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.