

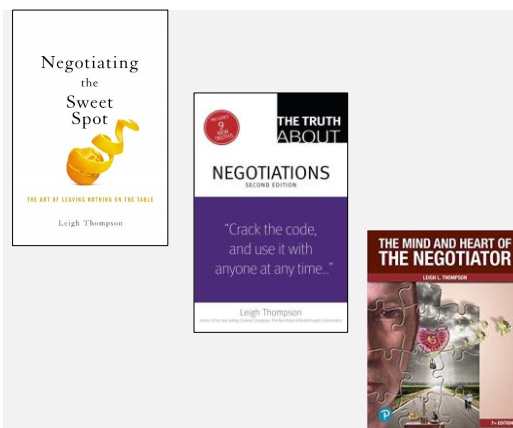
# High Performance Negotiation Skills

EAGL ALUMNI GROUP  
OCTOBER | 2023  
LEIGH THOMPSON

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## Dr. Leigh Thompson

- Professor Management & Organizations, Kellogg School of Management
- Activities:
  - Executive, MBA, PhD & on-line teaching
  - Director, Kellogg Teams & Groups Center
- Research areas:
  - Negotiation
  - Teamwork
  - Creativity
  - Virtual communication



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# Negotiation Performance

## *Satisficing vs. Optimizing*

### Research fact:

- Managers fail to reach *win-win* solutions
- *over 80% of corporate executives and CEOs leave money on the table*
- On average, managers fail to capture > 20% of mutual gains

### Why?

- **Satisficing**: set low targets, compromise, reach minimum goals
- **Optimizing**: realize full potential

### Economics & Relationships both important

### Course goal: Monitor & Improve your negotiation skills



## Survey Results:

### *October 2023*

#### WHO IS AT THE TABLE ?

- ✓ Employees (dept heads, union reps, production manager)
- ✓ Customers (wholesale nursey buyers...)
- ✓ Contractors (e.g., landscape)
- ✓ Suppliers
- ✓ Vendors (salespeople)
- ✓ Owner of business (building manager)

#### WHAT IS ON THE TABLE ?

##### INTERNAL:

- Compensation (salary, wages, benefits, PTO)
- Acceptance -- new ways to do things

##### EXTERNAL:

- Price (discount); terms of payment
- On-time delivery
- Scope & Service
- Quality specifications
- Credits

## Key Factors that make Negotiations Challenging

### *October, 2023*

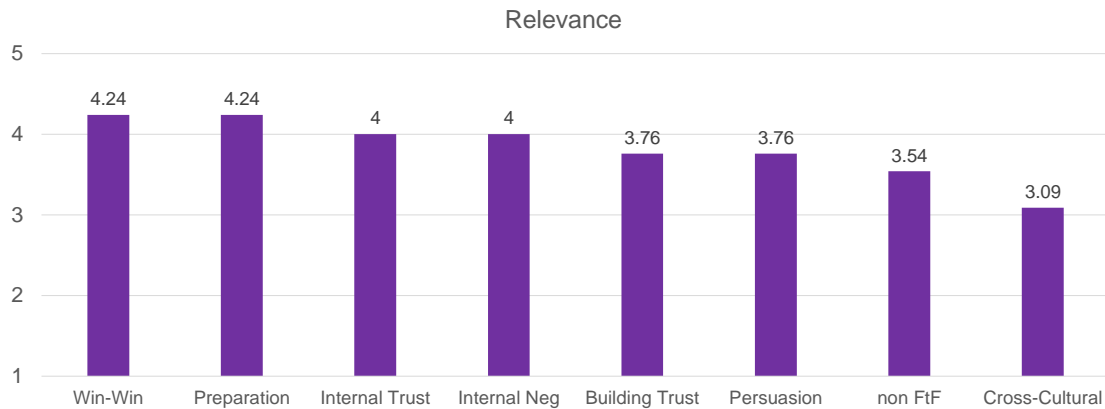
- ☐ Competition; not knowing what the competitive pricing is...
- ☐ We typically make our “best offer” up-front; we cannot offer more when they don’t accept
- ☐ Reality of losing a large customer (question our own costs... how can competitor be double-digit lower % prices?...)
- ☐ Negotiating with someone you consider a friend (customer, employee); don’t want to burn bridges
- ☐ Maintaining profitability on already narrow margin items
- ☐ Not having good alternatives
- ☐ Our buyers focus on cost of product instead of who it is coming from; customers only “price-driven” not consider our “value propositions”; want to make the sale, but not devalue our product or service
- ☐ Production schedule optimization – mandate to hold customer margin whole
- ☐ Our customers may not be able to get a price increase from their customers...

## What I’m Looking for...

### *October, 2023*

- Real-world skills versus “theory”
- How to open up (start) negotiations
- Learning how to “sell” ideas in negotiation; how to persuade the other party and make it feel like they have won
- How to make negotiation “win-win” for both parties; value-creating negotiation
- Leverage and long-term relationships
- How to have long-term success, not just one season
- How to make smart concessions and identify and leverage value therein
- Value-propositions to defend our pricing, knowing that large customers have lower prices from competitors
- Dealing with difficult people and personalities

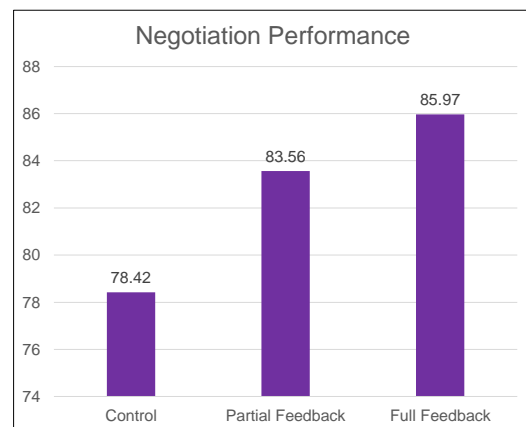
## Survey Feedback: *Most Wanted Skills* October, 2023



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## Making the Most of Negotiation Training

- Simply engaging in negotiations (*such as on the job*) does NOT appreciably improve negotiation performance
- Why? “real life” negotiations do not provide feedback
- This class:
  - Research-based (science of negotiation)
  - Experiential: 4 keys
    - ✓ Prepare
    - ✓ Perform
    - ✓ Feedback
    - ✓ Reflect & Apply

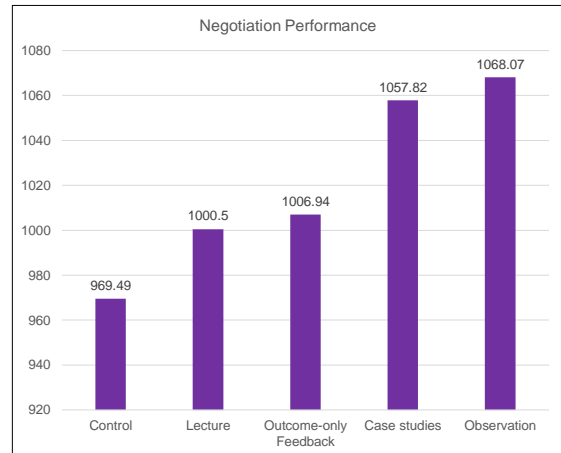


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## Negotiation Performance: *The Art & Science of Measurable Improvement*

### Research on Negotiation Performance & Training:

- Nearly anything is better than “control” (nothing)
- “lecture” is not great..
- Experiential Learning is ideal...
- Case studies are VERY helpful...
- Observation is VERY helpful

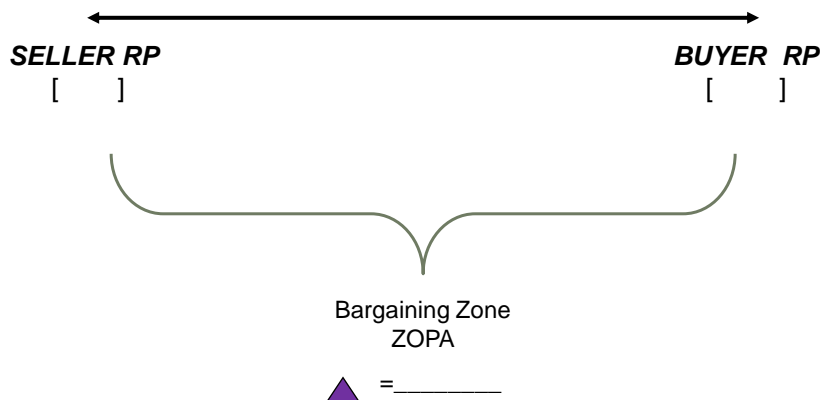


Nadler, Thompson, & Van Boven. Learning negotiation skills: Four models of knowledge creation and transfer. *Management Science*, 49(4), 529-540.

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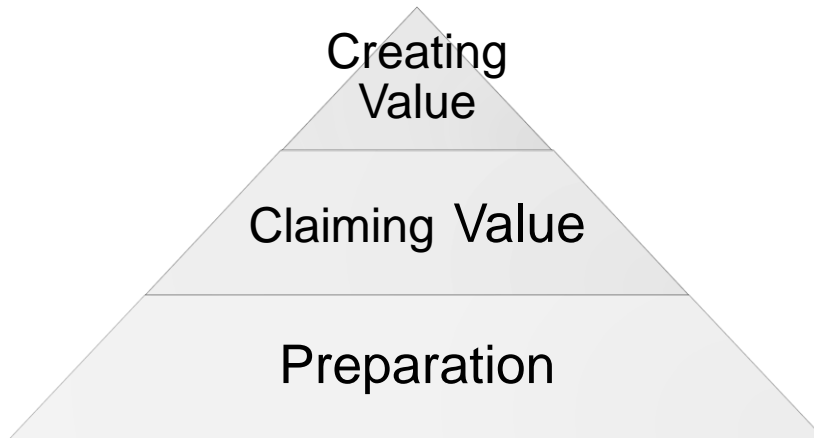
## ZOPA: *Zone of Possible Agreements*



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## High Performance Negotiation Skills



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## Preparation Toolbox

- ✓ Know your *BATNA*
- ✓ Determine your *Reservation Price*
- ✓ Research the counterparty's *BATNA*
- ✓ Assess the *ZOPA*
- ✓ Set a realistic but optimistic *target*



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## B.A.T.N.A. *Best Alternative to a Negotiated Agreement*

▪ **KEY QUESTION:** "What are you going to do if you do not reach a deal with this person?"

▪ BATNA = "Plan B"

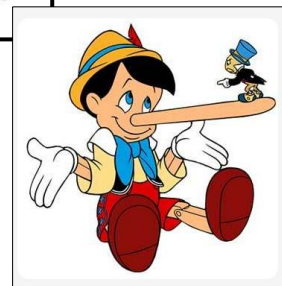
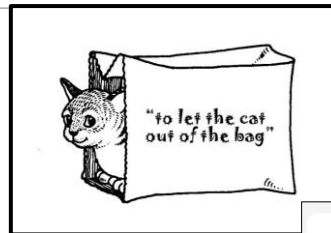
▪ BATNAs determine **leverage** in negotiation:

▪ Party with more attractive "plan B alternative" has an economic advantage

▪ Startling number of negotiators fall into one of 3 traps:

- do not have a clear BATNA when entering negotiation
- mistakenly reveal their BATNA to the opponent (*hoping to build good-will*)
- lie/falsify their BATNA

▪ **Best Practice:** signal that you have options without revealing their exact value



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## Quantify your BATNA *Develop a Reservation Price*

▪ Your BATNA is a course of action that you will take in the event of no-agreement

▪ Your **Reservation Price (RP)** is a quantification of your BATNA

▪ **Meaning:**

- You would be indifferent between accepting a price of "X" versus exercising your BATNA

▪ **Research:** people make two egregious errors:

- **BATNA Amnesia:** negotiators often forget their BATNA and agree to terms that are worse than their BATNA or reject proposals that are better than their BATNA (*often for emotional reasons*)
- **Attitudinal Structuring:** are unduly influenced by the opposing party who tries to (negatively) influence your BATNA



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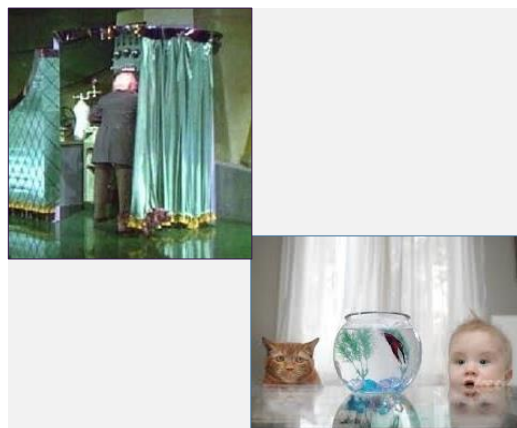
## Should you EVER truthfully reveal your BATNA?

- In general, NO, because it gives other party all the leverage
- No evidence that it improves the relationship, either
- So, is there EVER a situation in which it is wise to truthfully reveal your BATNA?
  - When negotiations are ending without agreement and both parties are exiting
  - When you would be *satisfied* if the other party simply matched your RP/BATNA



## Research the Counterparty's BATNA

- Problem: Most people fail to research the counter-party's BATNA
- Naively assume it is more attractive than it actually is
- Leads to premature concessions...
- Best Practice:
  - Do as much "legal research" as possible
  - Perspective-taking: "thinking" about the counterparty's BATNA improves outcomes

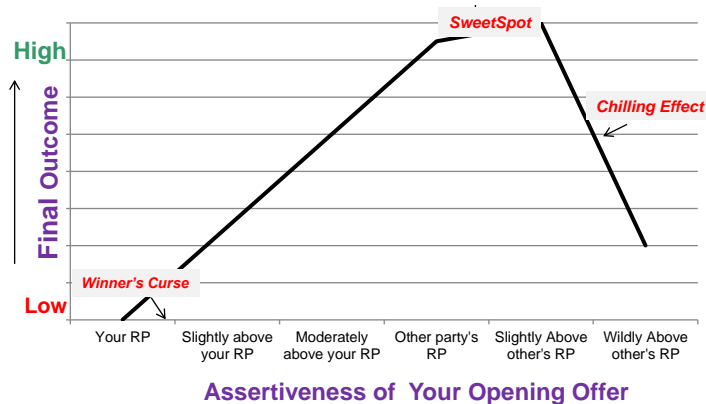




## Winner's Curse or Chilling Effect?

### Risks:

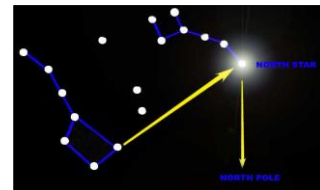
- ◆ Winner's curse: other party immediately accepts your first offer
- ◆ Chilling effect: other party insulted by your opening offer & walks away



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## Target Point: *Find your North Star*

- Your *BATNA* tells you when to walk, not when to sign
- Target: optimistic & realistic goal
- Based on:
  - Your interests
  - Market conditions/data
  - Counterparty's *BATNA*
- Opening offer: single, most important determinant of final outcomes

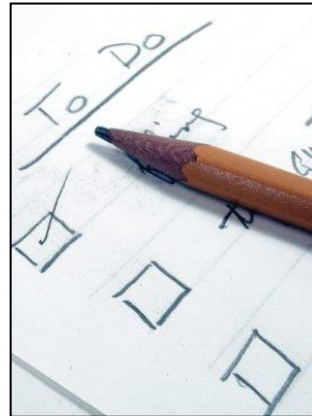


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## Toolbox:

### *How the Pro's Prepare for Negotiation*

- ✓ Optimize your BATNA
- ✓ Constantly try to improve your BATNA
- ✓ Signal that you have alternative(s) without revealing the exact value
- ✓ Do as much "legal research" as you can to learn about the other party's BATNA
- ✓ Do not get anchored by your BATNA
- ✓ Develop a target aspiration
- ✓ Plan your opening



## Should you make the First Offer?

- Anchoring-Information Model
- Intuition: let other party open first
- Research: first-mover advantage
- Why?
  - Opening offers act as "anchors"
  - Opening offers correlate as much as 85% with final outcomes
- Caveat: First-mover disadvantage\*:
  - Significant Asymmetric Information: one party has "perfect" background information and the other has none! (*pawn shop negotiation*)
  - *Offer of Resources vs. Request for resources*: warning: frame your 1<sup>st</sup> offer as an "offer" not a request – to avoid "concession aversion"
  - *Note*: late first offers more effective than early first offers

	You have good information	You do not have good information
Counterparty has good information	<i>Make first offer</i>	<i>Let other party open first</i>
Counterparty does not have good information	<i>Let other party open first</i>	<i>Make first offer</i>

## Responding to Aggressive Offers

- If counterparty OPENS with aggressive, low-ball offer...
- You run the risk of being psychologically anchored

■ Best practices:

- ✓ Resist urge to threaten to walk-away or to express negative emotion
- ✓ Resist urge to re-evaluate your target (ideal terms)
- ✓ Immediately re-anchor (*with your planned opening offer*)
- ✓ But, do not do this in a “positional” fashion
- ✓ Rather, do this in an “interest-based” fashion
- *“Thanks for sharing your ideas with me. I’ve also spent some time preparing a set of terms that would work for me. I will warn you that my terms are dramatically different from the ones you’ve sketched. But, in the spirit of recognizing the value of your time and beginning our discussion, I’d like to share them with you. Here they are:...”*



## Concessions

■ FACT:

1. # offers+counter-offers predicts win-win outcomes
2. Final settlements usually midpoint between first two offers in zopa

■ DON'T:

1. Negotiate against yourself (i.e., make “unilateral concessions”)
2. Open with an outrageous offer followed by a big concession (lose credibility)

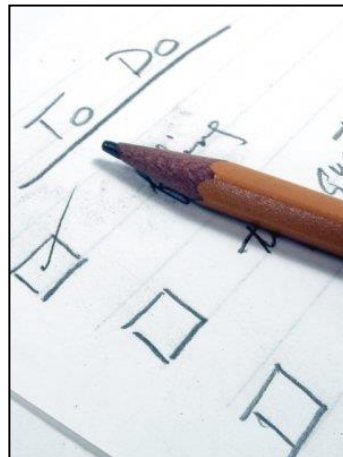
■ DO:

1. Maintain momentum (via quid-pro-quo)
2. Match, but do not exceed concession made by counterparty
3. Each successive concession should get smaller (*signal you're getting near RP*)
4. Record offers & counter-offers
5. Best to make a large number of small concessions than a small number of large concessions



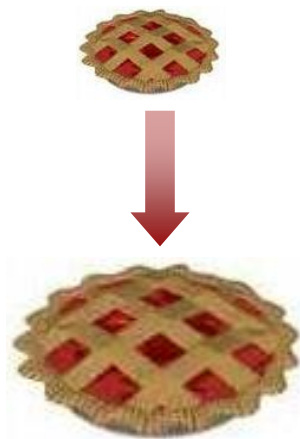
## Toolbox: *Claiming Value*

- ✓ Plan your opening offer & carry it off
- ✓ Open first (if you are prepared)
- ✓ Immediately re-anchor if counterparty opens aggressively
- ✓ Match, but do not exceed concessions made by other party
- ✓ Reduce concession magnitude to signal you are approaching your reservation point



## Value-Creation Strategies (Expanding the Pie; Win-Win Negotiation)

How can I Expand-the-Pie but **NOT** put myself at risk?





## Price Myopia

- Price is arguably the most issue in negotiations
- However, it is rarely the only issue in negotiations
- **PRICE MYOPIA**: negotiators get fixated on price and don't adequately discuss the other issues
- Price Myopia: leads negotiators to treat negotiations that contain win-win potential as zero-sum
- So, how to get past price myopia?
  - ✓ At outset of negotiation, review the "issue mix"
  - ✓ Avoid sequential (issue-by-issue) negotiation
  - ✓ Use bundling strategy (MIOs & MESOs)
  - ✓ Agree to "revisit" issues (rather than "lock-down" terms)



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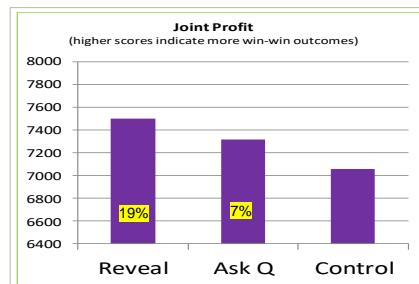
## Value-Creating Questions

DON'T	DO
<ul style="list-style-type: none"> <li>■ What's your bottom line?</li> <li>■ What's your Batna?</li> <li>■ What's your best offer?</li> </ul> 	<ul style="list-style-type: none"> <li>■ What is most important to you?</li> <li>■ What is your rank-ordering of the issues at stake?</li> <li>■ Would you rather have an increase on issue X or issue Y?</li> <li>■ If I gave you what you wanted on X, can you give me what I want on Y?</li> </ul> 

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## Reveal your Interests

- Most negotiators reluctant to share any information...
- Negotiators who reveal information about their interests and priorities improve their own outcomes by an average of 10%
- By sharing your interests you double the likelihood that the other party will reveal their interests (*reciprocity effect*)

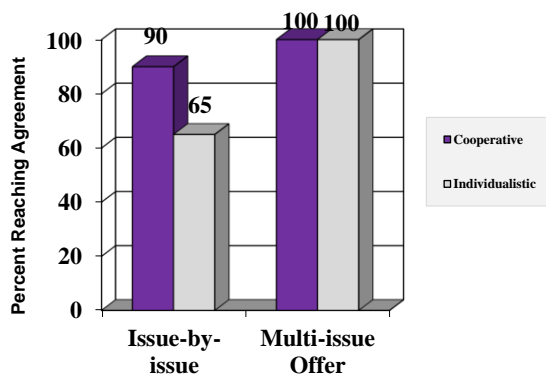


Thompson, L. Information exchange in negotiation. *Journal of Experimental Social Psychology*, 27, 61-179.

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## Multi-Issue Offers (avoid single-issue offers)



- Warning: Negotiating issue-by-issue with “individualistic” negotiators severely reduces likelihood of reaching a deal
- Solution: Making multi-issue proposals paves path toward mutual agreement (even with highly self-interested people)

Weingart, L., Bennett, R. & Brett, J.M. The impact of consideration of issues and motivational orientation on group negotiation process and outcome. *Journal of Applied Psychology*, 78, 504-517.

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# Multiple, Equivalent Simultaneous Offers (MESOs)

## What: Multiple, Equivalent, Simultaneous Offers

- Prepare 2 (or more) multi-issue proposals that are of equal value to yourself
- Ask other party to rank/choose

## Why:

- Expand options
- Move discussion away from “accept-reject” to “hot-warm-cold”
- Be “reasonably” aggressive – making panels of offers all of same value
- Learn the other party’s value-drivers
- Increases mutual gain
- Creates cooperation & trust
- May avoid bidding war

## When:

- Other party not willing to share information



# Deal Optimization Post-Settlement Settlements (PSS)

## What: After negotiators reach a deal, both parties brainstorm for mutually-better outcome with understanding that current deal is a commitment unless both are willing to change

- Explain process is mutual value creation and neither party has unilateral veto power
- Not a “do-over” but instead a “do-better”

## When:

- Parties trust one another
- Little or no costs for additional time



## Contingent Contracts: *Using Differences to Leverage Joint Gain*

■ **What:** Essentially a “bet” between parties who have different beliefs that can only be tested with time/more data

● **Warning:**

- Over-confidence bias!
- Need to ensure incentives are aligned
- Continued interaction
- Clarity and measurability

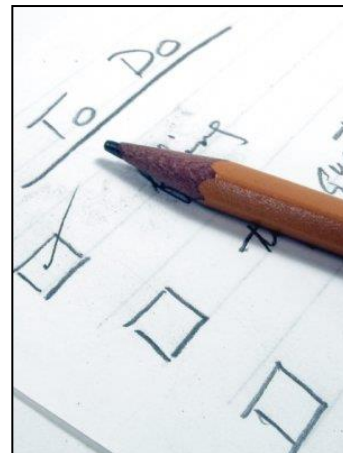


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## Toolbox: *Creating Value in Negotiations*

- Refusing to share any information severely reduces win-win potential
- Discover more than one issue and look for value-added tradeoffs
- Make multi-issue proposals
- Invite counter-proposals
- Once you reach agreement, do not satisfice: search for post-settlement settlements
- Resolve differences of opinion through contingent contracts





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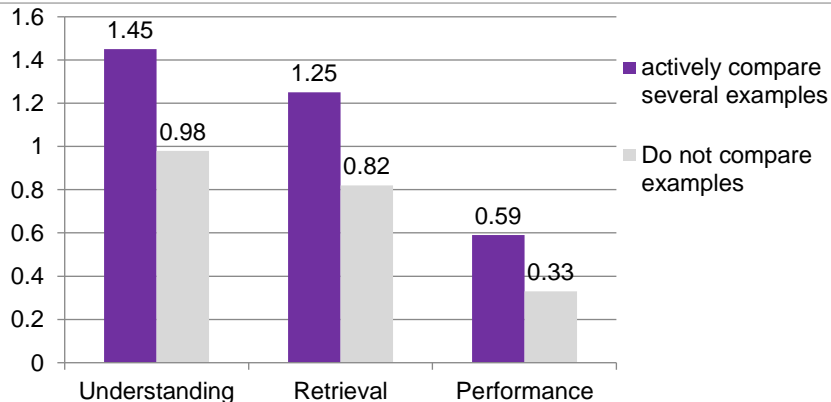


## Course Summary

Challenge 1 Preparation Skills	Challenge 2 Multi-Issue Negotiation
	
<i>Single-issue, two-party negotiations</i>	<i>Multi-issue, team-on-team negotiations</i>
<ul style="list-style-type: none"> <li>✓ Preparation</li> <li>✓ BATNA</li> <li>✓ Reservation Price               <ul style="list-style-type: none"> <li>✓ Zopa</li> </ul> </li> <li>✓ Target point</li> <li>✓ AIM model</li> <li>✓ Concessions</li> </ul>	<ul style="list-style-type: none"> <li>✓ Positions vs. Interests               <ul style="list-style-type: none"> <li>✓ Priorities</li> </ul> </li> <li>✓ Single vs. Multi-issue offers</li> <li>✓ Value-added tradeoffs               <ul style="list-style-type: none"> <li>✓ MESOs</li> </ul> </li> <li>✓ Post-Settlement Settlements</li> <li>✓ Contingent contracts</li> </ul>

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## Personal Reflection & Application to Real Life



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## Keep the Learning Alive

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Negotiating  
the  
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THE ART OF LEAVING NOTHING ON THE TABLE

Leigh Thompson