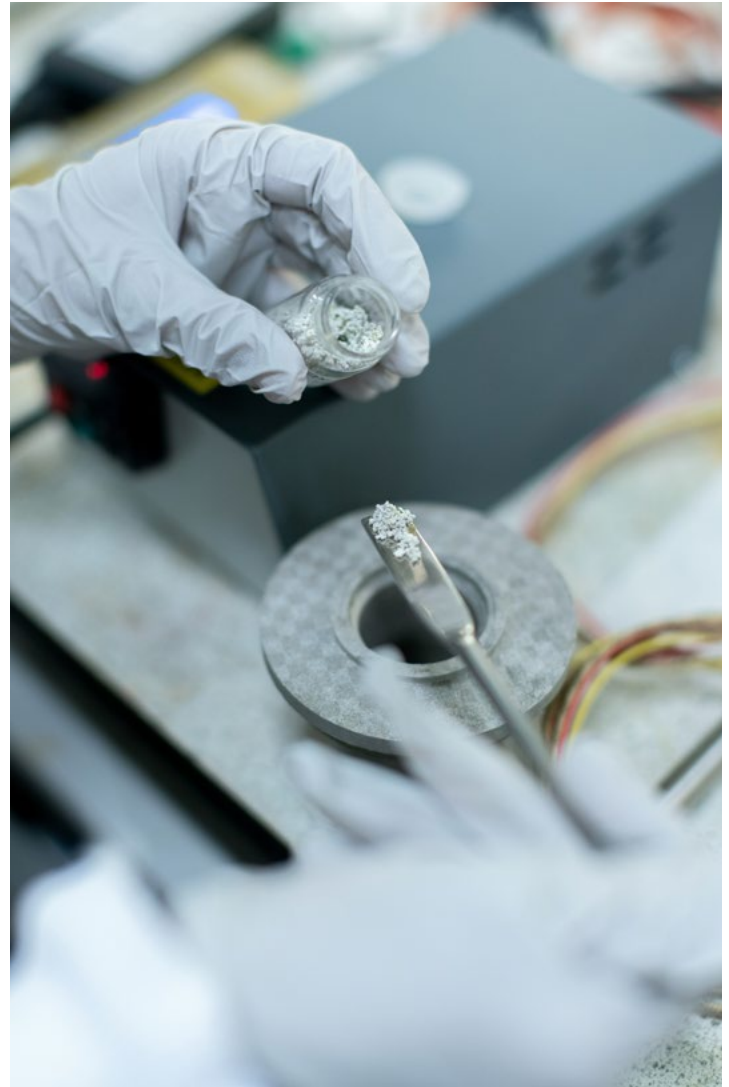
Your task

First consider Eva and Johannes' meeting to agree their startup's vision and mission.

1. What different points of view or ideas might Eva and Johannes bring to the meeting, about their 'reason to exist'?
2. What assumptions might they need to test about one another and might either person have any 'red lines' they are not willing to cross?

Now consider Eva and Johannes' meeting with the potential investor.

3. What should Eva and Johannes seek to understand about the investor?
4. What areas of agreement could both sides look for, to obtain the investment?



Extend your learning

- What areas for negotiation would help you and your team when working together during your study, for example, on an employer-led project?
- How can you use these projects to develop your emotional intelligence?

Answers: Check your understanding

These are example answers – your own suggestions may differ.

Negotiation in enterprise

1. Negotiation is important when a startup recruits its first key employees because the cofounders need to find and employ the best talent at a price they can afford. This may mean paying key employees more than they pay themselves or offering a small percentage of ownership. This requires both the emotional intelligence to value other people and the business skills to control staff costs, create suitable contracts that protect intellectual property, and avoid overdiluting ownership (especially before approaching investors, who will expect a larger ownership share).

Negotiation in innovation and design

2. A startup effectively negotiates with potential customers through market research and product testing. A successful negotiation with customers results in a product that delivers the value and performance customers seek, at a price they are willing to pay, which delivers acceptable profit to the enterprise within a sustainable business model.
3. Negotiation continues to be important as investors will want to see at least the projected return on their investment within the projected timescales. Projects often fail because their costs and/or timescales increase, using up funding before a viable product is ready for market. Negotiation may be needed to obtain additional funding, to agree longer timescales, or otherwise adjust investor expectations. However, this is best avoided by thorough and prudent planning.

The negotiation process

4. Fairness is necessary in negotiation to reach the middle of the Venn diagram: an agreement that is acceptable to both sides. Without fairness, win-win is not possible. Trust is necessary to share information and understanding, reaching a better outcome. Empathy, or seeing the other party's perspective when negotiating, underpins both trust and fairness.
5. Careful listening can help identify when the other party acts in bad faith, as they will fail to offer options that are acceptable to the other side, talking only about their own interests, or not respond when the other party makes its own requests. An assertive response can confront the bad-faith negotiator with red lines the other party is unwilling to cross, and the consequences, including walking away from the negotiation.



Answers: Case study

These are example answers – your own suggestions may differ.

1. Eva will have both legal and emotional ownership of the new technology. She may approach the vision as one of 'technology push', pushing applications of the technology into possible markets, which may include some markets of which Johannes has little or no understanding. She may be less willing to change the fundamental technology if required. On the other hand, Johannes will have a more customer-centric 'market pull' approach and be more willing to change the fundamental technology or make necessary trade-offs to meet market needs.
2. Eva will want to retain her ownership of the intellectual property (IP) she brings into the startup so she will not include this as part of the shared assets of the startup. She may want a higher percentage of company ownership because she brings this essential IP as well as her technical knowledge. Johannes will argue his percentage ownership on the market knowledge and business skills he brings, which he may value equally highly.

Both people should remember that their ownership will be diluted as investors come on board and must plan ahead to the ownership stake they are willing to accept after one or more rounds of investment.

Pertinent questions to consider when negotiating might also include:

- What happens if the technology is not viable?
- What if other skilled employees are needed to make the technology work?

3. When Eva and Johannes meet with the potential investor, they will need to understand:

- what the investor needs to know about the technology and the business
- what value they place on their investment and how they calculate this
- what return they are wanting to achieve and over what timescale
- what expertise they can bring to the business and whether they expect to play an active role
- how they might respond if progress differs from their projections.

4. Both sides should seek to agree on:

- the amount to be invested
- what ownership stake the investor expects and the terms of the agreement
- the valuation of the company this investment suggests
- how much deviation from the projected costs and time is possible before any renegotiation is necessary.