



ENTREPRENEUR'S CORNER

Volume Four, Issue Nine
November 1998

What You Pay Doesn't Have to be What a Thing is Worth

by Jack Roseman, Contributing Columnist

When you are starting a company, an important measure to keep an eye on is burn rate - the rate at which you spend cash. Cash is always precious in the start-up phase and you want to stretch it as far as possible. Sometimes that means bartering. Sometimes it means doing without. There are lots of ways to cut your burn rate.

When I was starting my third company, Actronics, and we reached the point where we needed to move from our garages to commercial space, I sent the VP to talk to the people who owned a converted warehouse on River Avenue on the North Side. This was back in 1982 and at that time, they wanted \$10 a square foot. We had no investors yet, and \$10 was too rich for us. But I loved the space. So I told the VP to negotiate. See what he could get it down to.

He came back after a while and said, "Jack, it's \$10 a square foot and there is no way

they are going to settle for less."

Sometimes I get in these expansive frames of mind where I have to see if I can do something that someone else has told me can't be done. So I happened to be in that kind of mood and I said to him, "Come on, let me show you how it's done."

So we drove back to the warehouse and I went in and met with the owners, who were two brothers.

"You know I really love this space," I said, "but, I'm going to tell you right now we cannot afford it. If we have to, we'll continue to live out of our garages some more. I can't afford this space."

One of the brothers said, "Well, wait a minute, Jack." And then he took me over and showed me the trim he'd hand cut out of hard wood and polished so you could see your reflection in it. "See all this beautiful board work and everything. I did this all myself.

I did that. And I'm proud of the job I did."

"I think you should be," I said.

"Well then, I should be able to get my money, I should be able to get \$10 a square foot."

"Yes, you should," I said. "But you aren't getting it from me because I don't have it."

I went on to admire his workmanship and repeated how it was worth every penny he was asking, but explained again how we were just getting started and couldn't afford that rate.

"But," I said, "How about if during the first year as we're getting ourselves on our feet we pay you \$7 a square foot. The next year we pay you \$8, the year after that \$9 and thereafter you get your \$10 because that's what I think it's worth."

"Well," he said, "That seems fair to me." Then I added that we would need some warehouse storage space as well.

“How much do you want for space in your warehouse?”

“I was asking \$7.50 a square foot,” he said.

“You know, I can’t pay you more for the warehouse space than we’re paying for office space. So why don’t I pay you \$5 a square foot in year one, \$6 in year two, and then we’ll go to \$7 or \$7.50. Whatever you want. When I have the money, you should get what the marketplace says its worth and I believe it is worth that.”

“Jack,” he said, “You’ve been so nice, I’m going to include the utilities free. I’ll pay for the electricity.”

I said, “You’ve got a deal.”

Then he said, “And in fact, I want you to do me a favor.”

I said, “What is it?”

He said, “I want you to let me invest in the company.”

I said, “You’ve got it.”

The point I want you to take from this is that in a negotiation, if the other person is sincere, you don’t get your best deal by beating down the value of what the other person is selling. Most owners are invested in some way in the property you are trying to lease or the service or product you want to buy. In this situation, it was clear that the investment was sweat and pride and workmanship. But even when it’s not so personal, you rarely do well in negotiations when you demean what the other person has to offer.

Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University’s Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetli, former Executive Editor of T.E.Q.