

“Let us begin anew, remembering on both sides that civility is not a sign of weakness, that sincerity is always subject to proof. Let us never negotiate out of fear, but let us never fear to negotiate.”

- John F. Kennedy

# MMP12: Negotiation

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# Overview of Presentation

- Preparation
- Strategies for “Expanding the Pie”
- Human Nature vs. Rational Decision Making

# Preparation for Negotiation

- Self-analysis
- Analysis of Others (fairly similar)
- Assess Situation

# Analysis: BATNA

- Best Alternative to a Negotiated Agreement
- If you can't resolve your differences, where does that leave you?
- You can improve your negotiation outcomes by improving your BATNA

# Analysis: Focal Points

- Reservation Point !important
- Target Point !less-important
- Sunk Costs
- Others
  - Round numbers
  - Last year's prices on last year's product
  - Someone else's similar experience somewhere else
- Don't get distracted! Ensure validity.

# Analysis: Issues and Alternatives

- Seldom need a negotiation be limited to a single issue
- Up-front cost, maintenance fees, time to agreement, duration of agreement, training, support, division of revenues, addition of goods or services, etc.
- Consider a package of initial offers of equal value to you

# The Other Party

- Are they all represented at the table?
- Their BATNA
- Issue preferences to them
  - End of fiscal quarter
  - Break into new sector, geographic area

# Situation: Relationship

- How are these situations different?
  - Buying a Car
  - Negotiating a Starting Salary
- Does Negotiation start a relationship?
- Will you be back at the table again?
- Does this establish a precedent?
- Will this Negotiation affect relationships with others?

# Situation: Conflict Potential

- Scarcity of Resources
- Differences of Firmly-held Opinions
- Subject Matter of Negotiation
  - BATNA for a dispute is often court
- Are there alternatives to agreement?
  - Reagan fired Air Traffic Controllers in 1991

# Situation: Legality

- Laws vary in states, countries
- Cultural norms
  - Farmers market vs. Grocery stores
- Formal vs. Informal agreements
- Public vs. Private Negotiation, Terms
- Ratification of deal required

# Situation: Environment

- Location of Negotiation
- Intervention of Third Party
- Time-related Costs
- Number of Offers
- Power Differential between Parties
- Communication Styles

# “Expanding the Pie”

- Negotiation is about more than a fixed division of a single resource (Pie)
- Better deals are when both sides get what they want --- a “win-win” situation
- Make the “Pie” bigger so that you both get more than half
- A.k.a. Integrative Negotiation

# Clear Opportunities for Win-Win

- Negotiation on more than one issue
- Possibility of side deals
- Different issue preferences between parties

# Obstacles to Win-Win

- False Conflict
- Fixed-pie Perception
- Illusion of Transparency

# False Strategies

- Commitment to “Win-Win” Outcome
- Compromise (concession for concession)
- Focus on long-term relationship
- Cooperative orientation
- Taking extra time

# Good Strategies

- Build trust and share info
- Ask questions about preferences
- Give information about preferences
- Unbundle the issues
- Make package deals on  $>1$  issue
- Make multiple offers simultaneously
- Pre-Settlement Settlements
- Post-Settlement Settlements

# Contingency Contracts

- Take advantage of differences:
  - Issue valuation
  - Predictions of the future
  - Risk attitudes
  - Time preferences
  - Capabilities

# Rational Decision-Making

- Evaluate options based on expected outcomes
- The sum of the probability of each outcome times its value
- $P(A)*V(A)+P(B)*V(B)+...$

# One Quick Example

- New York State Lottery Odds
- New York State Lottery Payouts

# OK, One *More* Quick Example

- Deal or No Deal
- 25+ briefcases with dollar values
- You pick one
- You open  $x$  briefcases, removing dollar values from play
- Banker makes an offer that is *always lower* than your current expected outcome

# Attendee Poll

1. I give you \$5,000
2. You flip a coin onto the floor. If it lands heads, I give you \$10,000. If it lands tails, I give you nothing.

# Risk-avoiding Behavior

- Fundamental Negotiation Behavior
- Faced with good options, we tend to risk a sure thing to take a change for even a better thing.

# Attendee Poll #2

1. Pay \$20,000 to cover drink tickets
2. Cover all drinks on consumption, whose expected outcome is \$20,000, weighing all probabilities

# Risk-seeking Behavior

- Fundamental Negotiation Behavior
- Faced with bad options, we tend to risk seeking an option with the potential for a less painful outcome, even if we could end up worse

# Risk and Uncertainty

- At the end of an agreement, future conditions are not known.
- Both parties enter a negotiation with assumptions about the future, good or bad
- Parties with negative outlooks (risk-seeking) tend to be more willing to make integrative agreements, since they often involve contingencies.

# Choosing versus Rejecting

- Consider an “enriched” and an “impoverished” choice
- Enriched: More positive and negative
- Impoverished: fewer positive and negative
- Asked a sample to choose the better option, they chose Enriched
- Asked a sample to reject the worst option, they chose ... Enriched!

# A Quick Negotiation Process

1. **People**, not the challenges
2. **Interests**, not positions
3. Create new **options** for mutual gain  
(expand the pie)
4. Avoid subjective **criteria**

From *Getting to Yes*

# Sources & Resources

Thompson, L. (2001) *The mind and heart of the negotiator*. Upper Saddle River, NJ: Prentice-Hall.

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Nierenberg, G. I. (1968) *The art of negotiating*. Rpt (1995) New York: Barnes & Noble Books.