Negotiation in a
Buyers' Market

An edited version of the seminar delivered by **Cormac J Meehan** BBS FIAVI FRICS FSCS MCIArb
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In 1959 John F Kennedy offered a reminder regarding troubled times:

> ***"The Chinese use two brushstrokes to write the word 'crisis'. One brush stroke stands for danger, the other for opportunity. In a crisis we must be aware of the danger – but, more importantly, we must recognise the opportunity."***

This suggests that we can benefit from an understanding of the anatomy of a recession or the phases of recession.

The first phase is the silent recession. Sales people tend to be the first to notice this. They notice slowdowns, a change in buyer behaviour and a loss of interest in making the buying decision. Perhaps many of you noticed this in September 2006. You sounded your warning bells but nobody listened. Economic news and statistics tend to be time delayed; they are history focused so it is only when the multiple indicators provide the hard data that the media catch up!

The "empowered buyer recession" phase comes next, when the consumer catches up once the media and commentators have validated the fact that there is, indeed, a recession. The buyer or consumer now knows this and begins to make fresh demands for lower fees, concessions, commitments to extra service and add-ons. They shop around more. This is when customers are more exposed to attacks from predatory competitors. The practitioner must move quickly to protect their customer base.

The "secret recovery" phase occurs as the economy begins to recover. Very well tuned sales people should be the first to notice this. Since the media and commentators are not validating this, nobody else is talking positive. Even as business slowly picks up most buyers still believe that the market is bad. Awaiting validation, the consumers are caught in a time lag.

Awareness and reaction to this process is vital because it will put the property professional ahead of the market and ahead of their competition. Awareness will help to improve ability to negotiate and win more profitable business.

This forces the property professional to offer the best customer focused solutions, keep communications with customers positive, bundle and differentiate service offerings and pricing them accordingly and finally manage their own and their customers' expectations by demonstrating knowledge, expertise and creativity.

Are we in a buyers' market? If so, where are the buyers and why are they not buying? According to leading US real estate agent, Gary Keller, the great irony of a buyers' market is that buyer urgency tends to hit an all time low. In the sellers' market buyers were afraid of losing out by not buying even though the advantage was with the seller.

"The great irony about a buyers' market is the even though the opportunity to buy is high, buyer urgency tends to be at an all time low" Gary Keller (2009)

Now the market is experiencing what Keller calls a "Shift". The tables have turned but fear is still in the driving seat, the fear of paying too much has stopped buyers and immobilised them. Reluctance in the face of great opportunity often becomes an agonizingly defining characteristic of a shift.

Consider the buyer who is always in the market and believes that timing will find them. They may never sell at the peak or buy at the bottom but they will buy right and do well over time. Nobody can predict the absolute top or the absolute bottom of the market.

The smartest people play in the safe zone. They ask the question: "Has the market dropped enough now to make a sensible purchase?"

Sales professionals must understand buyer urgency and know how to help buyers to rediscover their sense of urgency if they are to survive. The core principle is that only buyers who are able, ready and willing ever actually buy.

Of the able, ready and willing continuum let's start with ABILITY:

Ability means asking whether buyers have the money or qualify for finance. If they are resource shy they need to be referred to an institution who can make them "ABLE". It's a good idea to have sound consultative relationships with both residential and commercial lending officers in reputable financial institutions so a potential buyer can be quickly qualified or indeed disqualified.

READINESS basically involves the buyer's reason for buying. It involves their wants and needs. It is their motivator, their "why".

READINESS is a spectrum going from "maybe someday" to "right now". Real buyers have real wants and needs. Their wants drive them and their needs compel them.

Once the buyer's motives are understood, issues of doubt and reluctance can be worked on by reminding buyers consistently of what will be gained by buying NOW.

WILLINGNESS is about action. When a market begins to move to a buyer's market, the greatest fear is that of overpaying. It makes buyers reluctant to make offers and for those that do, it can lead to "buyer's remorse". Willingness must be there all through the sales process and should be checked on regularly.

Productive sales people must focus on able, ready and willing buyers. The challenge in the engagement and in the negotiation process is to energise them by creating urgency. This is not about boiler room sales techniques but about building expertise and professionalism. It's about getting to know and understand the buyer and helping them to remain confident and free from doubt during the process.

The objective is to make a profitable transaction that the client, the vendor, is happy with and that a new and satisfied client is created in the buyer that can be served in the future.

The property professional must become an expert. Buyers are influenced by family, friends, newspapers, TV shows, lawyers, accountants, taxi drivers, barmen, coaches – the list is endless and it's not a bad thing. The one thing missing is a property expert. This is an excellent opportunity to become the Consumer's expert of choice.

"When taxi drivers start giving share tips, it's time to sell!" J.P. Morgan

The property professional can overcome the media by being the one with the facts and interpreting the facts. They must educate buyers that the property market is cyclical, that this has happened before and it will happen again. Property values have had a longstanding trend of appreciation over time. Equity build up through mortgage debt pay-down is still and will be a proven path to wealth.

Overcoming objections and getting rid of doubt is vitally important. It involves close contact with the buyer and coaching them. When there is a shift in the market they are thrown off balance and need reassurance. The property professional explores price drops in the market and their response, the impact of interest rate movements; the trade-up opportunities in a down market, help buyers discard potential purchases.

"You can't sell high and buy low at the same time" Anon (2009)

So far I have stressed the importance of knowing as much about your customer, whether buyer or seller, as you possibly can. At a macro level and because the market has changed so radically you must know how low your customers are re-defining value and responding to the recession.

In the current environment consumers are taking longer to make the decision, negotiating harder at the point of sale, they are more willing to postpone purchases, trade down, buy less or indeed walk away. Instead of "must haves" we have "live with outs". Conspicuous consumption is less prevalent and what is emerging in the research is that trusted brands are seeing growth.

The indicators are that large companies will focus more on broad brand-based advertising and promotion than product specific campaigns. The trusted, known brand will be king. Direct marketing will increase but it will be highly targeted and much more accurate than the shotgun blasts of the 80's. Consumers will look to firms with established market share and will begin to listen to the referrals of friends and families once again.

The principles of negotiation are the same but in some instances, in times of economic downturn, the negotiation endgame can be to make the best of a bad lot, to recover a situation for a customer/client or to recover their own position in an increasingly competitive market. The general principles of negotiation remain the same.

The key to negotiating in a recession is that a different mindset is required. Negotiations tend to be over losses, they can be renegotiations of existing deals and they are fundamentally different to negotiating benefits. This is psychologically different and it will be to the negotiator's advantage if we can understand them.

Typically, an economic downturn can make the existing terms of a deal too difficult or costly to sustain. It may have to be renegotiated. This raises three issues:

1. Those involved in the original deal negotiations may have some issues with each other about the deal going sour;

2. Walking away from renegotiation may be much more costly than walking away from the original negotiations; and

3. Original negotiations were formulated according to allocating a gain whereas renegotiations are likely to dwell on allocating a loss and may end up in court or cause the loss of future business.

Therefore losses are different. Losses also feel different. They can be more rancorous. There is less willingness to compromise. The difference with losses is that it involves and allocates burdens; no one is happy or feels evenly dealt with.

Renegotiations tend to lead to outcomes that create less mutual benefits for the parties involved. A 1995 study at PON Harvard found that negotiators are less capable of reaching agreements that trade off differences to create value when allocating burdens, such as monetary losses, than when allocating benefits. The tendency for negotiators to view gains and losses differently helps to explain why we often reach less efficient agreements when discussing losses.

These three steps that will assist the negotiator:

1. Sometimes, as negotiators, we are so absorbed in our own position and stressed out at the prospect of a loss that we forget that our opposite number is, more than likely, feeling the same way. We are all human and nobody has a monopoly on comfort.

   The negotiator must feel the other side's pain.

   The very fact that the two parties are willing to enter into negotiations in the face of loss signals that they need each other and that they want to work together - if they can reach agreement.

   By understanding that your adversary is motivated to work with you, you can feel a sense of power and this will motivate you towards a positive outcome.

2. Sometimes the original negotiators of the deal are not those who should renegotiate it. They know the deal intimately and they know their adversary. On the other side, they bring their personal baggage and prejudice, they tend to be over defensive and too committed to recognise the need for change and they may see the renegotiation process as a sign of the failure of the earlier process.

3. Negotiations framed in terms of losses tend to produce inferior results. We should think of renegotiation as a new beginning and recognise that the world has changed and not be trapped by history. The problem needs to be re-framed in the environment in which the negotiations are happening.

"Entrepreneurs prefer to work when the economy is in recession because recession creates better opportunities" Padraig O Ceidigh (2009)

Perhaps the importance of negotiation is embodied by this quotation from Arthur Scargill, the NUM Union Leader of the 70's:-

"The NUM will not shirk its responsibilities by negotiating compromise."

Where are the NUM and the British Coal Mining Industry today? If we do not engage with our adversaries we cannot achieve mutually beneficial solutions and this is vitally important for survival in recessionary times. ◆