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MASTERING ART OF NEGOTIATION

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MASTERING ART OF NEGOTIATION

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Abstract:

Negotiation is both Art and science. The psychology of negotiations is now well understood. It required hard work, preparation, and communication ability. If there is an intermediary in negotiation, s/he may well facilitate the negotiations towards success. The negotiation should be open and transparent understanding the viewpoint and requirements of other party and their limitations. When negotiated on a package deal, negotiations have more chance to succeed and attempt should be made to enlarge the pie).

An Integrative negotiation process, rather than distributive or fixed pie negotiation should be attempted. Negotiations can only progress if there is **Zone of Possible agreement (ZOPA)**, which means having common area between walk away positions or bottom line of each negotiating party.

There are often multi party negotiations as there may be several interest groups involved in an issue. Just to give one example-The “composite dialogue process” used by India for Indo-Pak bilateral issues is integrative negotiation process and based on concept of principled negotiation. For commercial success of executives, art of negotiation is a must more than merely subject knowledge.

Key words #ZOPA #BATNA #Negotiations

What is negotiation?

Negotiation is trying to get what you desire which other parties are willing to give to you (For their own reasons).

A real negotiation has **three defining characteristics**. First, it centers on something perceived as a **scarce resource**. There never seems to be enough money, **so budgets are negotiated**. Time is always in short supply, so we negotiate schedules and priorities. Second, **the terms of the potential agreement can be varied**. (If the terms of the agreement are fixed at the beginning, the process is not a negotiation but just detailing or scheduling). Finally, the parties

are partially dependent upon one another – each party has more to gain by negotiating than by not negotiating.

It is important to view negotiations as win/win situations. In successful negotiations both parties gain something they perceive as valuable. And, they will work to keep up their end of the bargain. Too many people believe negotiations are based on a win/lose model.

Negotiation will proceed forward only if there is a common area called **ZOPA (Zone of Possible Agreement)**. Further a party can negotiate strongly if it has **high value BATNA** (Best alternative to negotiated agreement) because if a negotiating party has no strong alternative it has no walk away position and will have to surrender in negotiation.

In order for disputing parties to identify the ZOPA, they must first know their alternatives, and thus their "bottom line" or "walk away position."

- **Alternatives:** Parties must determine what alternatives they have to any agreement. Roger Fisher and William Ury introduced the concept of "BATNA" (Best Alternative to a Negotiated Agreement). This is the *best course of action* that a party can pursue if no agreement is reached.

For example, Ramesh might have two potential buyers for car. Mohan is willing to pay Rs 69500. Ramesh is now negotiating with Chetan. If he will pay more than Mohan (Ramesh's BATNA), he'll sell to him and if he won't pay that much, Ramesh will sell to Mohan. Likewise, if Chetan has found another car he likes for Rs 55,000, then he won't pay more for Ramesh's car than that...maybe even a bit less. Chetan's BATNA is Rs 55,000.

- **Bottom Lines or Walk-Away Positions:** BATNAs determine each side's bottom lines. If you have an alternative car available for Rs 50,000, Rs 50,000 is your bottom line. If you can sell your car for Rs 70000, that is your bottom line. If you don't do better than that in the negotiation, you'll walk away.

So, a zone of possible agreement exists if there is an overlap between these walk away positions. If there is not, negotiation is very unlikely to succeed. In fact, it will only succeed if one party either realizes that his or her BATNA is not as good as he or she thought, or

she decides for some other reason to accept the agreement, even though an alternative option might have yielded better results. (This often happens when parties do not explore or understand their BATNAs well enough.)

Identifying the ZOPA

If both sides know their BATNAs and walk away positions, the parties should be able to communicate, assess proposed agreements, and eventually identify the ZOPA. However, parties often do not know their own BATNAs, and are even less likely to know the other side's BATNA. Often parties may pretend they have a better alternative than they really do, as good alternatives usually translate into more power in the negotiations. This is explained more in the essay on BATNAs. The result of such deception, however, might be the apparent absence of a ZOPA, when one actually did exist. Shared uncertainties may also affect the parties' abilities to assess potential agreements because the parties may be unrealistically optimistic or pessimistic about the possibility of agreement or the value of alternative options.

Having a good BATNA increases your negotiating power. Therefore, it is important to improve your BATNA whenever possible. Good negotiators know when their opponent is desperate for an agreement. When that occurs, they will demand much more, knowing their opponent will have to give in. If the opponent apparently has many options outside of negotiation, however, they are likely to get many more concessions, in an effort to keep them at the negotiating table. Thus making your BATNA as strong as possible before negotiating, and then making that BATNA known to your opponent will strengthen your negotiating position.

Negotiations also are involved with Ego of negotiators, emotional issues and confidence. It is quite obvious that every time negotiations are not based only on BATNAs but also on such human factors. Quality of Information about the Walk away positions of other party (parties) and open channel communication are string ingredients to successful negotiations. One should not gift concessions immediately at one go which lowers the advantage to negotiator and it is always prudent to negotiate various issues in package as stated above to modify individual BATNAs based on only one issue. This approach is based as it attempts on enlarging the cake and giving

concessions to each other in areas, which the involved parties value more.

Determining Your BATNA

BATNAs are not always readily apparent. Fisher and Ury outline a simple process for determining your BATNA:

1. Develop a list of actions you might conceivably take if no agreement is reached;
2. Improve some of the more promising ideas and convert them into practical options; and
3. Select, tentatively, the one option that seems best.

Creating and Claiming Value

Creating and claiming value are two of the most fundamental aspects of Negotiation strategy that exist in tension with one another. In any negotiation, the parties must decide whether to be competitive, cooperative, or some of both. Value is created (or the "pie is enlarged") in negotiations through the cooperative process of Interrogative or interest based bargaining.

The competitive process of claiming value involves dividing up a "fixed pie," or the total amount of value available to the disputing parties. This process is most closely associated with distributive bargaining, in which each side tries to **get as much of the pie as possible**. The more one side claims, the less the other side gets. This is also known as a "win-lose" negotiation. To claim value in a negotiation, you use competitive tactics to try to convince the other side that he wants what you have to offer much more than you want what he has. Some tactics for "winning" at distributive negotiation include starting high; conceding slowly; exaggerating the value of your concessions; minimizing the value of the other's concessions; concealing information; arguing forcefully for principles that imply favorable settlements; making commitments to accept only highly favorable agreements; and being willing to outwait your opponent.

The Art of Negotiating

Much of the work involved in a successful negotiation occurs long before you ever sit down with the other party. A well-prepared negotiator fully understands his own, as well as his opponent's goals and objectives and important information about opposite party.

1. **Know your walk away position in advance.** Prepare for an adverse outcome. If you are not able to negotiate successfully with the other party, how else can you address your needs? You must know all your options before you sit down to negotiate. The party with the best walk away position will always have a pronounced advantage.

2. **Prepare for the negotiation from the other party's perspective.** People do things for their own reasons, not yours. Most negotiators only prepare for their own needs. You are not prepared to negotiate until you can state the other party's case better than they can. This gives you tremendous understanding and leverage.

3. **Open Mind:** Always enter the negotiation with an open mind. Look for a better deal for both parties (win-win negotiation).

4. **Negotiate trust first:** If people don't trust you, they probably won't share information with you. If people share information with you but don't trust you, anything they say will be designed to deceive or mislead you.

5. **Speak first.** The party that speaks first in a negotiation sets the tone for the negotiation. Have your opening remarks scripted and rehearsed. This allows you to establish a positive tone for the negotiation.

6. **Ask questions.** The party that asks the most questions in a negotiation determines its content and direction. You control a negotiation not by talking, but rather by asking questions.

7. **Focus on enlarging – not dividing – the pie.** Add elements to the negotiation; do not subtract from it. There are always things that you can do for the other party that won't cost you very much, but will have a high value to them.

8. **During the negotiation, make sure the other party understands the items upon which you agree.** Win/win outcomes are built on agreement, not disagreement. Build a strong foundation for the deal. The more items you agree upon, the harder it will be to walk away from the items that separate you. Significant areas of agreement encourage flexibility when addressing disagreements. To make things nonnegotiable, put them in writing. People argue with people. They do not argue with printed documents. Once agreements reach written form, they take on a life of their own.

9. **Check your ego at the door.** More negotiations are destroyed by ego than any other factor. Any time negative emotion enters into an exchange, the conversation may continue, but communication stops. You can always tell when a negotiation has

become ego-driven. People say things like, “It’s the principle.” When people say this, they are acting emotionally, not rationally.

10. **Don’t stop at the first acceptable outcome.** If there is one good outcome, there is a second. And, if there is a second, there is a third, and so on. Try to get the best possible outcome, not merely an acceptable one. The mistake that most negotiators make is stopping at the first outcome they find acceptable.

11. **Never allow a negotiation to boil down to one issue.** If it is an important issue to you, you’ll be setting yourself up for a win/lose outcome if you focus on just one issue.

12. **Never pre-negotiate with yourself.** “Pre-negotiation” is the process of developing a proposal and then reworking it (for example, to lower the price or change terms), before you present it to the other party. The problem is that the concessions you make with yourself have no value to the other party. All you are doing is giving away your bottom line.

13. **Make concessions the right way.** Never make a concession the minute you know you can make it — use time to add value. A quick concession to a win/lose negotiator is viewed as a sign of weakness.

14. **The Cultural and Linguistic Differences matter a lot**
We should also keep in mind that linguistic and cultural differences make a lot of impact on way we negotiate and attitudes maintained for example an American dealing with Japanese or an Indian dealing with a Nigerian or French businessmen. It is entirely a different subject but negotiators must learn basics, in major deals to be done

Practical Example to conclude: We were to buy Modern Dairy Process equipment from a reputed manufacturer based at Pune India. It is a multinational company. Idea was how to negotiate with virtually a oligopoly sector of just 3 brands in industry. Their cost was comparatively lower but still appeared high. So what I did was to visit the plant and during visit assessed what is their order load and utilization of facilities and how much they are in need of booking businesses. During conversations I got the idea their order book is zero at that time due to recessionary trends. Second part was to assess manufacturing cost of the plant and fair price it should have. Hence finer details were asked about feature material of construction type of quality standards and weight of vessels and length of piping etc. Meanwhile contact was maintained and meetings kept going with sales manager level

officials. At that time there was no internet and hence difficult to contact fast equipment and vessel manufactures but it was arranged in 2 months time with price quotations of key equipment and stainless steel involved in fabrication. A rough costing was done to arrive at range of manufacturing cost and delivery.

Final negotiation meeting was called but postponed after arrival of senior most officers. Idea was to bring their morale down especially in recession period and create desperation to weaken their negotiation strength. An assessment was made to arrive at range of price they would accept based on incremental costing and estimates of their overheads cost. So now we were ready with all summary figures, competitive price and technical features chart. Please note that it is difficult to negotiate with MNC manufacturer as both sides experts are there. It is easier to deal with a customer or a Dealer.

The negotiation was interrupted many times, off the subject chats were made and good hospitality was provided generating enthusiasm of getting order if rice was slashed. We had asked for the MD to come in person. When senior most people join negotiation it becomes more important to strike the deal as prestige is also involved. The meeting was held in buyers HO rather than at supplier's office.

Finally the price was got slashed to 60% of what was quoted. It was virtually without profit for the supplier as they needed badly a prestigious clients order to continue plant operations and get more orders on strength of this

One can easily see all kinds of points discussed above happening. Like BATNA and ZOPA, psychological game, calculations and hard work to prepare for negotiation and meetings management. Only the payment schedule of supplier was accepted as it is to give relaxation and act cooperative

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