Distributive and Integrative Bargaining

Dr. Caneel K. Joyce

27 June 2011

Agenda

Preparing to Negotiate
New Recruit Exercise
Slicing the Pie (Distributive / Win-Lose)
Expanding the Pie (Integrative / Win-Win)
Principled Negotiation
Appendix: Calculating RP & Examples
Your greatest advantage in any negotiation is preparation

1. Purpose
2. Interests & Priorities
3. BATNAs
4. Options & Issues
5. Standards
6. Proposals
7. Intentions

Dr. Caneel Joyce
Executive Summer School

Purpose

• What’s the purpose of a home sale negotiation?
• Negotiations have a surface-level purpose that most everybody can agree on.
  – It feels comfortable to talk about what’s happening at the surface.
• Each negotiator has his/her own deep-level purpose, which is why they’re really at the table to begin with.
  – Finding a mutually attractive resolution often requires fulfilling this level.
  – But revealing this level is hard work (even for ourselves) and requires trust.
### Selling a house: Define interests

<table>
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<tr>
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<tr>
<td>Profit</td>
<td></td>
</tr>
<tr>
<td>Minimize stress in closing deal</td>
<td></td>
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<tr>
<td>Avoid double mortgage</td>
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<tr>
<td>Put down offer on house in S. Ken</td>
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### Selling a house: Prioritize interests

<table>
<thead>
<tr>
<th>Priority - Interest</th>
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<tr>
<td>3 - Profit</td>
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<td>4 - Minimize stress in closing deal</td>
<td></td>
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<tr>
<td>1 - Avoid double mortgage</td>
<td></td>
</tr>
<tr>
<td>2 - Put down offer on house in S. Ken</td>
<td></td>
</tr>
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</table>
**BATNA**

- **Best Alternative to a Negotiated Agreement**
  - The lowest acceptable value to an individual for a negotiated agreement
- **Develop alternatives so you know at what point to stop negotiating**
- **Gives you the POWER to walk away**
  - If we cannot receive an offer of X-amount for the house, then what will you do?
  - Can you live without an agreement? What’s at stake?
  - Always try to increase your BATNA

**Options & Issues**

- What are the different issues you can talk about?
- Brainstorm various options for meeting each of your issues and their issues
- Be creative and think about what’s not on the table that could help the other person and help yourself
- What issues can you bring in to expand the pie?
- If you don’t ask, you don’t get. Nothing is out of bounds for the brainstorming stage.
Standards

• These are criteria you can leverage to provide a more neutral zone for discussing proposals
  – Published benchmarks
  – Historical figures and precedents
  – Industry averages
  – Accepted practices
• Norms of fairness (more on this later)

Proposals: Create packages

• Packages that combine multiple issues
  – This is not a menu. Don’t allow cherry-picking!
  – Knowing how much you value each issue allows you to bargain by making trade-offs between equivalent packages
Equivalent Packages?

- 105k salary
- 10k year-end bonus
  
  =
  
- 100k salary
- 6k budget for home office setup

Proposals: Anchoring positions

- Make the trade-offs before you negotiate by striking positions on each issue at three levels:

  Live with -------- Content with ----------- Aspire to
Live with: BATNA = RP

• You must figure out your BATNA to know your Reservation Point
• RP: Indifferent between agreement and no agreement
• Think broadly, then quantify each aspect & its probability*
  * See Appendix for advanced RP calculation including multiple possible outcomes with probability estimates

Aspire to: Target Point

• This is an aspiration – aim high!
• Consider the whole universe of outcomes
  – Think about all of your interests
• Be feasible, but beware: Many of us tend to aim low
  – Think champagne popping!
• Do not “anchor” your TP to your RP!
## How Interests Become Positions

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<tr>
<th>Interest</th>
<th>Target Point</th>
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<tr>
<td>Profit</td>
<td>20% over purchase price</td>
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<tr>
<td>Minimize stress in closing deal</td>
<td>No additional repairs or improvements</td>
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<tr>
<td>Avoid double mortgage</td>
<td>Sell house for move in next month</td>
</tr>
<tr>
<td>Put down offer on house in S. Ken</td>
<td>Deal signed next week so you can move forward with offer</td>
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</table>

## ...and what **issues** are on the table?

<table>
<thead>
<tr>
<th>Interest</th>
<th>Target Point</th>
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</thead>
<tbody>
<tr>
<td>Profit</td>
<td>20% over <strong>purchase price</strong></td>
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<tr>
<td>Minimize stress in closing deal</td>
<td>No additional <strong>repairs</strong> or improvements</td>
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<tr>
<td>Avoid double mortgage</td>
<td>Sell house for <strong>move in</strong> next month</td>
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<tr>
<td>Put down offer on house in S. Ken</td>
<td><strong>Deal signed</strong> next week so you can move forward with offer</td>
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Preparing to Negotiate

New Recruit Exercise & Debrief

Slicing the Pie (Distributive / Win-Lose)

Expanding the Pie (Integrative / Win-Win)

Principled Negotiation

Appendix: Calculating RP & Examples

New Recruit Groups and Roles

<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Group ID</th>
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<td>Arpine</td>
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New Recruit

• 20 minutes to prepare
• 30 minutes to negotiate
  – Pretend the current date is April
• Fill out “Final Contract” (attached to Recruiter’s information)
• Tell Alex when your contract is complete
  – He will give you a scoring sheet to complete
  – Outcomes will be posted anonymously

New Recruit

30 mins
Break
Please return at 4:00pm

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To reach the optimal solution, you must identify three different types of issues

• **Distributive**
  – Interests are opposed

• **Integrative**
  – Combination of two issues where one is more important to Party A and the other is more important to Party B
  – By trading off, you “expand the pie”

• **Compatible**
  – Interests are identical
How was your thought process?

• Did you recognize the compatible items?

• Did false conflict perceptions come into play? Did you try to use the compatible interests strategically? Did that backfire?

• Were you truly integrative? For interests not important to you, did you give up on them and gain on interests more important to you?

How was your outcome?

• Optimal outcome:
  – Everyone gets compatible items
  – Trade-off on integrative items
  – Split the difference on distributive items
  =13,200 Joint Points
  If split the pie solely = 4,400 Joint Points and leaving value on the table!!!!
How the class did

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<table>
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<th>Total Candidate</th>
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</tr>
<tr>
<td>13</td>
<td>2,200</td>
<td>4,200</td>
</tr>
</tbody>
</table>

**How was your preparation process?**

- During negotiation prep, did you determine your bargaining zone?
  - Did you set your target and bottom lines so that you could objectively evaluate offers made by your counterpart?
  - Without planning = counterpart defines what’s reasonable = negotiation failure

- What was your BATNA?
Does practice make perfect?

1. Self evaluation
   a) My intentions before going into the negotiation
   b) My behavior during the negotiation
   c) How do you feel about your performance and behavior after negotiating?

2. Comparative evaluation

3. Peer evaluation
   a) Listen without explaining
   b) Intentions vs. Behaviour
   c) Self-awareness

4. Reflection

5. Development plan
   a) Behaviours to repeat & build upon
   b) Behaviours to consider limiting
   c) Behaviours to try in the future
Whenever possible, use objective criteria to evaluate a negotiation

- **Final agreement that is wise**
  - based on precedent or community practice
  - neither side feels cheated

- **Process that is efficient**
  - both working toward same goal
  - no time-consuming arguments or positioning

- **Relationship that is unharmed**
  - easier to discuss objective standards than to force each other to back down
  - no need to “lose face”

---

**Negotiation Journals**

- 5 mins individual
- 10 mins peer feedback
- 5 mins individual
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Slicing the Pie

• How do you get the biggest piece?
• Preparation
  – Offers
  – Alternatives
  – Concessions
Prepare, Prepare, Prepare!

- Most important: figure out your counterpart’s BATNA
- Second most: your counterpart’s RP
- Are they negotiating “in good faith”?  
  - Or happy to walk away without agreement?
- What else is on the line (but off the table)?  
  - Reputation, relationship, opportunity cost of time, etc.

Best practices (overview)

1. Aims: Best Deal vs Agreement
2. First offers
3. Standards & fairness
4. Concessions
5. Revealing, withholding, and lying
1. Defining your aims

- Aim for the Best Deal you can if:
  - You’re not worried about the relationship
  - You’re setting a precedent for the future
  - Your reputation is at stake
- Aim for Agreement if:
  - The relationship is a priority
  - You’re not setting a precedent
  - Your reputation is not at stake based on this one single negotiation

Material from this slide based on 2010 lecture by Marta Coelho

2. Who Should Make the First Offer?

- Folklore says let the other party make the first offer
  - Is that a good idea?
- Anchoring
  - People tend to focus heavily on the first offer
  - First offer correlates .85 with the final price
- Remember the winner’s curse? Don’t offer too low. Focus on your target point!
  - Think about how you’d feel if your offer were accepted.
First Offers (cont.)

• What if the other party makes the first offer?
  – Immediate counteroffer
  – Take away the psychic hold of the 1st offer
• Only encourage them to make the first offer if you have very little information
  – You can avoid losing face & retain credibility by offering out of range
  – But be ready to react quickly (see above)

Accepting first offers

• How do you feel when the other party accepts your first offer?
  – I should have asked for more
  – Maybe I just got into a bad deal
  – Less satisfaction
• Do not accept first offers
  – They are just that – an opener
  – Expectation to negotiate
  – Use your pa-pa-pa-poker face.
Tomorrow morning

- Texpoil negotiation will begin straight away
- Prepare tonight
  - Review your feedback and aim to improve upon your performance today
  - Prepare your planning document
  - Set an intention for a new behaviour/strategy to try out

Texpoil Groups and Roles

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<tr>
<th>First Name</th>
<th>Last Name</th>
<th>Group ID</th>
<th>Role</th>
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<td>Station Owner</td>
</tr>
<tr>
<td>Arifit</td>
<td>Khurana</td>
<td>13</td>
<td>TEXOIL</td>
</tr>
<tr>
<td>Arpine</td>
<td>Koreykan</td>
<td>13</td>
<td>Station Owner</td>
</tr>
<tr>
<td>Moritz</td>
<td>Guattberger</td>
<td>14</td>
<td>TEXOIL</td>
</tr>
<tr>
<td>Kirsten</td>
<td>Panagrow</td>
<td>14</td>
<td>TEXOIL</td>
</tr>
<tr>
<td>Ademola</td>
<td>Oladimeji</td>
<td>14</td>
<td>Station Owner</td>
</tr>
</tbody>
</table>
Appendix

Calculating Your RP& Examples

Developing a Reservation Point

Step 1: Brainstorm Your Alternatives.
Imagine that you want to sell your house.
Your target point—£275,000.
What will you do in the event that you do not get an offer of £275,000? Consider as many alternatives as possible.
Developing a Reservation Point

Step 2: Evaluate Each Alternative.
Can you do without an agreement and what are the costs? Can you make the product yourself? Can you find a substitute? Can you dispose of excess?

Order the various alternatives by their relative attractiveness, or value.
If an alternative has an uncertain outcome, such as reducing the list price, you should determine the probability that a buyer will make an offer at that price.
Suppose that you reduce the list price to £265,000. Based on research, you assess the probability of an offer to be 60%. The best alternative should be selected to represent your BATNA.

Developing a Reservation Point

Step 3: Attempt to Improve Your BATNA.
In this case, you might contact a rental company and develop your rental options, or you may make some improvements that have high return on investment (e.g., new paint).
Of course, your most attractive BATNA is to have an offer in hand on your house.
Developing a Reservation Point

Step 4: Determine Your Reservation Price.
The least amount of money you would accept for your home at the present time.
You assess the probability of an offer of £250,000 or higher to be 95%.
You think there is a 5% chance that you will not get such offer and will rent it.
The probabilities always sum to exactly 100%. We have considered all possible events occurring. No alternative is left to chance.

Assess the expected probabilities of selling:
Reduce the price of your home to £265,000
\[ P_{\text{sale}} = 60\% \]
Reduce the price of your home to £250,000
\[ P_{\text{sale}} = 35\% \]
Rent the house
\[ P_{\text{rent}} = 5\% \]
Developing a Reservation Point

Value of each of these “risky” alternatives = value x probability:
Value of reducing price to £265,000 = £265,000 x 0.6 = £159,000
Value of reducing price to £250,000 = £265,000 x 0.35 = £87,500
Value of renting the house = £100,000 x 0.05 = + £5,000

-------------------------------------------------------------------------------------------------
£251,500 = OVERALL VALUE = RP

EXAMPLE: Using objective criteria

Situation: Tom’s parked car was destroyed by a truck. The car was covered by insurance, but the exact amount was to be worked out with the insurance adjuster.

<table>
<thead>
<tr>
<th>Insurance adjuster</th>
<th>Tom</th>
</tr>
</thead>
<tbody>
<tr>
<td>• We have studied your case and we have decided the policy applies. That means you’re entitled to a settlement of $6,600.</td>
<td>• I see. How did you reach that figure?</td>
</tr>
<tr>
<td>• That’s how much we decided the car was worth.</td>
<td>• I understand, but what standard did you use to determine that amount? Do you know where I can buy a comparable car for that much?</td>
</tr>
<tr>
<td>• How much are you asking for?</td>
<td>• Whatever I’m entitled to under the policy. I found a secondhand car just about like it for $7,700. Adding the sales and excise tax, it would come to about $8,000.</td>
</tr>
<tr>
<td>• $8,000! That’s too much!</td>
<td>• I’m not asking for $8,000 or $6,000 or $10,000, but for fair compensation. Do you agree that it’s only fair I get enough to replace the car?</td>
</tr>
<tr>
<td>• OK, I’ll offer you $7,000. That’s the highest I can go. Company policy.</td>
<td>• How does the company figure that?</td>
</tr>
<tr>
<td>• Look, $7,000 is all you’ll get. Take it or leave it.</td>
<td>• $7,000 may be fair. I don’t know. I certainly understand your position if you’re bound by company policy. But unless you can state objectively why that amount is what I’m entitled to, I think I’ll do better in court. Why don’t we study the matter and talk again? Is Wednesday at eleven a good time to talk?</td>
</tr>
</tbody>
</table>
EXAMPLE: Using objective criteria (cont.)

Insurance adjuster

- OK, Mr. Griffith, I’ve got an ad here in today’s paper offering an ’89 Taurus for $6,800.
- $49,000. Why?
- Let me see … $450.
- No.
- $125.

Tom

- I see. What does it say about the mileage?
- Because mine only had 25,000 miles. How many dollars does that increase the worth in your book?
- Assuming the $6,800 as one possible base, that brings the figure to $7,250. Does the ad say anything about a radio?
- How much extra for that in your book?
- How much for air conditioning? ……..(etc.)

A half hour later, Tom walked out with a check for $8,024

EXAMPLE: Negotiation Jujitsu

Jones Realty vs. Frank Turnbull

- Frank Turnbull rented an apartment in March from Jones Realty for $600 a month. When he and his roommate, Paul, wanted to move out, Turnbull learned that the apartment was under rent control. The maximum legal rent was $466 a month - $134 less than he had been paying.
- Disturbed that he had been overcharged, Turnbull called on Mrs. Jones of Jones Realty to discuss the problem. At first, Mrs. Jones was unreceptive and hostile. She claimed to be right and accused Turnbull of ingratitude and blackmail. After several long negotiating sessions, however, Mrs. Jones agreed to reimburse Turnbull and his roommate. Her tone in the end became friendlier and apologetic.

The Tactics

- Be open to persuasion by objective facts
  – Turnbull: Mrs. Jones, I’ve just learned – please correct me if I’m wrong – that our apartment’s under rent control. We’ve been told that the legal maximum rent is $466 a month. Have we been misinformed?
- Give sincere praise or support to other person - separate relationship from the issue
  – Turnbull: Paul and I understand you were doing a personal favor by renting us this apartment. You were very kind to put in the time and effort, and we appreciate it.
- Take a stand based on principle and objective criteria - separate emotion from the issue
  – Turnbull: We want to know that we didn’t pay any more than we should have. When we’re persuaded that rent paid measures up fairly to the time spent in the apartment, we’ll call it even and move out.
EXAMPLE: Negotiation Jujitsu (cont.)

• Keep returning to principle and objective criteria
  – Mrs. Jones: It’s funny you should mention fairness, because what you’re really saying is that you and Paul just want money, and that you’re going to take advantage of your still being in the apartment to try and get it from us. That really makes me angry. If I had my way, you and Paul would be out of the apartment today.
  – Turnbull: I must not be making myself clear. Of course, we could try and stay here in the apartment until you got us evicted. But that’s not the point, Mrs. Jones. More important to us than making a few dollars here or there is the feeling of being fairly treated. No one likes to feel cheated. And if we made this a matter of who’s got the power and refused to move, we’d have to go to court, waste a lot of time and money, and end up with a big headache. You would too. Who wants that? No, Mrs. Jones, we want to handle this problem fairly on the basis of some independent standard, rather than who can do what to whom.
  – Mrs. Jones: You don’t trust me? After all I’ve done for you?
  – Turnbull: Mrs. Jones, we appreciate all you’ve done for us. But trust isn’t the issue here. The issue is the principle: Did we pay more than we should have? What considerations do you think we should take into account in deciding this?

• Ask questions whenever possible - creates participation and is less threatening
  – Turnbull: Could I ask you a few questions to see whether the facts I’ve been given are right? Is the apartment really under rent control? Is the legal maximum rent really $466? Paul asked me whether this makes us parties to a violation of the law. Did someone inform Paul at the time he signed the lease that the apartment was under rent control, and that the legal maximum was $134 lower than the rent he agreed to?
  – Turnbull: I’m not clear why you charged us $600 a month. What were your reasons for charging that much?

• Check for understanding before responding - makes other person more willing to listen
  – Turnbull: Let me see if I understand what you’re saying, Mrs. Jones. If I’ve understood you correctly, you think the rent we paid is fair because you made a lot of repairs and improvements to the apartment since the last rent control evaluation. It wasn’t worth your while to ask the Rent Control Board for an increase for the few months you rented the place to us.
  – Turnbull: Now that I think I understand your point of view, let me talk with my roommate and explain it to him. Can I get back to you tomorrow sometime?
EXAMPLE: Negotiation Jujitsu (cont.)

- **Present your reasons before offering a proposal - allow listener to follow along, not get defensive**
  - Turnbull: Let me show you where I have trouble following some of your reasons for the extra $134 a month. One reason was the repairs and improvements on the apartment. The Rent Control Examiner said it would take about $15,000 in improvements to justify an increase of $134 a month. How much money was spent on improvements?
  - Turnbull: Let me show you where I have trouble following some of your reasons for the extra $134 a month. One reason was the repairs and improvements on the apartment. The Rent Control Examiner said it would take about $15,000 in improvements to justify an increase of $134 a month. How much money was spent on improvements?
  - I must admit it didn’t seem like $15,000 worth to Paul and me. The hole in the linoleum you promised to repair was never fixed; neither was the hole in the living room floor. The toilet broke down repeatedly. These are just some of the defects and malfunctions we found.

- **Present your proposal as an option for joint consideration**
  - Turnbull: Given all the considerations we’ve discussed, one fair solution seems to be for Paul and me to be reimbursed for the amount of rent we paid in excess of the legal maximum. Does that sound fair to you?

- **Make it easy for them to say yes – “we want to work this out”, accommodate them when possible**
  - Turnbull: If you and I could reach agreement now, Paul and I would move out immediately. If we can’t reach an agreement, the hearing examiner at the Rent Control Board suggested that we stay in the apartment and withhold rent and/or sue you for reimbursement, treble damages, and legal fees. Paul and I are extremely reluctant to take either of these courses. We feel confident we can settle this matter fairly with you to your satisfaction and ours.
  - Mrs. Jones: When do you plan to move out?
  - Turnbull: As long as we’ve agreed on the appropriate rent for our time in the apartment, we’d be happy to see if we can leave when it’s most convenient for you. When would you prefer?

Fisher & Ury, Getting to Yes
Dr. Caneel Joyce
Executive Summer School

Department of Management