

Marketing our innovations - how can we do it better?

Summary of Submission by Michael Cochran to the House of Representatives Standing Committee on Science and Innovation

Commercial Negotiations - Pathways to Commercialisation

- This Submission is in response to the inquiry by the House of Representatives Standing Committee on Science and Innovation on *Marketing our Innovations - can we do it better?* The Terms of Reference call for submissions detailing successful examples of Australian technological innovations. Also it seeks submissions on issues such as:
 - *Pathways to commercialisations*
 - *Skills and business knowledge*
- This Submission entitled- *Commercial Negotiations - Pathways to Commercialisation*- is made in response to *pathways* and *skills* issues set out in the Terms of Reference. It is a personal Submission, authored by Mike Cochran, a consultant, who is interested in the process of commercialisation and the important role that commercial negotiation plays in that process. Mike has over 25 years experience with some of Australia's largest corporations (BHP, Rio Tinto, and Santos) having developed an expertise in international marketing and negotiations, business commercialisation and business process. In that time he has negotiated and concluded many commercial transaction with customers in Japan, Korea, China, Singapore, Taiwan, Indonesia, New Zealand, USA, Europe and Australia
- The negotiation of commercial transactions commences from the very first discussions with potential customers - hence the commencement of the commercialisation process. Commercial negotiations are a rigorous process to build relationships, resolve differences, materialise outcomes and to allocate scarce resources
- There are many impediments to successful negotiations (eg poor pre-negotiation relationship with customers, using weak arguments, afraid to explore options, having unclear strategies, lack of resolve, believing that larger markets have the upper hand) which results in organisations not realising the full value of the transaction and the relationships.
- Based on experience in the international markets commercialisation is made up of four phases and forms a model (RONO) for the commercialisation process:
 - **Relationships** - *actively establishing a working relationship with potential customer before the commencement of any formal negotiation process.*
 - **Options** - *the need to continually create options for the innovation throughout the process and to prepare thoroughly for the negotiation phase;*
 - **Negotiation** - *the skills required in the face to face meeting phase on the negotiation process; and*
 - **Outcomes** - *the skill in securing final agreement, handling relationships and allocating attention to the end detail in the outcome process*
- The RONO model is summarised in this Submission. The model offers marketers of our innovations a skill set and experience base for engaging in commercial negotiations (especially the negotiation process itself), it is business specific (compared with many other negotiation models on the market), with a strong emphasis on building relationships and creating options to maximise value.
- The model is applicable to many variable situations in the commercialisation process including greenfield transactions, negotiating with customers you can't afford to lose, and negotiations which are complex and may require a lengthy commercialisation process.
- RONO model may cover amongst others, acquisitions and mergers, capital raising, sales and marketing, strategic alliances and partnering, government trade negotiations.
- The submission concludes offering further elaboration to the Committee on the skills and requirements for a successful commercialisation process for Australian innovations.

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Marketing our innovations - can we do it better?
Submission to Standing Committee on Science and Innovation

Submission by Mr Michael Cochran

Commercial Negotiations - Pathways to Commercialisation

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CONTENTS

1	INTRODUCTION.....	3
2	NEGOTIATIONS, INNOVATIONS, COMMERCIALISATION.....	3
3	COMMON IMPEDIMENTS TO THE COMMERCIALISATION PROCESS.	4
4	COMMERCIAL NEGOTIATION MODEL - HOW IT WORKS	5
4.1	Introduction.....	5
4.2	Key Phases of Commercial Negotiation	5
4.3	How RONO fits in the pathway to commercialisation	6
4.4	Summary Points of each RONO phase	6
4.5	Detail supporting each Summary Point	7
5	THE ADVANTAGE OF RONO IN COMMERCIAL NEGOTIATIONS	8
5.1	How is RONO Different	8
5.2	RONO fits the pathway to commercialisation	9
6	CONCLUSION.....	10

Commercial Negotiations - Pathways to Commercialisation

1 INTRODUCTION

Commercial negotiation is a key component in the commercialisation process for any business competing in world markets. With increased globalisation and competition, Australia requires appropriately skilled negotiators, strategists and relationship managers to successfully negotiate and commercialise its innovations in world markets. Australian organisations which are successful at developing markets for its products and innovations, also understand the criticality of commercial negotiation process to break into new markets, maximises the value of the commercial transactions and to ensure that business relationships are effectively managed.

In *Marketing our Innovations - can we do it better?* the Standing Committee has sought submissions on issues such as *pathways to commercialisation* and *skills and business knowledge*. This Submission addresses those issues by focusing on effective **commercial negotiation** and **the commercialisation process** for Australia's innovations.

The author of this Submission is Mike Cochran. Until 2004 as an employee with some of Australia's largest organisations (BHP, Rio Tinto, and Santos) over the past 25 years, Mike has extensive experience at senior management level in commercial negotiations and business development in Australian and in international markets. From that experience, he has developed a 'model' specific to the commercial negotiation process, especially in international markets. The model is especially applicable for developing *pathways to successful commercialisation* and covers the required *skills and business knowledge* in the commercial negotiation process for marketing Australia's innovations.

This Submission discusses the common impediments with commercial negotiations followed by a summary of the expected outcomes of a successful commercial negotiation. The model for conducting commercial negotiation (called 'RONO') is then discussed in some detail. The advantages of such a process in overcoming potential impediments to marketing innovations are then discussed

2 NEGOTIATIONS, INNOVATIONS, COMMERCIALISATION

The commercialisation process for any product or innovation commences from the very first discussions with a potential customer. That contact also signifies the commencement of negotiation of any potential transaction which may ultimately evolve.

Commercial negotiations are a rigorous process to build relationships, resolve differences, materialise outcomes and, to allocate scarce resources. In competitive home or world markets, there is potential to commercialise innovations and increase the value of commercial transactions through the commercial negotiation process. Successful commercial negotiations can quickly increase respect of your organisation operating in world markets and

attract further business. To meet this challenge, Australian corporations with technological innovations are now recognising the requirement for a specialist skill set of their senior management to conduct commercial negotiations as part of their commercialisation process.

3 COMMON IMPEDIMENTS TO THE COMMERCIALISATION PROCESS.

Negotiation of commercial transaction is not a simple 'buyer/seller' style interaction. In the commercialisation process, many organisations with quality innovations and products, take on the negotiation of commercial transactions in world markets without the necessary skills and experience and, without ever realising or acknowledging the potential that can be gained from the process.

Some common impediments in the process for successful negotiation include

- appointing inappropriate skill base,
- poor pre-negotiation relationship with customers,
- opening too low,
- using weak arguments,
- afraid to explore options,
- having unclear strategies,
- poor preparation
- having lack of resolve,
- believing that larger markets have the upper hand,
- souring customer relationships.

Organisations often fail to realise or acknowledge the potential for additional value in commercial negotiations which comes with:

- proper development of relationships at the front end of the business process,
- implementing a planned comprehensive strategy to extract value in a negotiation,
- engaging the appropriate skill sets to counter competitive negotiation styles - at home and in a global market,
- managing the detail and an orderly outcome; and
- the resulting opportunities from a successful negotiation to attract further business in world markets.

4 COMMERCIAL NEGOTIATION MODEL - HOW IT WORKS

4.1 Introduction

As mentioned above, commercial negotiations are a rigorous process to build relationships, resolve differences, materialise outcomes and, to allocate scarce resources. The commercial negotiation model put forward to the Committee by this submission is based on the experience of the author, having over 25 years exposure to many negotiations with organisations in the resource industry in Australia, Japan, Korea, Singapore, Taiwan, China, Indonesia New Zealand, USA and Europe. The negotiations related to marketing, joint venture and business development covering over A\$8b in revenue between 1985 and 2004. From the experience of seeing the shortcomings in other negotiations, how negotiations impact on value and relationships and, having an interest in the dynamics of the negotiation process, emerged a model to specifically address commercial negotiations and the commercialisation process.

This Submission summarises the key components of that model for the Committee to consider as a *pathway to commercialisation for marketing Australian innovations*. More detail on the process is available but has not been presented in this Submission.

The Committee should note that the model presented in this Submission is not simply a ‘negotiation/persuasion/influencing/conflict resolution’ type model. It is a business specific ‘*commercialisation*’ model covering the process from forming the customer relationship through to the transaction conclusion and continuing relationships from that point, based on the author’s experience. For this reason, it is seen as more relevant to the inquiry.

Secondly, and as discussed below, the model is ‘facilitator’ dependent - that is, to apply this model in the commercial world, it is necessary to engage a person with experience in commercial negotiation and the commercialisation process, to facilitate or advise on how to respond to issues in the commercial negotiation process. No one negotiation is the same. Thus having the facilitator’s ‘on hand’ experience, as required by this model, provides flexibility in negotiations.

4.2 Key Phases of Commercial Negotiation

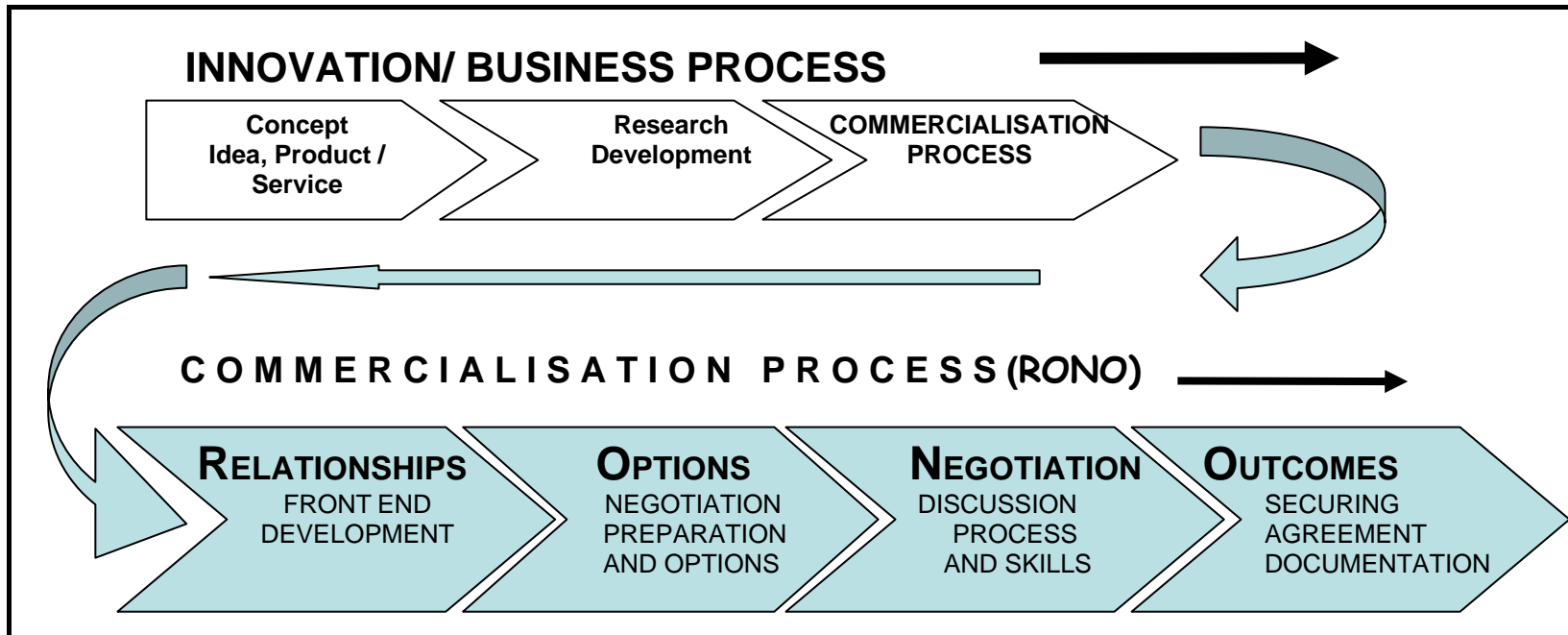
Effective commercial negotiations are based on four phases within the commercialisation process.

1. **Relationships** - *actively establishing a working relationship with a potential customer before the commencement of any formal negotiation process.*
2. **Options** - *the need to continually create options for the innovation throughout the process and to prepare thoroughly for the negotiation phase;*
3. **Negotiation** - *the skills required in the face to face meeting phase on the negotiation process; and*
4. **Outcomes** - *the skill in securing final agreement, handling relationships and allocating attention to the end detail in the outcome process*

These phased form the crux of the model (called RONO) for consideration by the committee.

4.3 How RONO fits in the pathway to commercialisation

The following shows in schematic form where RONO sits in the business process. The commercial negotiation phase is entered into after the innovation is defined and its potential markets are identified.



4.4 Summary Points of each RONO phase

The key issues addressed in the RONO process as shown diagrammatically in Section 5.3 are set out below. These issues are **summary check points** in the negotiation process.

<i>Relationships</i>	<i>Options</i>	<i>Negotiation</i>	<i>Outcomes</i>
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<ul style="list-style-type: none"> • Identify target customers • Ranking customers - creating options • Making contact developing customer interest • Capability assessment • Demonstrating adding value • Building trust • Cultural sensitivities • Understanding drivers • Gathering information • Showing company image • Forming an alliance • Securing commitment to meet • Knowing the competition 	<ul style="list-style-type: none"> • Team establishment • Cultural dynamics • Research, Analysis preparation • Creating Options • Competitor analysis • Understanding customers position, drivers, • Strategy preparation • Test arguments, reasoning, logic and spin • Leveraging dynamics • Developing a 'wish list' • Detail -Identify adding value • Having no options • Timing 	<ul style="list-style-type: none"> • Location and agenda • Opening strategy • Involving the Team • Positive approach and attitude • Proposal and packaging • Strategies, argument, flexibility • Concede For A Deed • Keeping options open • Leveraging • Negotiation style, tactics • Defences, Conflict • Humour • Keeping control, • Summarise regularly • Managing ongoing relationships 	<ul style="list-style-type: none"> • Strategy to reach agreement • Last minute concessions/demands • Striking a deal • Drafting and packaged key terms • Internal endorsement • Subsequent deal rejection/modification • Accepting the outcome • Managing relationship of unsuccessful customers • Relationship remediation • Cultural considerations • Formalising the agreement • Formal documentation
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4.5 Detail supporting each Summary Point

Supporting each summary point, the model elaborates and documents associated issues (**Principles and Actions**) to consider which are relevant to each phase of the negotiation process. Corresponding to each summary check point are (**Hints and Comments**) for handling that particular issue. In commercialising RONO, the Facilitator would be 'partnering' the client using detail set out as demonstrated below.

For demonstration purposes only, the following is an *extract* of **Principles and Actions** and **Hints and Comments** relating to three summary check points in the *Options* phases in Section 4.4

Principal and Actions	Comments and Hints
Competitor Analysis Research Market Knowledge Information channels	<ul style="list-style-type: none"> • Understanding your competitors is critical to the preparation. It defines your strength, where and how to pitch your proposal • Research of competitors status in the market, relationships with existing/new customers, size and influence in the market, leading market trends and prices etc • RELATIONSHIP phase should assist establish information channels and sources on competitors
Full Understanding of customer's position	<ul style="list-style-type: none"> • In the RELATIONSHIP phase you would have gained a fair idea of the customer's 'drivers' ie - where is the customer coming from?; what does he really want? etc

<p>Understand its business - production process; financials; reputation in the industry What are customers drivers? Put your self in the customers shoes Positive attitude</p>	<ul style="list-style-type: none"> • Putting yourself in the customer's shoes is one of the best ways of assessing his position - seeing from customer's viewpoint. This facilitates the process and should minimise unnecessary misunderstandings. • Often a customer may conceal his real driver leaving it to you to figure out - why give the game away (and vice versa). This is part of negotiation process. • If you give a bit (of info), look for reciprocation. If no reciprocation, then you may be left guessing - this can be tactical. • Again, be careful about making assumptions re customer's position or motive - test assumptions as much as you can • Having a positive attitude and respect for your customer is essential for a satisfactory outcome.
<p>Strategy Preparation Keeping Control of the negotiation Timing Identify Direction Flexibility of strategy</p>	<ul style="list-style-type: none"> • Strategy cover a broad range of issues in a negotiation - and it is a moving target. Basically it is the action you are contemplating to INFLUENCE and PERSUADE to ensure the negation delivers your preferred outcome. Also, FLEXIBILITY is required to respond quickly to new positions and counter strategies. • Having CONTROL of the negotiation is important. Having CONTROL doesn't mean one party dominating or setting the direction. Control is where each party is responding to the demands of the negotiation and heading towards a common end. If one party 'looses control' then the other party is at an advantage - in situations like this - try to regain your control as quickly as possible. • Timing of negotiation is everything

5 THE ADVANTAGE OF RONO IN COMMERCIAL NEGOTIATIONS

5.1 How is RONO Different

- ***RONO offers flexibility for negotiating desired commercial outcomes.*** With increasing globalisation, more and more clients show flexibility to match the skills and cultural challenges of their customers and competitors. The model draws on the experience of a facilitator with many years actually participating and leading commercial negotiations in world markets. Having this flexibility in negotiation, greatly enhances the client's stature and chances of competing with its innovations in these markets.
- ***RONO is business specific, offering a pathway to commercialisation.*** RONO covers a process from the first step of creating customer relationships and options, through to the preparation for negotiation, the negotiation process and the all important outcome process. Together with the facilitator, RONO addresses the essential phases required to conduct a successful commercial negotiation in the business process. RONO and the commercialisation process go beyond the bounds of other programs which only cover negotiation/conflict resolution/influencing processes.

- ***RONO is designed for partnering innovators on a ‘one on one’ facilitation basis.*** RONO is designed to pass on the experience of the facilitator to executives engaged in high value and/or complex commercial negotiations. The RONO support details together with the experience of the facilitator, provides a structure and support base for the client to effectively engage in the commercial negotiation process.
- ***RONO recognises the criticality of building customer relationships.*** Business is about relationships- new and ongoing. In commercial negotiation, relationships can be compromised, especially with long term customers who do not win the business. Not only does RONO focus on developing a solid relationship with customers at the ‘front end’ of the commercialisation process, it also addresses the need for relationship remediation as part of the Outcome phase. Continuing relationships is often overlooked as a value adding opportunity, especially in international markets.
- ***RONO draws on a depth of experience.*** The experience of the facilitator is an essential ingredient to the RONO model. Negotiation is not a prescribed process. Therefore, any advice to bridge the gap between the *client* and its customer in the negotiation process, needs to be readily available, effective and from an experienced base. Together with the support details, facilitators must be experienced having had first hand and extensive commercial negotiating experience, especially at an international level.

5.2 RONO fits the pathway to commercialisation

The RONO model can fit the marketing process for new innovations in the commercialisation process covering, for example:

- those situations requiring flexibility of negotiation style - personal, organisational, or cultural
- greenfield transactions where new business opportunities and relationships are identified
- reoccurring transactions with existing customers or new customers
- transactions having an existing customer base with new negotiation team or members
- negotiating with customers you can’t afford to lose; and
- those which are complex and may require a lengthy commercialisation process.

In addition, commercial negotiation by the RONO model may cover many aspects of an organisation’s business process including:

- acquisitions and mergers
- capital raising
- purchasing and procurement
- sales and marketing
- government trade negotiations
- relationship management
- business development

- strategic alliances and partnering
- joint venture arrangements

6 CONCLUSION

This Submission has been designed to emphasise to the Committee the importance of commercial negotiation in the commercialisation process. It offers a pathway to commercialisation of Australia's innovations. In offering a pathway, the author sets out a model based on his extensive experience in commercial negotiation in Australian and overseas.

The RONO model has been designed to suggest responses, tactics, strategies and behaviours for different 'types' of commercial negotiations. It is adaptable for dealing with different cultures (organisational as well as ethnicity), and is intended to allow for different personal, team or organisational styles. This is why it is seen as a model suitable for the successful marketing of Australian innovations.

The author would be pleased to answer any questions or elaborate on the detail of RONO, its effectiveness and how it can fit the purpose.

The author appreciates the opportunity of making this Submission to the House of Representatives Standing Committee on Science and Innovation.

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