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Negotiation

JUN GU, PHD







Negotiation



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- Purpose: Introduce the basic negotiation process, techniques, and potential traps
- Basic concepts
 - Issue structure
 - Target point
 - BATNA
 - Resistance point
 - Bargaining zone
- Negotiation techniques
 - Aggressive opening offer
 - Ask for more concession
 - Share information
- Common negotiation traps
- Third party intervention

Honeymoon negotiation



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- Form dyads (one girl and one boy)
- The two parties choose two **different** destinations for honeymoon
- Boy plays the role of wife and girl plays the role of husband
- Negotiate to decide one destination to go to
 - No money/time to go to both
 - You can't each go to a different destination



Negotiation



- A process in which two or more parties exchange goods or services and attempt to agree upon the exchange rate for them.

- Negotiation issue(s):** the items/contents included in the negotiation process
- Issue position(s):** the possible options for the negotiation issues
- Preference:** a negotiator's utility associated with each issue position

Price	Buyer pref	Seller pref
\$100	10	4
\$200	8	6
\$300	6	8
\$400	4	10

Negotiation issue structure



- The interrelationship between one negotiator's preference and the other party's preference
 - Distributive issue:** Two negotiation parties' preferences are exactly opposite to each other (i.e., the joint outcome is fixed)

Price	Buyer pref	Seller pref
\$100	10	4
\$200	8	6
\$300	6	8
\$400	4	10

Negotiation issue structure



- Integrative issues:** Two negotiation parties' preferences over two different issues complement each other
 - Party A values issue 1 more than issue 2, whereas party B values issue 2 more than issue 1
 - The two parties can "trade off" to reach a win-win solution (i.e., max joint gain)
- Identical issue:** two negotiation parties' preferences are identical to each other

Bonus	Boss pref	Worker pref	Holiday	Boss pref	Worker pref
\$50	10	1	2 days	3	6
\$100	8	2	4 days	2	8
\$150	6	3	6 days	1	10
Job location	Manager pref	Worker pref			
New York	10	10			
Seattle	8	8			
Miami	6	6			
Hawaii	4	4			

Negotiation game plan

- Once you have identified the negotiation issues, positions, and clarified your preference, you need to further prepare a negotiation game plan
 - Target point
 - BATNA
 - Resistance point
 - Bargaining zone



Negotiation game plan

- Target point:** what exact specific results would you like to achieve through this negotiation?
 - The more specific your target point is the better
 - Also referred to as "target price"
- What is my **BATNA** (Best Alternative To a Negotiated Agreement)?
 - Improve BATNA to increase bargaining power
 - Communicate to opponent that you have good BATNAs





Scenario 1

McKinsey & Company **THE BOSTON CONSULTING GROUP**

\$96K \$?K



Scenario 2

McDonald's **THE BOSTON CONSULTING GROUP**

\$33K \$?K

Negotiation game plan

- What is your resistance point?
 - The point where you would rather walk away than accept the conditions from the other party
 - Also referred to as "reservation price"
- Bargaining zone: the difference between two parties' resistance points, can be positive or negative





\$400 \$475 \$525 \$600

← Buyer's aspiration range Seller's aspiration range →

← Bargaining Zone →

Buyer's target point Seller's resistance point Buyer's resistance point Seller's target point

**Negotiation techniques:
make an aggressive first offer**



- Final agreements are more strongly influenced by initial offers than by subsequent concessionary behavior
- Anchoring effect: aggressive first offer provides an anchor, and the other party tend to adjust insufficiently from the anchor
- How aggressive?
 - Make a prediction of the other party's resistance point, make it your target point
 - The opening offer should be more aggressive than your target point
 - If going too far, the other party will leave the table

**Negotiation techniques:
ask for and give concessions**



- Always ask for more concessions
- Give concessions with rationales
- Give small concessions when approaching your goal



**Negotiation techniques:
cooperation and information sharing**



- Negotiators with a prosocial (vs. egoistic) motive engage in more problem solving and integrative outcomes
- Negotiators who are encouraged to process information accurately are more likely to benefit from the integrative negotiation issues
- How much to share?
 - Enough for the negotiation parties to explore integrative potential and create more value
 - Not too much that the other party would use the information against you to claim more value



Negotiation traps



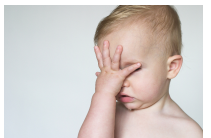
- **Fixed-pie perception:** a common misbelief that the preferences of the negotiating parties are always completely opposite
- **Reactive devaluation:** devaluing an offer simply because it is proposed by an antagonist



Negotiation traps



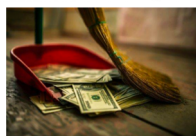
- **Agreement bias:** settling for terms that are worse than your BATNA.
 - After investing a lot of time and effort into a negotiation, people feel obligated to reach an agreement.
- **Winner's curse** (Settling for too little): after you finish the negotiation, the slight bitter after taste that you might have gotten a better deal if you make a more aggressive offer



Negotiation traps



- **Hubris:** walking away from the table when the other party's offer is better than the BATNA.
 - Irrational, but people enjoy voicing their irritation/anger.
- **Lose-lose negotiation:** fail to reach Pareto efficiency and leave money on the table
 - Can be avoided by encouraging the two parties to share more information and be more cooperative



Honeymoon negotiation Continued



- Assume that the first attempt at negotiation failed and the couples still disagree with each other
- Some couples split up and join other couples as a third party
- The third party helps the couple solve the conflict



Honeymoon negotiation



- Round 1: the third party has the power to make a final decision for the couple. The third party speaks with each party separately and listens to the rationales as to why the couple should go to the destination that the party prefers. After the third party has listened to both parties power he/she will make the final decision for the couple.
- Round 2: the third party doesn't have any power to make the decision for the couple. The third party discusses with both parties simultaneously and try to propose advice and suggestions that could help the couple to come up with a solution that would satisfy the needs of both parties

Third-Party Conflict Resolution



- **Facilitator:** Generally acquainted with both parties, working with both sides to reach an agreement.
- **Conciliator:** Trusted third party who provides an informal communication link between the negotiator and the opponent.
 - Informal link
 - Used extensively in international, labour, family, and community disputes
 - Fact-find, interpret messages, persuade disputants to develop agreements
- **Ombudsperson:** An impartial party, widely respected, and trusted.
- **Peer Review:** A panel of peers who have been put together to hear both sides of the issue from the parties involved and to recommend a solution.

Third-Party Conflict Resolution



- **Mediator:** a neutral third party who facilitates a negotiated solution by using reasoning, persuasion, and suggestions for alternatives.
 - Participants must be motivated to bargain and settle
 - Best under moderate levels of conflict
 - Mediator must appear neutral and non-coercive
- **Arbitrator:** has authority to dictate an agreement.
 - Voluntary (requested) or compulsory (imposed by law or contract)
 - Always results in a settlement
 - May result in further conflict
