Negotiation Strategies

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Negotiation Strategies

Make the best decisions to maximize your results

Negotiation

- Common Mistakes
- Foundations
- Negotiation Strategies

Common Mistakes in Negotiation

1. Poor Preparation
2. Irrational Commitment to Position
3. "Fixed Pie" Belief
4. Anchoring and Framing

(1) Preparation

- Preparation, Preparation, Preparation
- Know the technology
  - Scope
  - Strengths/weaknesses
  - Design around?
- Know competing technologies (same issues)

Preparation (continued)

- Know both businesses
  - What products?
  - What markets?
  - Costs and margins
  - Competing products/companies
- What is <u>your</u> best alternative to no agreement ("BATNA")?
- What is <u>their</u> BATNA?

Preparation (continued)

- Know what you must have
- Even more important, know what you do not need
  - Know what you can safely trade for what you do need
- Know what they must have
- Know what they can give

Preparation (continued)

- Assemble the negotiation team
  - Licensing executive
  - Attorney
  - Finance expert
  - Technical expert
- A written outline is often helpful
  - Goals and expectations (more later)
  - "Deal breakers"

(2) Irrational Commitment

- $20 Bill Auction
- Examples
  - Price wars
  - Automobile industry strikes
  - Competitive acquisitions
- Goal becomes defeating the opponent, not maximizing your own results

Irrational Commitment (continued)

- Boston Scientific/J&J fight for Guidant
  - J&J offered $76/share (12/2004)
  - Guidant experienced serious product recalls
  - J&J invoked "material change" provision
  - J&J and Guidant negotiated a reduced offer of $63/share (11/2005)
  - Boston Scientific (BSX) intervened with an offer of $72/share (12/2005)

Irrational Commitment (continued)

- Boston Scientific/J&J fight for Guidant (cont)
  - Both companies sweetened offers gradually to $71/share for J&J and $73/share for BSX (1/12/2006)
  - BSX jumped to $80/share (1/17/2006), more than J&J's original offer price
  - Guidant accepted

Irrational Commitment (continued)

- Boston Scientific/J&J fight for Guidant (cont)
  - The Result (BSX stock price):



(3) Myth of the "Fixed Pie"

- People often assume that a negotiation is a zero sum game, like chess or baseball
- This is a *distributive* model, in which one party gains only if the other party loses
- However, many (most) negotiations are not over a fixed pie.
- A multi-variable deal offers opportunities for trade-offs – an *integrative* model

Myth of the "Fixed Pie" (continued)

- By trading information, you can often find a way to increase the value of the deal to both parties
- The needs of the parties may not be in opposition
- Satisfying the need of one may not be at the expense of the other
  - Time vs. money

Myth of the "Fixed Pie" (continued)

- The "Fixed Pie" issue is often related to whether the negotiation is:
  - A "transaction"; or
  - A "relationship"
- A transaction may have a fixed pie, but a relationship hardly ever does

Myth of the "Fixed Pie" (continued)

- Car purchase is the ultimate "transaction"
  - You will (most likely) never purchase another car from that dealer
  - Negotiation is (usually) on one issue – price
  - Rational purchaser will get price information and choose lowest price for desired car
  - But dealer is trained to try to set up a relationship to increase his leverage

Myth of the "Fixed Pie" (continued)

- Marriage is the ultimate "relationship"
  - The couple is making a long-term (lifetime) commitment
  - All aspects of their life together will be negotiated
  - Fairness and respect for the other are critical
  - The "deal" will be continually modified as circumstances (and the individuals) change

Myth of the "Fixed Pie" (continued)

- A license agreement is a "relationship"
  - The parties are (normally) entering into a long-term arrangement
  - Many issues will be negotiated (and re-negotiated)
  - Fairness is important
  - The parties' reputations may be affected by the deal
  - The parties may subsequently enter into another license

Myth of the "Fixed Pie" (continued)

- Causes negotiator to devalue concessions by the other side
  - "If they proposed it, it must not be good for us"
  - The same proposal is viewed differently depending on source.

(4) Anchoring and Framing

- The rational negotiator will adjust position as the negotiation proceeds
- Better information will result in (e.g.) a different value for the deal
- Initial positions or opinions act as "anchors" and can prevent rational adjustment
- Example: Florida housing market 2005 – present
  - Housing values in 2005 are an "anchor" inhibiting rational adjustment

Anchoring and Framing (continued)

- The answer you get depends on the parameters of the question you ask.
- 1) More or fewer than 10/1000 or more or fewer than 200/1000?
- 2) So –how many do you think?
- Answer to question #2 is strongly affected by question #1 – 16.5/1000 vs 43.1/1000!

Anchoring and Framing (continued)

- Offers and counter-offers are anchors for the negotiation
- If an offer is much too low or too high, don't allow it to become an anchor
  - Rather, say that the offer is too low (or too high) to consider
- House example – lowball offer

Anchoring and Framing (continued)

- Licensor may initially set extreme terms in an attempt to set an anchor
- Initial terms have a strong influence on the final terms
- Making a counteroffer lends validity to the initial terms
- Better to walk away (or say "too low or high") than counteroffer

Anchoring and Framing (continued)

- Your goals can act as positive anchors for yourself
- Set ambitious goals
- You never get more than you ask for initially

Anchoring and Framing (continued)

- "Lightweight and inexpensive" vs. "flimsy and cheap"
- Effort to save $20 on purchase of an $80 watch?
- Effort to save $20 on purchase of an $800 computer?
- Many people would do the first but fewer would do the second
- The value of the savings is "framed" by the value of the deal

Negotiation Foundations

1. Style
2. Goals and expectations
3. Norms and standards
4. Relationships
5. Other party's interests
6. Leverage

(1) Negotiation Style

- What is your style?
  - Avoider
  - Compromiser
  - Accommodator
  - Competitor
  - Problem Solver
- Cooperative vs. competitive styles

Negotiation Style (continued)

- People with cooperative styles are often effective negotiators
- But be careful of competitive counterparts
- Every dog gets one bite
- Trust but verify

(2) Goals and Expectations

- Have high expectations
- People who expect more generally get more
  - Supported by studies – $2.10/$6.10 goals gave $3.25/$6.25 result
- If you do not know where you are going, you will probably not get there
- Goal vs. BATNA

Goals and Expectations (continued)

- Set an optimistic, justifiable target
- Write it down – be specific
- Consider what really matters
- More than (just) money
- Focus on goal in negotiation

(3) Norms and Standards

- Everyone uses standards in negotiation
  - "Blue Book" for used cars
  - "Comparable sales" in real estate
  - "Standard" royalties
- Normative leverage
  - Rely on norms the other party views as legitimate and relevant
  - Focus on the other's normative framework

Norms and Standards (continued)

- Most norms are flexible
- Be aware of prevailing norms
- Be prepared to argue for your end of the normative range

(4) Relationships

- The norm of reciprocity
  - Be trustworthy
  - Be fair to those that are fair to you
  - Speak up when you think you have been treated unfairly
- The importance of fairness
  - The ultimatum game
- Build a working relationship

Relationships (continued)

- Relationship traps
  - –Trusting too quickly
  - –Reciprocity traps
  - –Negotiating with friends for high stakes

(5) Other Party's Interests

- Discover the other party's goals – but hard to do
  - – We see the world though our own eyes
  - – All negotiators are somewhat competitive
  - – Negotiation process itself makes it difficult to find shared interests
- Skilled negotiators spend more time looking for possible shared interests

Other Party's Interests (continued)

- Identify the decision maker
- Look for common ground
- Identify interfering interests
- Look for low-cost solutions

(6) Leverage

- Who has the most to lose from failure to agree? That party has the least leverage
- Positive, negative and normative leverage
- Positive – ability to supply wanted thing
- Negative – ability to take away something
- Normative – leverage based on norms and consistency

Leverage (continued)

- Positive leverage is most common
- Discover everything the other party wants or needs
- If applied against you, find another source

Leverage (continued)

- Negative leverage much less common – threat based
- "Do what I want or I'll [whatever]!"
- Threats are dangerous
  - Possible counter threat
  - Raises emotional stakes

Leverage (continued)

- Normative leverage
- Depend on norms and standards to get leverage
  - Reciprocity: "You bought lunch, I'll buy the Cadillac."
  - Consistency
  - "Fairness"

Leverage - Misconceptions

- Leverage and power are the same - No
  - Negotiating with children: parents have all the power, but children have leverage
  - Vera Coking and Donald Trump: landowner holdout
- Leverage is a constant – No, dynamic
  - Job hunter negotiation after offer but before acceptance, compared to other times

Negotiation Strategies

- Preparation is critical; most people do not prepare sufficiently
  - Be well informed about the other party so questions are intelligent
  - Remember BATNA;
    - What will you do if no deal?
    - What will the other side do if no deal?
  - Never negotiate a deal "at any cost"

Negotiation Strategies (continued)

- Preparation (continued)
  - Identify the true issues in the negotiation
  - Assess how important each issue is to you
    - Know what you must have
    - Know what you don't need
  - Estimate how important each is to the other side
  - Set your expectations

Negotiation Strategies (continued)

- Distributive and integrative aspects
  - Single issue negotiation is only distributive
    - Car purchase
  - Identify the bargaining zone
    - Dealer
    - Customer
  - Customer today has better information

Negotiation Strategies (continued)

- Distributive and integrative aspects (continued)
  - Integrative aspects
    - Identify shared goals
    - Identify where tradeoffs exist
- Multi-issue negotiations have both aspects

Negotiation Strategies (continued)

- Strategies for finding trade offs
  - Build trust and share information
  - Ask many questions
    - Be patient - ask questions; verify assumptions
    - Be a good listener – do not be afraid of silence
    - Always ask for "explanation" when there are differences – try to get at the root issues
  - Give away some information
  - Make multiple offers simultaneously

Negotiation Strategies (continued)

- Strategies for finding trade offs (continued)
  - Use differences in expectations
  - Use differences in risk preferences
  - Use differences in time preferences
  - Consider adding issues

Negotiation Strategies (continued)

- Process
  - Be flexible – keep the goal in mind
  - Have high goals
  - Progress from general to specific
  - Address non-financial issues first
  - Address financial terms later

Negotiating Strategies (continued)

- Fairness and emotion
  - Negotiation is not just economics
  - Remember ultimatum bargaining - fairness
  - Price increase with demand – snowstorm
  - Effect of emotion on negotiator performance

Conclusion

- Negotiation is an art learned over a lifetime by constant application and practice
- Everyone is a student

Negotiation Sources

- Bazerman and Neale – "Negotiating Rationally"
- Shell – "Bargaining for Advantage"

Thank You !