

# ROAD MAP

- Class 1: Oil Pricing reveal Compete/Cooperate tension
- Class 2 (Today): Competing for the Largest Slice of the Pie: The Distributive Dimension
  - and BASIC TERMINOLOGY
- Class 3: Cooperating on Expanding the Pie: The Integrative Dimension
- Class 4: The Compete/Cooperate Tension Revisited

# Guidelines for Simulations

- Follow Instructions: can extrapolate BUT CAN'T CHANGE FACTS
- Take Risks and Experiment with different styles
- Instructions are PRIVATE
  - Do not share your case with your partner
  - Not even after the negotiation...wait for debrief

# Reservation Price or Resistance Point (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 RP?

# ZOPA = Zone of Potential Agreement

The space between two party's RPs

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

The ZOPA can be positive OR negative

If positive: walking away is suboptimal (deal w/in ZOPA is better than alternative)

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

What was the ZOPA in this case?

# 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

# The Nature of BATNA

- OBJECTIVE & FACT-BASED: NOT YOUR “ASPIRATIONS” or “Positive Thinking” but cold analysis
- DYNAMIC: CONSTANTLY CHANGING
- Can be Improved!
- BEWARE OF:
  - “LOVE” (“*the house*”)
  - Tunnel Vision to Relieve Anxiety blocks alternatives
  - Counterparty’s biased devaluation of your BATNA (“competitor sucks,” anyone do this in the simulation?)

# CONVERT BATNA TO RP

Ask yourself: Given all attributes of my BATNA, what outcome in this present negotiation would be BETTER than my BATNA?

- Conversion may require:
  - (i) quantifying subjective elements like preferences (e.g., quality of life in different jobs, cities)
  - (ii) assessments of probabilities (e.g, final terms of BATNA)



# HAVING A CLEAR “RP” AVOIDS:

- 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)

# Slicing the Pie

If positive ZOPA both parties gain from deal w/in ZOPA  
BUT

For each side the maximal outcome, the “biggest slice” possible is equal to the other side’s RP

# STRATEGIC QUESTION:

SHOULD YOU REVEAL YOUR BATNA/RP  
TO THE OTHER SIDE?

# BATNA/RP: REVEAL OR NOT?

- USUALLY NOT BECAUSE COUNTERPARTY WILL NOT OFFER YOU MORE THAN YOUR RP (“hold out” threats become weak)
- EXCEPTIONS?
  - About to walk out and end negotiations
  - You have a GREAT BATNA, but you would prefer this deal if BATNA can be matched or exceeded.

What about “hinting” that you have a good BATNA?

# SHOULD YOU BLUFF ABOUT YOUR RP?

We often hear and say:

“That’s the best I can do”

“It’s my final offer”

“That’s my bottom line”

**Ethics aside (for now) is it effective?**

# SHOULD YOU BLUFF ABOUT YOUR RP?

- 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 OFFERS

- IF MAKE FIRST OFFER, HOW MUCH SHOULD YOU ASK FOR?
- SHOULD YOU MAKE THE FIRST OFFER?

# FIRST OFFERS

- 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
  - WHY?

# Anchoring Effect

Cognitive Bias: Initial offer more powerful than justifiable by “facts”

Study of experienced realtors: Shown same house, told same specs, estimate value differently when given different seller “listing prices”

First offer “sets the anchor”

Come prepared with a first offer (if you “wait and see” you’ll get anchored by other side!)

If other side beats you to it → “re-anchor” with your planned first offer. (if they make extreme offer, don’t force them to justify it!)

# Self-Anchoring Effect

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

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

MIT OpenCourseWare  
<http://ocw.mit.edu>

15.665 Power and Negotiation  
Spring 2014

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.