



# **Strategic Negotiating**

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## **ENKI, LLC**

### **Article – Summary of Client Case Studies**

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## STRATEGIC NEGOTIATING

This article is based on a real-life situation and a great example of strategic contract negotiation.

### SITUATION

A retail company needed the best deal possible for a building lease big enough for a fitness center. They located a good property with substantially more square feet than required but it is on the second floor of a shopping center and there is not enough parking in front of the shopping center for the expected 500+ customers. Research showed that this property has a small discount on the price per square foot as it is on the second floor of the complex, which is not ideal for shopping center retail stores. The larger size also eliminates smaller store outlets as potential lessees, further inhibiting lease potential.

Do you walk away from this space given it is on the second floor with limited parking? Do you find an alternative as your **B**est **A**lternative **T**o a **N**egotiated **A**greement (BATNA)? Are you willing to walk away given a lower lease cost would increase your profit margin or allow you to reduce customer fees?

As experienced and certified negotiators, ENKI consultants always consider both parties in a negotiation since a mutually beneficial outcome is strategically important. A one-sided outcome can create issues upon renewal or during execution of the agreement that can distract from future strategic opportunities.

In this example, a negotiating team needs to figure out the negotiating strategy that achieves the strategic outcome of the deal. In our example, we will be focused on the following outcomes.

- Find a space large enough for the planned fitness center
- Reduce the monthly lease cost as much as possible
- Have low membership fees to drive up membership and increase market share
- Develop predictable monthly revenue from membership fees that exceed known monthly costs (fixed and variable)
- Exceed members expectations providing low membership fees for a clean and fully functional fitness center in an area with no other options

### FOR NEGOTIATION CONSIDERATION:

- Would customers of a fitness center get upset about parking a couple hundred feet from the door?
- Is there free parking within reasonable walking distance to the shopping center?
- Are retail customers all the same?

- Do customers always demand the closest spot to their primary store?
- Can a negotiator change the definition of their customer to allow for a strategic differentiation from the other tenants' customers?
- Fitness clubs call their customers "members", as they pay a fixed monthly rate.
- Members provide a predictable monthly income.
- Can rephrasing the parking question be strategically advantageous?
- Would research into the areas parking, traffic, retail, or other news potentially provide motivators for the lessor to agree to better terms for the lessee?
- Would fitness club members mind walking a little to the fitness center?
- Would they mind walking up some stairs? Is there an elevator available?
- How could a clever negotiator work these questions and answers to their advantage?

## THE LESSEE

Finding out what the other party in a contract negotiation value can help you get a better deal for your business. In the real-life situation, a microbrewery moved into the shopping center a few years earlier and caused scrutiny and intense pressure on the lessor regarding the parking situation. The local press criticized that the seating capacity of the microbrewery far exceeded the total number of parking spots within reasonable walking distance. The fitness club real estate team could discover this information. They could develop a strategy to take advantage of that information to occupy a larger area than the microbrewery. Including parking limits into the lease could help reduce similar concerns or issues with regards to parking. A potential added benefit of this approach for the Lessor is to demonstrate to the town that they are respectful of the parking situation that caused such concern a few years earlier. Accommodating and addressing the parking situation could also expedite the signing of the lease.

## THE LESSOR

Although the shopping center owner may have a lower monthly lease income for this space, they have a political and social win, which can be more strategically valuable. This particular space is less desirable since it is a large space above the other stores, making it harder to lease. Therefore, it makes sense that the price may already be lower than the premium, smaller, first floor spaces.

Finding a long-term tenant allows the property owner the time to focus on more valuable square foot leases. Addressing the parking space limitations as a potential negotiating point for those higher priced square foot lease deals would be an ideal combination for the lessor.

Yes, the lack of parking can be a "win-win" for the lessee and lessor.

Value hides in all corners of your business. We know that all aspects of your business are important so we seek to increase the value delivered to your bottom line regardless of where that value may hide. With the right attention to strategic goals, every decision can be strategically constructive and without that attention, decisions can be destructive. ENKI looks

for strategic value and raises opportunities to executives with written and verbal interactions to effectively communicate the benefit when opportunities present themselves, even when they may be outside of our scope.

We have walked in your shoes and know what it takes to be successful.

ENKI is Success Unlocked.