Negotiate to Win for Bankers

Course 2036/3036

Jim Thomas

May 20 – 24

Supplement to be included in notebooks

2019 Session
Instructions

Everyone will be Hugh S. Urhdadi of Second and Fourth/Eighth (SAFE) Bank, J.R. Mahma of Parts “Я” Us Distributors, Inc. (PRUD), or an observer. Urudadis, Mahmas, and observers will negotiate in groups of three. Observers are to take careful notes and share their impressions with negotiators and the class after negotiation.

“Your position” is a suggested opening position. You may start higher or lower than this, if you wish. “Confidential Information” includes things the other side doesn’t know. You may disclose these things, if you wish.

Before negotiations begin, everyone should read the General Material, as well as the Confidential Memorandum for their role. Observers should read both the Confidential Memoranda.

Schedule: Break into groups of three and read materials for 20 minutes.

Negotiators prepare to negotiate; preparations must include the development of a negotiating Envelope for each issue.

Groups negotiate for 40 minutes. During the negotiations, Observers complete a Critique Sheet for each negotiator.

When negotiations are finished, Observers critique the negotiators for 10 minutes on their adherence to the Rules of Negotiating.

When critiques are finished, the workshop reconvenes and Observers report their group’s negotiation results – final deal (if any,) good moves, and mistakes – emphasizing adherence to or departure from the Rules.

Object: To practice negotiation techniques, with special emphasis on the Critical Rules.
GENERAL MATERIAL

Date: The present

Place: Hugh S. Urhdadi’s office, Second and Fourth/Eighth Bank Headquarters

First Negotiator

Name and Title: J.R. Mahma, CEO
Organization: Parts “Я” Us Distributors, Inc.

Second Negotiator

Name and Title: Hugh S. Urhdadi, RM
Organization: SAFE Bank

General description of situation: Mr. Mahma, 42, is the son-in-law of the founder of PRUD, a stainless steel parts manufacturer and distributor for the food processing industry. PRUD has enjoyed a virtual monopoly on food and milk processing parts because of its various patents on couplings and fittings that never need replacing. The property where the business is located was purchased 4 years ago and financed at SAFE Bank. J.R. wants to transfer the ownership of the property to an LLC. Even though the rate on the current CRE loan is very favorable (3.95%), it was fixed for 5 years and is scheduled to reprice in one year. Rates are increasing, so J.R. wants to renegotiate the loan terms and rate now. In addition, he would like to increase the loan by $500K to replenish cash. J.R. has always been on time with his payments and his business has been profitable, albeit with some recent negative trends.

Description of current loan facility:

$5.0M real estate term loan secured by a 7-acre manufacturing, warehouse, and office facility with railroad spurs. The property is fully developed and has full access to all utilities. PRUD occupies the entire facility under a NNN lease to Mahma for $12.75/s.f. of improved space. DSC is 1.6x, LTV is 50%. The loan is currently priced at 3.95%. The loan is for 20 years with a rate reset at each five-year anniversary based on 5-year Treasuries plus 350 bps. It matures in 16 years.

Summary of issues to be resolved:

1) Transfer of property to LLC.
2) Terms of restructured loan.
3) Increase in loan amount.
NEGOTIATE TO WIN®
NEGOTIATION EXERCISE
CREDIT REVIEW

Instructions
Everyone will be either Natalie Attired, Relationship Manager with Confederate Bank of Carolina (CBOC), Hugh de Mann, Senior Credit Officer with CBOC, or an observer. Attireds, de Manns, and observers will negotiate in groups of three. Observers are requested not to communicate with the negotiators during the negotiation, but to take careful notes and share their impressions with the negotiators and the class after the negotiation.

"Your position" is a suggested opening position. You may start higher or lower than this, if you wish. "Confidential information" includes things the other side doesn’t know. You may disclose these things, if you wish.

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Object: To practice negotiation techniques, with special emphasis on the Critical Rules.
GENERAL MATERIAL

Date: The present

Place: Folly Beach, SC

First Negotiator:

Name: Natalie Attired, Relationship Manager

Organization: CBOC

Second Negotiator:

Name: Hugh de Mann, Senior Credit Officer

Organization: CBOC

General description of situation: Acme Company has requested an increase in its A/R line of credit from $15 million to $20 million. Acme’s line has grown from $200,000 in 2009 to $15 million currently. Acme has sought increases almost continually during the past four years, averaging 3 requests/year and $1.2 million/increase. During the last approval, concern was expressed over Acme’s rapid growth and increased leverage. Acme’s historical performance has been above projections.

Summary of issues to be resolved:

1. Approve or deny the proposed increase from $15 million to $20 million.
2. Agree to, or otherwise resolve, the issue of a possible participant bank.
3. Resolve pricing issues raised by items 1 and 2.
NEGOTIATING FOR A NEW CAR

1. Car dealers make money four ways: 1) markup on the new car, 2) commission on the loan/lease, 3) resale of the trade-in, and 4) packs/nibbles/fees/service contracts at the end.


3. Arrange to take delivery on the last day of the month.

4. Make the salesperson invest as much time with you as you can stand.

5. Your Envelope: 
   O = dealer price (strive for a profoundly negative reaction.)
   T = dealer price + $500-700.
   B/L = dealer price + $700-900.

6. Prearrange your financing (and keep this to yourself.) Discuss monthly payments only to keep the illusion that you might use the dealer’s financing.

7. Faithfully follow the Rule of Halves as you work through your Envelope, no matter how embarrassingly miniscule a concession may seem.

8. Feign interest in a possible trade-in. Know what your old car is worth. Insist that trade-in discussions be handled separately from the new car price negotiations.

9. Feign interest in possible dealer financing. Insist that financing discussions be handled separately from the new car price negotiations.

10. Nibble at the end. This is not the time for modesty, restraint, or fairness.

11. Beware of the dealer’s good guy-bad guy, intimidation, and unethical tactics.

12. Reject last-minute dealer packs/nibbles/fees/service contracts...

13. Once a firm price is reached, "decide" to sell your old car yourself instead of trading it in, and reveal your prearranged financing.

14. Buy in-stock cars only. If the car you want isn’t on the lot, shop elsewhere.

15. Buy "hot" (i.e., high demand, specialty, and limited production) cars out of town.
The Rules of Negotiating

CRITICAL

1. **No free gifts!** Seek a trade-off ("OK, IF...") for each concession you make.
2. **Start high.**
3. **Follow a dramatic initial concession with sharply diminishing concessions.**
4. **Krunch early and often.**
5. **Never settle issues individually. Instead, settle all issues as a package — only as a package — at the end.**
6. **Conclude with a nibble.**
7. **Keep looking for creative (high value — low cost) concessions to trade.**

IMPORTANT BUT OBVIOUS

8. **Do your homework.**
9. **Keep the climate positive.**
10. **Never assume that an issue is non-negotiable just because the other side says it is. In reality, almost everything is negotiable.**
11. **Never accept the other side’s first offer.**

NICE TO DO

12. **Start slowly.**
13. **Set a complete agenda.**
14. **Discuss the small things first.**
15. **Be patient.**
16. **Use/beware the power of legitimacy.**
17. **Negotiate against higher-authority people whenever possible. Keep your authority limited.**
18. **Consider using good guy-bad guy.**
19. **Try to have the other side make the first offer on the issue.**
20. **Keep teams small and under control.**
21. **Try to have the other side travel to you.**

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