



Relationships are a Matter of Negotiation

PETER BELSEY, sector head of Huthwaite International, concludes his series of articles on the interaction between insurance company account handlers and brokers. Here he explains how product providers and brokers should approach the negotiation process which will define their future business relationship.

A common theme which has emerged in this series of articles looking at the changing world of insurance has been the importance of understanding what makes a successful business relationship, one with the resilience to withstand the combined pressures of a tough economy, tighter regulation and an increasingly disaffected customer base.

Yet how many brokers for example, still smarting from the bruises of recent renewal negotiations, now feel they truly understand what it is like to be "between a rock and a hard place", in trying to balance the seemingly irreconcilable demands of providers, policyholders and those of their own business?

For years we have been told that the only way to build a strong business is through long term partnerships based on "win-win" outcomes. And, indeed, there are highly successful companies who always adopt an even-handed negotiating style.

For those on the receiving end of the more old-fashioned, "big stick" approach however, the reality is better summed up by W. C. Fields' famous aphorism: "Never give a sucker an even break."

Perception

For some commentators pointing to the problems in the broader economy, the general insurance market has seen "the biggest turn-around in living memory" and has hardened to become a distinctly seller's market.

At the same time, the broking landscape itself is much altered, with consolidation resulting in a greater concentration of large brokerage firms and networks - with professional buyers looking to improve their negotiating position by commoditising the provider's offer.

Taking these and other changes such as the drive towards greater regulatory transparency into account, it would not perhaps be unreasonable to see the present balance of power between brokers and providers as fairly equal.

Yet as ever, the issue is one of each party's *perception* of their relative power, rather than the actual power they may wield going into the negotiation. And any uncertainty will almost certainly be exacerbated by the current pace and scale of change, both in and beyond the industry.

Insurance providers, for example, who have had a profitable year may as a result be feeling confident and positive.

Powerless

By contrast, some brokers will see themselves as caught in the middle: on the one hand, powerless to resist unprecedented hikes in premiums - with reported increases of up to 1,000% on some employers' liability policies - and on the other, facing the displeasure of clients with good claims records feeling punished by having to pay greatly inflated premiums for less cover and more exclusions.

Other brokers perhaps will still feel strong and capable of playing providers off against each other, forcing an improvement in terms in return for a recommendation to clients.

In either case, the abuse of a dominant position - going for, and securing, a win-lose outcome - contains serious risks.

Providers imposing their own demands on brokers, who have no choice but to pass on the resulting unfavourable terms, will put strains on the broker-client relationship which may, by turn, weaken that client's loyalty to both broker and provider.

Similarly, a game of brinkmanship between broker and provider may lead to protracted negotiations which are not completed in time. Left without



the client may as a result be forced to take out expensive bridging cover.

Either way, any short term gain which one party may secure is likely to be outweighed by the disaffected client then switching broker and provider at the earliest opportunity.

Experience shows that playing the win-lose game is quickly, and invariably, transformed into a lose-lose outcome.

Power

So, though the actual balance of power overall today is arguably fairly even, either side may well enter negotiations feeling unsettled - and so less powerful - providing an entire spectrum of possibilities as to the way they are conducted and the quality of the outcome.

Partnership

However, in a difficult economic climate and when the industry as a whole is suffering from a poor public image, there is much to be gained by brokers and providers working together in partnership, by identifying and building on areas of common ground.

How to do this? The first step, I believe, is to recognise that "power is in the head" and identify the various sources of that power.

Some will be dependent on the external situation, some on the context - such as the amount of information available to each party - and the rest on the relative skill of each negotiator.

It follows therefore that if negotiators feel powerless they will act powerless, to the detriment of

both their own position and the outcome as a whole.

There are a number of practical tools available which can help the negotiator assess the balance of power in a more objective way, either to enable them to feel more powerful than they did or to rein in their perception so as not to abuse their power.

Negotiation

In the context of provider and broker, negotiation is the process of bargaining by which both parties contract to heads of agreement or terms and conditions.

There is thus a clear distinction to be made with selling. In the standard sales model, one party is seeking to get the other to recognise the need for precisely what he/she has to offer.

With negotiation, by contrast, there has to be a recognition of the need to move away from one's best case and meet somewhere in the middle.

So what are the implications of this in terms of the abilities required? Like selling, negotiation is a complex skill-set, requiring both planning and face to face skills.

Unlike selling however, the skills required for effective negotiation are exactly the same for both buyers and sellers.

Navigate

Research and experience have shown unequivocally that brokers and providers need exactly the same skills to navigate their way successfully through negotiation and achieve desirable win-win outcomes.

In order to pin down what successful negotiators do which is different from that of average performers, research has identified a "skilled" group meeting three main criteria: **a track record of successful negotiation; being rated as effective by both sides; and a low incidence of implementation failure - when they concluded a deal, it stuck.**

This group was then observed and compared with another group of "average" negotiators.

The resulting findings have provided some valuable insights in three key areas, namely preparation and planning in advance and behaviours exhibited during negotiation.

For example, skilled negotiators - perhaps surprisingly - spend no more time in getting ready for the meeting. The difference rather lies in how they use that time - a real example of "working smarter, not harder".

Like their average counterparts, they identify best and worst outcomes for each issue; but go much further, determining in advance how best to organise and present their case at the point of bargaining.

As a result, there is a much clearer distinction between efficient *preparation* - gathering information on setting objectives, identifying issues and priorities, the cost of concessions and so on - and *planning* how to use that information to best advantage.

How is this information used? Whereas average negotiators concentrate their efforts on areas of conflict, skilled negotiators give three times as much attention to



identifying common ground, as the basis for building relationships.

At the time of premium renewal, for example, a common area for potential conflict may centre on who should contact the customer for the purposes of cross-selling.

A skilled negotiator will look at how broker and provider can work together - through joint marketing perhaps - to "increase the size of the cake".

Both will benefit as this is more likely to result in the broker securing greater business with the client which is then passed on to the provider.

Bargaining

Similarly, when it comes to bargaining, average negotiators tend to focus on too few issues - typically level of premium, commission, amount of cover and exclusions.

The result is that they can quickly reach an impasse, with the result that one party crumbles under pressure or a simple "split down the middle" is agreed, with both parties feeling compromised and unhappy.

Skilled negotiators, by contrast, look beyond this to determine those areas which are of greater importance to the other party than to themselves - and so are more readily negotiable.

Further, in identifying levers which will help enable movement in the other party's position, they consider twice as many creative options for each issue under consideration.

For example, at a strategic level an average negotiator is likely to focus on a general reduction in price

in return for delivering a guaranteed level of business.

The skilled negotiator, however, will also bring into play the need for greater flexibility from the provider in such areas as individual premiums (to improve competitiveness with major clients) and a reduction in the level of customer "cherry-picking".

Discipline

For many, this will of course be familiar territory. Yet experience shows that even experienced negotiators can lack the discipline to plan thoroughly every time.

If you don't prepare *and* plan properly, how good are you at "thinking on your feet" about all the relevant issues at the point when negotiation begins?

Behaviour

Historically, much less attention has been paid to the third area, that of behaviour. Yet research has identified a much more complex skills model - including certain behaviours which skilled negotiators use heavily and others which they look to avoid - which have a critical impact on the atmosphere and outcome of the negotiation.

Skilled negotiators, for example, use lots of questions, more than twice as many in fact as the average negotiator.

Significantly, more than 20% of the skilled negotiator's behaviour is concentrated on asking questions, in order to uncover the other party's position and underlying rationale.

This may expose the other's position as untenable and so elicit concessions. Alternatively, it will help the development of a

persuasive case by linking what the negotiator has to offer with the other party's confirmed objectives.

Emotions

The research has also challenged the received wisdom that good negotiation is all about concealing one's emotions. On the contrary, the best negotiators are not poker-faced, but use the sharing of feelings constructively to encourage openness and a climate of trust.

(Analysis shows that the best negotiators talk 50% more about their feelings and give one third less factual information than average negotiators.)

On reflection, this should not be too surprising. Describing one's response to the other party's stance in such emotional terms as "disappointment", "concern" or "pleasure" cannot be challenged as factually wrong and is inherently less confrontational.

Average negotiators are also often unaware that certain phrases in common use are inappropriate, in that they add nothing to building a persuasive case but have the strong potential to irritate.

To describe your offer as "fair and reasonable" suggests that the other party is being unfair and unreasonable.

Nor will gratuitous self-praise or condescending comments such as "with the greatest respect" do adopted by average negotiators. anything to engender a sense of cooperation or common purpose.

Another trap, which awaits clever insurance negotiators in particular, is that of argument dilution.



Our educational system has taught us to present as many arguments as possible to support our case, and this is the approach

The risk is that eventually an argument will be put forward which does not hold water, providing a weak point for the other party to attack and undermining, often fatally, the whole negotiating stance.

More astute negotiators, by contrast, identify their strongest argument and repeat as much as is necessary and will only introduce a supporting argument if the first one is undermined. They will not dilute a strong argument with a weak one.

The Way Forward

There must be times when those directly involved in provider/broker negotiations believe that the whole world is against them.

Yet only a small step back is required to see that, despite a tough

economic climate and a client base reacting strongly to soaring premiums, the only way for both to survive and thrive is to establish strong relationships based on mutually beneficial goals.

Easy to say perhaps but, as this series of articles has attempted to show, not only is it desirable, but pragmatic and achievable.

Bedrock

Firstly, there is much more common ground than is often realised between insurance brokers and providers to produce the essential bedrock for closer business relationships to develop.

Secondly, there is the recognition that in general this is more likely to be achieved by moving away from a transactional product based selling approach and adopting a more consultative,

relational style based on agreed need.

And finally, we are not talking about a "black art"; practical training programmes are readily available and refine the skills required to make the necessary transition.

In the first article, The importance of relationship management (*please see General Insurance September 2002*), the imperative to adapt to change was characterised thus: "If you always do what you always did, you'll always get what you always got." Time was when what you did got you what you wanted. Not anymore.

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