Negotiation: *David Ltd* And *Goliath Inc.*

Let's look at what a smaller company (let's call it *David Ltd*) can do when it is negotiating with a much larger company (to be consistent with our Biblical allegory, let's call this one *Goliath Inc.*). Big companies have a reputation for tough negotiating to get the best possible deal they can. Let's imagine that *Goliath Inc.* approaches *David Ltd* and wants to negotiate the purchase of 12000 units per year at a price that is painful. What should *David* do?
Before going too far in the negotiation, *David* should think about the following:

- What is the lowest price on the units that lets *David* break-even? This is the unmovable, non-negotiable minimum, because anything less than that and *David* will not cover their expenses! Below this price, saying *no* is preferable, because at least this option doesn't lock them into a deal that will lose money.
  (If *Goliath* is interested in *David*'*s* products, perhaps *Goliath*'*s* competitors would also be interested − and they might offer better terms.)
- Is *David*'*s* current mix of customers producing a profit? If so, the deal from *Goliath* should be considered as a supplement to *David*'*s* revenue rather than a replacement.
- Will *Goliath* want special packaging or re-branding of the units?
  - If the units aren't re-branded, then *David* won't have any extra work and will be receiving the advertising of having *Goliath* selling their products.
  - If the units are re-branded, *David* should charge extra for that.
- Who will be responsible for customer service and/or repairs? If it's David, then they need to make sure they charge for this extra.
- Can *David* continue serving its existing customers (keeping them as insurance) and cope with the added demands of the "special deal" *Goliath* wants? Or would this extra demand require additional staff and/or facilities?
- What guarantees does *David* have that *Goliath*:
  - Will order the full 12000 units?
  - Will pay promptly and in full?
  - Won't renege on the agreement?
- Could *David* survive as a company if *Goliath* didn't abide by the agreement or worse yet, didn't pay for some reason? This is why *David* should not put all its revenue eggs in one basket named *Goliath*.
- If *Goliath* defaulted on payment or didn't abide by the terms of the deal, what could *David* do?
  (Don't say take them to court! *David* will throw money at lawyers while nothing happens for years. And the decision is not guaranteed to be in their favour and may not even cover their legal costs and losses!)
- How can *David* protect itself in the negotiated deal? *David* should include some protective conditions in the negotiated deal as a way to limit their risk and potential damage. If *Goliath* doesn't agree with these, then *David* should have serious doubts about continuing. Two examples of possible protective conditions are:

- Regular monthly payments as the portions of the overall order are shipped each month.
  - If *Goliath* delays paying what it owes, then *David* withholds the next shipment until *Goliath* has cleared the outstanding debt.
  - And if *Goliath* stops paying altogether, then *David* has minimised the amount it has lost.
- A sliding scale of prices. *Goliath* pays full price for the first shipment of units and then pays progressively discounted amounts for subsequent shipments. The discounting scheme could be calculated so that over the full order of 12000 units, the average unit price would meet the agreed price.
  - If *Goliath* doesn't take the full order, then *David* will lose less money because the earlier shipments were at higher prices.
  - The sliding scale of discounts also gives *Goliath* a stronger incentive to take the full order because the later shipments will be the most heavily discounted.

