

Negotiations

Lecture 18
GSL Peru 2014

Housekeeping

- Demo Day Presentations
- Prototype
- Business Plan
 - Full Executive Summary
 - Bullet points for rest of the Business Plan
- Demo Day Resources

Team Background



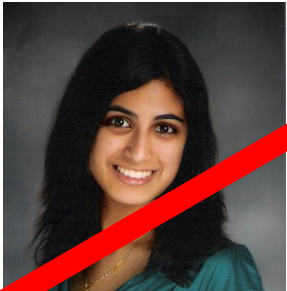
Our Team



Suki Hirata:
Electrical Engineer



Heidi Baumgartner:
Physicist

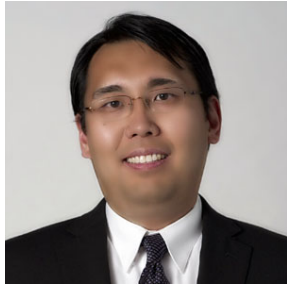


Natasha Consul:
Computer Scientist

Team Background

- Why this team will make the company a success?
- Define roles
- Establish credibility

Our Team



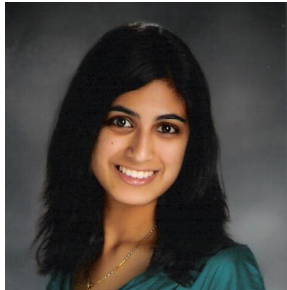
CEO - Suki Hirata:

Technically avid business executive with extensive Venture Capital backed early-stage startup experience
#62 Inc 500 Fastest Growing Company in 2011 with 20% Qtr to Qtr growth for 23 consecutive Qtrs.



VP of Operations - Heidi Baumgartner:

Co-founder of oneTelsa, an educational electronics kits company with two successful Kickstarter campaigns.
Extensive experience in hardware and crowdsourcing.
Responsible for various operational and strategic decisions.



VP of Technology - Natasha Consul:

MIT Undergraduate in Economics and Computer Science in charge of software development and product design.

Negotiations



What is Negotiation?

“Negotiation is a field of knowledge that focuses on gaining the favor of people from whom we want things.” -Herb Cohen

We negotiate when...

- we decide where to eat as a group
- we ask for a raise
- we go buy a car
- we buy items from street vendor
- we determine features in a product release

More formally,

- Two or more parties must make a decision about their interdependent goals.
- Parties are committed to a peaceful means of resolving a dispute.
- There is no clear of established method for making a decision among multiple parties.

Power and Negotiations

What is power?

The capacity of one party to influence another.

MisPerceptions of Power in Negotiation

- Extreme claims, followed by small, slow concessions
- Bluffing and lying
- Threats or warnings
- Belittling the other party's alternatives
- Good cop, bad cop
- Take-it-or-leave-it offers
- Personal insults or ruffling feathers

From: Common Hard-Bargaining Tactics - R. H. Mnookin

Negotiation Power

- Legitimate
- Referent
- Expert
- Reward
- Coercive

Legitimate - Positional

- Has formal structural authority

Example:

- Corporation - CEO
- Military

Referent

- Based on charisma and interpersonal skills
- Ability to attract and build loyalty
- Can be based on personality traits
- Who you know

Example:

- Nationalism/Patriotism
- Celebrities
- Martin Luther King, Jr.
- John F. Kennedy

Expert - Knowledge

- Power from having knowledge and skills
- Subject matter expert - highly specific and can be limited to area

Reward

- Ability to give some sort of reward
 - benefits
 - promotion
 - increased pay
 - responsibility
- Level of power depends on perceived value for reward
- Can lose effectiveness over time - need bigger rewards

Coercive

- Use of negative influence - threat and punishment
- Fear is motivating factor
- Least effective
 - resentment
 - resistance

Negotiation Overview

- Strategy
- Style

Strategy

- Distributive (fixed pie, value claiming)
- Integrative (expanding the pie, value creation)
- Mixed-motive

Style

- Competitive
- Cooperative
- Avoid
- Accomodate

Bill Cosby Show - Buying a Car



Exercise 1 - CRX Sale

- Kelly Blue Book (KBB) is a used car pricing guide.



Exercise 1

- Bargaining Range?
- Did you set a Goal? Aspiration?
- Did you set a minimum/maximum acceptable?

Distributive Bargaining

Distributive Bargaining occurs when the goals of one party are in fundamental and direct conflict with the goals of the other party.

Tactics

- Extreme Offers (highball/lowball)
- Small concessions
- Commitment to a position
- Threats/Intimidation
- Good cop/bad cop
- Bogey
- Chicken
- Snow Job

Consequences

- show strength
- damage relationships
- bad reputation
- elicit revenge

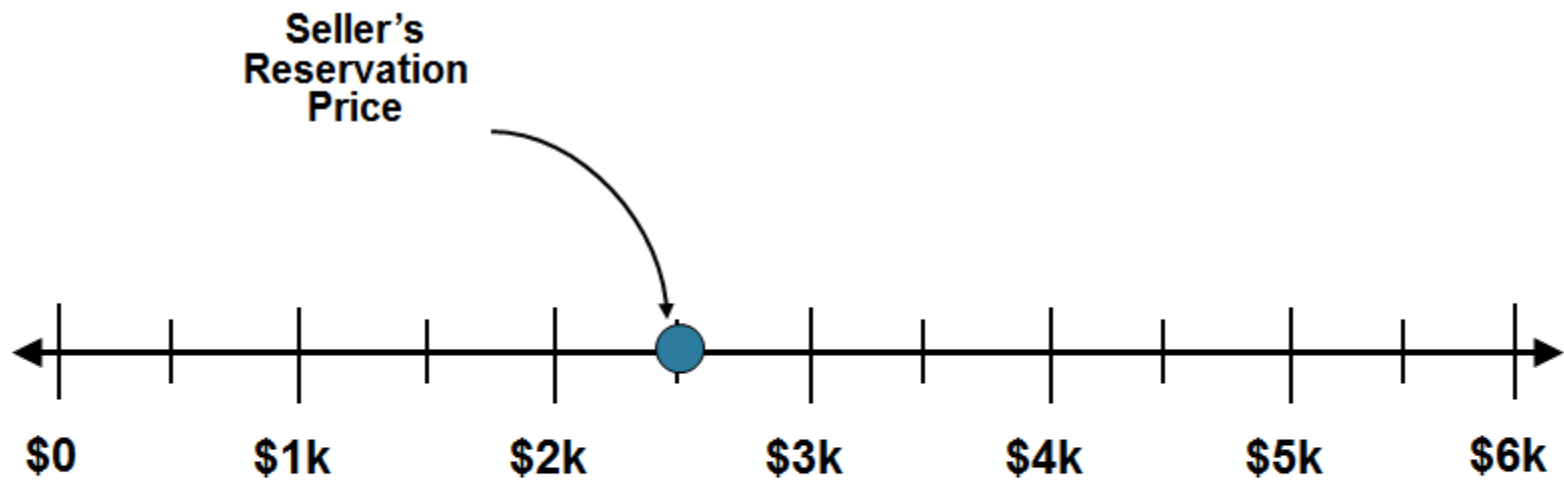
Counter Tactics

- Prepare identify bluffing, important issues, use of bogey
- Ask diagnostic questions- suggest alternative packages
- Discuss the negotiation process— set ground rules, name the tactic
- Go to the balcony - take a break
- Use humor

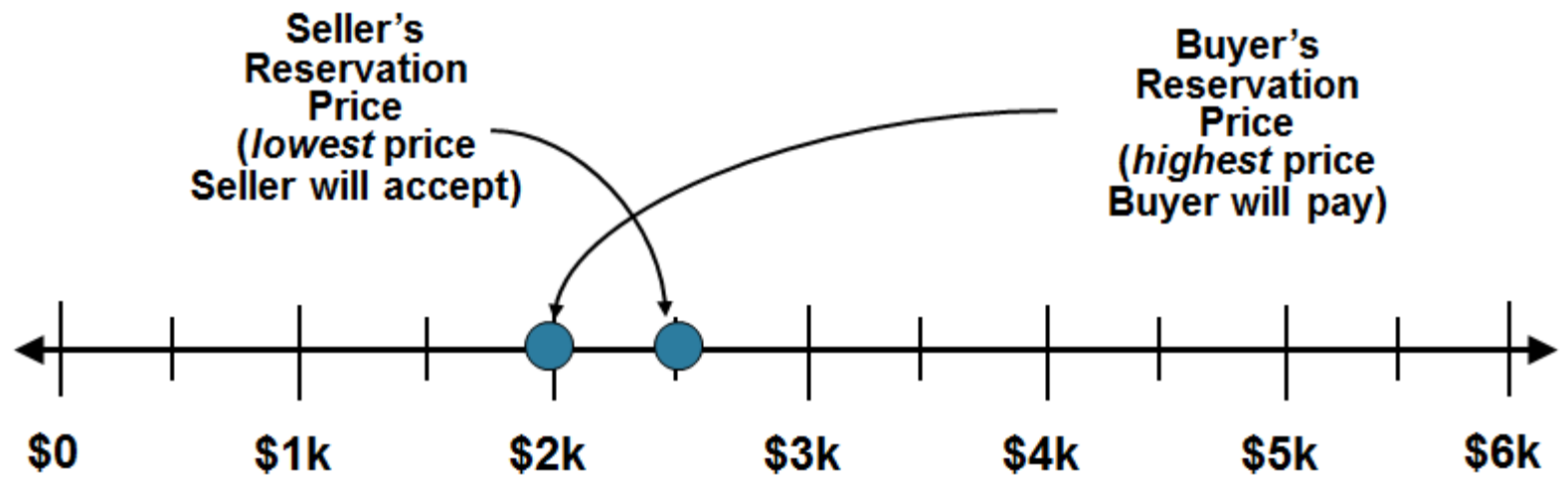
Reservation Price (RP)

- If you're the buyer, you won't go any higher
- If you're the seller, you won't go any lower
- It's your bottom-line, "walk away" point or price

What was Seller's Reservation Price?



What was Buyer's RP?



Zone of Potential Agreement (ZOPA)

The space between two party's RP.

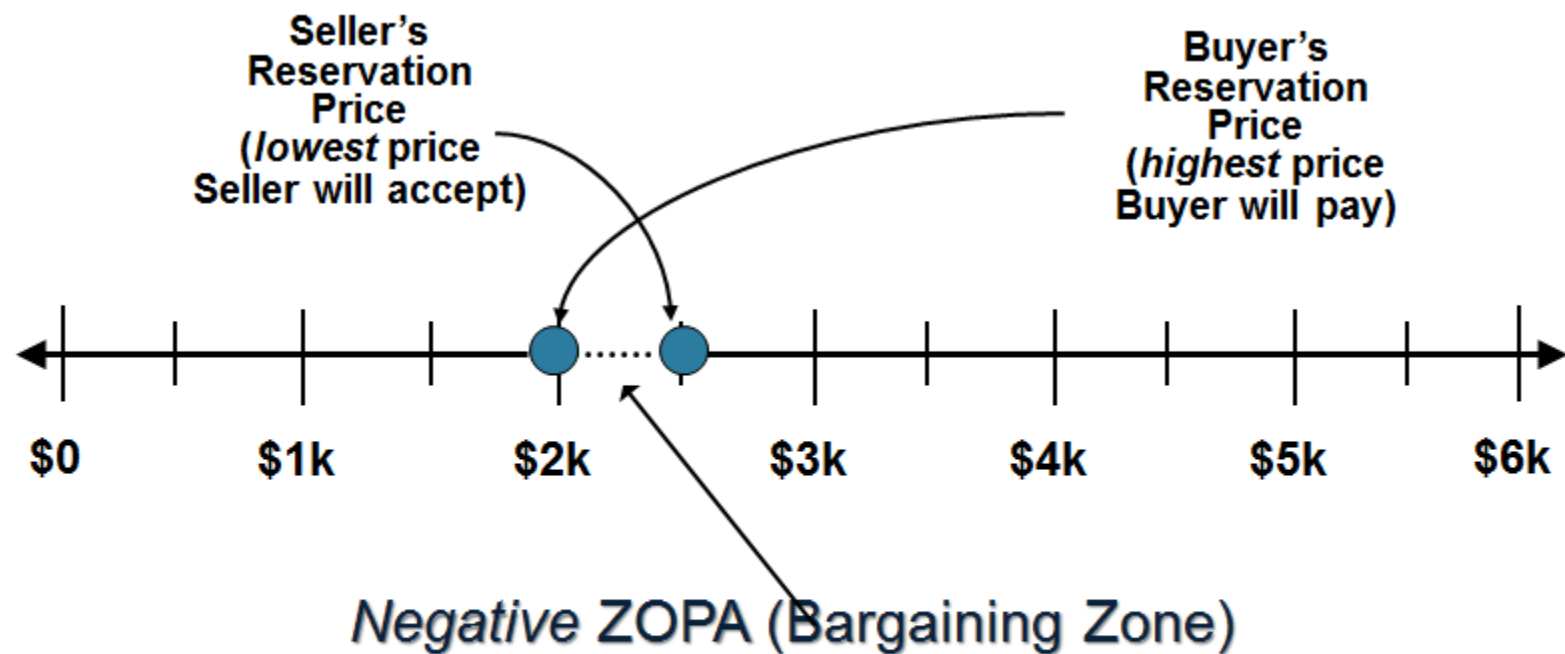
If I will sell X for \$10 or more, and You will buy X for \$12 or less, then ZOPA = space between \$10 and \$12.

The ZOPA can be positive OR negative

If **positive**: walking away is suboptimal (deal within ZOPA is better than alternative)

If **negative**: agreement is suboptimal (alternative is better than any possible deal)

What was the ZOPA in this case?



Are there ever agreements despite a negative ZOPA?

BEWARE: AGREEMENT BIAS

Parties reach agreement despite Negative ZOPA.

- We get absorbed and forget our “rational” RP in “heat of the moment”
- We think we are “supposed” to reach an agreement after sinking costs in long conversation
- We are persuaded to adjust our RP despite no real new information
- RP is critical BUT how determine RP?

How Determine RP?

BATNA

(Best Alternative to a Negotiated Agreement)

Rule #1 of Negotiations: Assess your BATNA, your “plan B,” what you will do if you decide to walk away.

Walk away from deals $<$ BATNA

Accept deals $>$ BATNA

RP is a quantification of your BATNA



BATNA

- OBJECTIVE & FACT-BASED: NOT YOUR “ASPIRATIONS” or “Positive Thinking” but cold analysis
- DYNAMIC: CONSTANTLY CHANGING
- Can be Improved!
- BEWARE OF:
 - “LOVE”
 - Tunnel Vision to Relieve Anxiety blocks alternatives
 - Counterparty’s biased devaluation of your BATNA

BATNA to RP

Given BATNA, what current deal is better?

DO NOT:

- Agreeing to deal worse than BATNA
(absorbed by winning game not whether this is best game to play)
- Rejecting deal better than your BATNA
- Focusing on an arbitrary salient number
- Focusing on “sunk costs” (what you paid \neq RP)

Strategy

- Should you reveal your BATNA?
- Typically, NO
- Creates “hold out” problem - the other side will not offer more than RP
- Exceptions?
 - About to walk away and take BATNA
 - Your BATNA is good, but looking for a better deal

Strategy

Should you bluff?

- “That’s the best I can do”
- “This is my final offer”

Bluffing Risks

- Reducing the ZOPA and missing profitable deals
- Reputation Risk
- What if they bluff? Ignore it, don't entrench it

Aspiration Point (AP)

- AP: The value you aspire to get from negotiation BASED on what's possible
- Ambitious YET realistic (“Grounded aspiration”)

How practically determine your AP?

DETERMINING AP

RESEARCH – DON'T ASSUME YOU KNOW:

- Market conditions
- Other side's BATNA (how?)

BEWARE:

- “Under-Aspiring”: leads to “Winner’s Curse” (once cursed no remedy)
- “Over-Aspiring”: Leads to “Chilling Effect” (lose credibility if not based on reason, risk chilling cozy relationship)
- “Grass is Greener”: Wanting what they don't want to give and devaluing what they do want to give (Woody Allen and “Reactive Devaluation”)
- The “Ambitious” AP & the “Unhappiness Trap”

First Offer

- If make first offer, how much should you ask for?
- Should you make the first offer?

First Offer

SHOULD YOU MAKE THE FIRST OFFER?

- **DEPENDS ON YOUR KNOWLEDGE OF THE ZOPA**
 - Information on market prices and counterparty
 - Don't assume you "know"
- **GENERALLY:**
 - MAKE FIRST OFFER IF GOOD SENSE OF ZOPA
 - DO NOT MAKE FIRST OFFER IS NOT KNOW ZOPA

First Offer

- First offer can set an “anchor” - anchoring effect
- Cognitive Bias: Initial offer more powerful than justifiable by “facts”
- Come prepared with a first offer (if you “wait and see” you’ll get anchored by other side!)
- Try to “re-anchor” if other side “anchors” first

Think about opposition's

- BATNA
- Target/Aspirations
- Reservation/Resistance Point
- Constraints
- Non-tangibles need (for status, control, affiliation)

Part 2



Teddy Roosevelt



1912 Candidate for “Bull Moose” Party

Self Anchoring

Don't let
yourself be
anchored by
your own
BATNA!



Don't let your
RP determine
your AP
(common
cause of
"winner's
curse")

Exercise 2 - Power Game

NO TALKING PLEASE

- Find a partner to arm wrestle
- POINT = EACH TIME BACK OF COUNTERPARTY'S HAND TOUCHES TABLE
- Place arms in starting position and CLOSE YOUR EYES



Maximizing Outcome

- To maximize your performance the best strategy may not be to compete/“defeat” the adversary
- We often compete by default
 - Especially in “games” like situations (incl. arm wrestling & negotiations),
 - Especially when anxious – automaticity kicks in.
- What if you’re the stronger party? Any advantage to cooperating in the “power game”?
- Did anyone try to “signal” to their partner their willingness to cooperate? How?

Exercise 3 - Pakistani Prunes



Exercise 3 - Pakistani Prunes

WHO REACHED AN AGREEMENT?

- How divide you up the prunes?
- What did Sanches/Wilson want?
- What were the barriers to disclosing information?

Compatible Goals

Dr. Rubio Sanchez facts:

- Has \$2M to bid
- Wants prunes for a good cause
- Wants pits!

Dr. Kim Wilson facts:

- Has \$5M to bid
- Wants prunes for a good cause
- Wants “meat”/pulp!

Integrative Bargaining

- Create Mutual Value
- Difference is great!
- Leverage differences in
 - valuation
 - risk attitudes
 - time preferences
 - expectations

Integrative Bargaining

You have to share!

- sharing information is critical for making tradeoffs

Be true to yourself

- Know your own limits (BATANA, RP, etc.)

Integrative Strategies

- Build trust and share information
- Ask diagnostic questions
- Make multiple offers simultaneously
- Invent options for mutual gain
- Capitalize on differences (valuation, expectations, etc.)

Expanding the Pie

- Avoid: “Fixed Pie Bias”
- Don’t assume interests are incompatible
- Don’t assume you know their interests
- “Compromise” may be suboptimal



Non-Zero Sum Game

- Parties have compatible interests (non-competitive similarities)
 - Want some of the same things (e.g., location of joint venture).
 - Usually “relationship” is a shared interest
- Parties have different interests
 - Are differences obstacles to integration?
 - Differences in valuations (big office versus nice view)
 - Differences in expectations about future events allow contingency contracts
 - Most negotiations have multiple issues, differences allow trades

Finding Integrative Solutions

EXPLORE INTERESTS!

How are interests different from positions?

Interest versus Position

Position - what you say you want

Interests - why do you want what you want?

Good Negotiators...

Never take positions for granted

Look for underlying interests

Part 3



Exercise 4 - Job Offer

- Recruiter and job candidate negotiate the offer, consisting of salary, signing bonus, vacation days, and location
- Each has “interests” or things they value
- If you cannot reach agreement, the deal is off
- Read your role individually, THINK about your interests and goals, and negotiate
- You may NOT show the other person your pay-off schedule

Strategies

- **Distributive**
 - Conflicting goals, fixed pie (“zero-sum game”), task is to claim value and maximize personal gains
- **Integrative**
 - Shared goals, expandable pie (“win-win”), task is to create value, maximize joint gains
- **Mixed-Motive**
 - Both expanding the pie --meeting needs of all or most parties as much as possible --while claiming your share

Issues at Hand

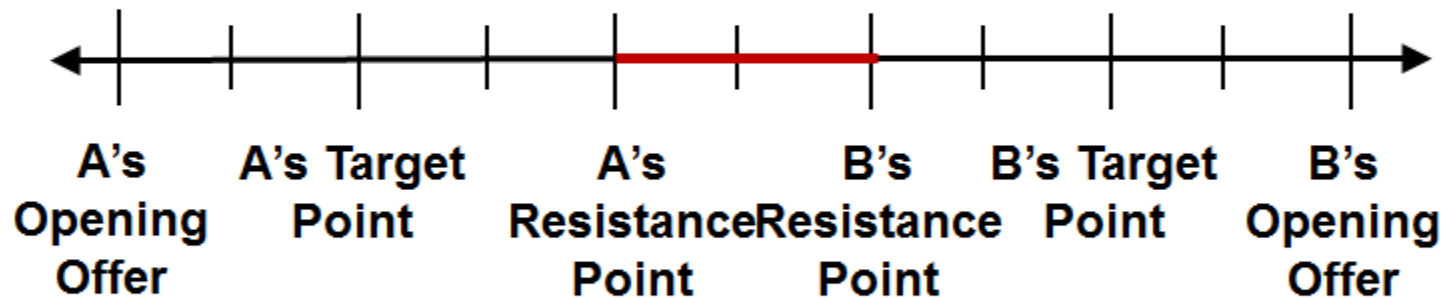
- Bonus
- Vacation Time
- Salary
- Location

Issue	Options	Recruiter Points	Candidate Points
Bonus	10%	0	+2800
	08%	+400	+2100
	06%	+800	+1400
	04%	+1200	+700
	02%	+1600	0
Vacation Time	3.0 weeks	0	+1600
	2.5 weeks	+700	+1200
	2.0 weeks	+1400	+800
	1.5 weeks	+2100	+400
	1 week	+2800	0
Salary	\$95,000	0	+6000
	\$90,000	+1300	+4500
	\$85,000	+3000	+3000
	\$80,000	+4500	+1500
	\$75,000	+6000	0
Location	San Francisco	+4000	+4000
	Los Angeles	+3000	+3000
	Atlanta	+2000	+2000
	Chicago	+1000	+1000
	New York	0	0

Issue	Options	Recruiter Points	Candidate Points
Bonus	10%	0	+2800
	08%	+400	+2100
	06%	+800	+1400
	04%	+1200	+700
	02%	+1600	0
Vacation Time	3.0 weeks	0	+1600
	2.5 weeks	+700	+1200
	2.0 weeks	+1400	+800
	1.5 weeks	+2100	+400
	1 week	+2800	0
Salary	\$95,000	0	+6000
	\$90,000	+1300	+4500
	\$85,000	+3000	+3000
	\$80,000	+4500	+1500
	\$75,000	+6000	0
Location	San Francisco	+4000	+4000
	Los Angeles	+3000	+3000
	Atlanta	+2000	+2000
	Chicago	+1000	+1000
	New York	0	0

I want to hire for \$80k or less;
My limit is \$84k
"I offer \$75k"

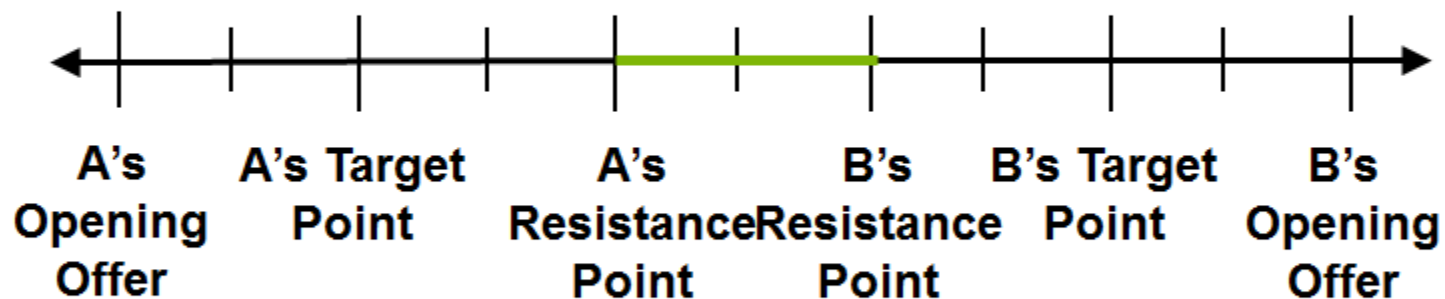
I want \$85k or more;
At least \$87k
"I will ask \$90k"



Negative Contract Zone

I want to hire for \$85k or less;
My limit is \$90k
"I offer \$80k"

I want \$85k or more;
At least \$87k
"I will ask \$90k"



Negative Contract Zone

Resistance Points

- Resistance Points may arise from alternative offers: Best Alternative to a Negotiated Agreement (BATNA)
- In this case, each negotiator was given a BATNA: was there a + contract zone?
- Resistance Points arise from other comparisons
- Resistance Points may shift during negotiation if negotiators lack information or confidence

How to Claim Value

- Know your BATNA and improve it
- Consider the other side's BATNA (as well as their perception of their BATNA) and how it might be influenced
- Use reasoning
- Draw on your sources of power
 - But be careful not to force to hard/far!
 - DON'T state a BATNA you are not prepared to use if necessary

Distributive Tactics

- Develop target and resistance positions in advance
- Overstate opening positions (be “tough”)
- Commit to these positions early and publicly
- Channel communications through a spokesperson
- Give as little as possible for what you get
- Use coercive forms of power
- Mobilize support from constituents against the other party
- Divide and conquer the other side; protect against the same on your side
- An agreement reluctantly accepted is a sign of success

Increasing the Pie

- Salary in this exercise was a purely distributive issue, but signing bonus and vacation were different
- The recruiter cared more about vacation days and the candidate about bonus
- A 2% signing bonus and 3 weeks vacation is 1600 TOTAL points; a 10% signing bonus and 1 weeks vacation days is 2800 points
- BOTH negotiators can be better off if they identify and trade these opportunities

Integrative Tactics

- Focus on Interests, Not Positions
- Build Trust & Share Information
- Search for Joint Gains (inquiry, make multiple simultaneous offers, etc.)
- Brainstorming multiple options, sub-committee explorations of problems, open communications
- Use objective criteria to evaluate options
- Look for options to “expand the pie”

What Information to Share?

- Always use caution in sharing information and wait for reciprocation.
- Revealing priorities among issues (i.e., rank ordering) is a less risky disclosure than revealing preferences for specific alternatives within an issue.
- “I care a lot about all 5 issues, they are all important, but if I had to say, issues 1 and 3 are more important”

Negotiator's Dilemma

- Competitive/Distributive strategies lead you to withhold information needed for integrative win-win solutions

BUT

- Cooperative strategies may leave you vulnerable to competitive exploitation
- Apples & Oranges: What if

I have 10 oranges, you have 10 apples

- I love apples, I can't eat oranges
- You like apples and oranges equally well
- What is the most efficient outcome?
- What if I disclose my preferences unilaterally?

Negotiator's Dilemma

	B Cooperates	B Competes
A Cooperates	Both Cooperates; Both have Good Outcome	A Cooperates, B Competes; A has Terrible Outcome, B has Great Outcome
A Competes	A Competes, B Cooperates; A has Great Outcome, B has Terrible Outcome	Both Compete; Both have Mediocre Outcome

Prisoner's Dilemma

Two members of a criminal gang are arrested and imprisoned. Each prisoner is in solitary confinement with no means of speaking to or exchanging messages with the other. The police admit they don't have enough evidence to convict the pair on the principal charge. They plan to sentence both to a year in prison on a lesser charge. Simultaneously, the police offer each prisoner a Faustian bargain. Each prisoner is given the opportunity either to betray the other, by testifying that the other committed the crime, or to cooperate with the other by remaining silent.

Prisoner's Dilemma

If A and B both betray the other, each of them serves 2 years in prison

If A betrays B but B remains silent, A will be set free and B will serve 3 years in prison (and vice versa)

If A and B both remain silent, both of them will only serve 1 year in prison (on the lesser charge)

Negotiator's Dilemma

	B Silent	B Betrays
A Silent	Both Silent; Both 1 year prison term	A Silent, B Betrays; A has 3 year prison term, B goes free
A Betrays	A Betrays, B Silent; A goes free, B has 3 year prison term	Both Betray; Both 2 year prison term

Golden Balls



Golden Balls



How to Manage Dilemma?

- Should you always compete and hope for maximal outcome?
- In indefinite round games typically get coop/coop or compete/compete cycles (no option for repeated individual maximal outcome)
- In integrative negotiations (unlike prisoner's dilemma) both sides cooperating may lead to higher individual results than the compete/cooperate scenario because cooperating allows for more issues to surface and be traded

Poor Approaches

TWO POOR APPROACHES:

- 1) Assume all issues are win-lose and ignore potential mutual gains
- 2) Assume all issues are win-win and ignore potential exploitation

The Tit-for-Tat (“conditionally cooperative”) Strategy

- Opening move = cooperate (“start nice”)
- Next move, choose whatever opponent last chose.
- This means you’re: “provocable”- if they defect you retaliate,
- BUT also “forgiving”- if they cooperate you reciprocate
- Strategy never won a single match (at best tie) but overall won most points by inducing cooperation

Managing Dilemma

- Before the negotiations set a cooperative tone by signaling your desire to create value
 (“let’s find a solution that will max the benefits to both our sides”)
- There are no fixed rules for how negotiations are conducted – implicit rules get set in opening moments. Initial tone drives dynamic for rest of negotiations
- Often useful to start with a discussion about the process– and co-creating process plan.

Managing Dilemma

- Start by discussing interests not positions and try to stick to it by “training” counterparty

(“unless you tell me what you want I can’t give you what you want”)

- Reveal information gradually and wait for reciprocation (let the norm of reciprocation work its magic!)

“Trust but Verify” approach– cautiously cooperate making sure information flowing both ways

(“I value this over that, how about you?”)

- Start with easier issues to build trust & momentum, often these are compatible or integrative, bracket distributive issues

(but ideally only reach tentative agreements to preserve logrolling)

Bad Negotiaion - Shark Tank



Key Concepts

- Resistance/Reservation Point
- BATNA
- ZOPA
- Creating and Capturing Value
- Negotiator's Dilemma

References

- MIT OpenCourseware - Power and Negotiations - Professor Williams
- Power and Negotiations Lectures - Ofer Sharone
- Managerial Psychology - John Carroll