Negotiation Mastery

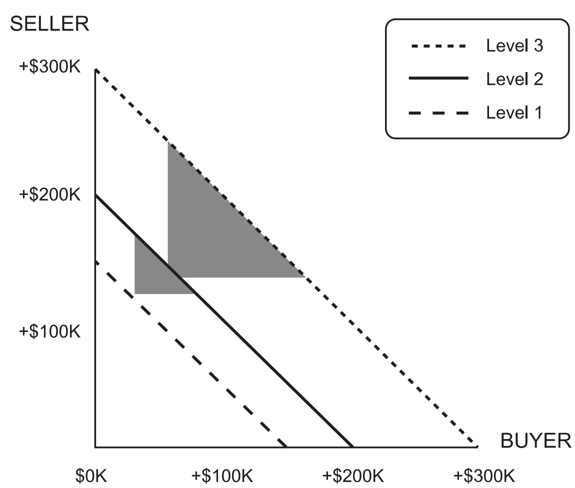
Module 2 Advanced Negotiation Analysis: Creating Value

In the first module we explored concepts that are fundamental to any negotiation, whether simple or complex: BATNA, WALKAWAY, and ZOPA. You saw their importance again in the Rijas-Vericampos negotiation here in this module. But because this was a multi-issue case, you were introduced to another key concept: *value creation*.

When price is the only issue to resolve, parties' interests are diametrically opposed: if one of them does better, the other inevitably does worse. Fortunately, that's not the case when several issues are in play - even with opposed interests on each of them. Trading across those issues nevertheless can generate mutual gain. That's the idea behind so-called "win-win" negotiation.

There's a critical caveat, however. Value creation requires understanding how the priorities of the parties can be dovetailed, but unilateral disclosure of interests raises the risk of exploitation. Thus there's an inherent tension between creating and claiming value.

This can be shown graphically. In multi-issue transactions, the ZOPA can be described as an area charted by rising value vertically to one party (going up) and improvement for the other horizontally (moving to the right). Mapping it this way allows us to see suboptimal deals where the welfare of both parties could be potentially improved. Each one, of course, will be pulling in somewhat different directions. If they pull too hard, they may break the deal apart. If one of them doesn't pull at all, the other will secure all the gains.



Key Concepts and Techniques

1. **Sources of value creation.** It may sound paradoxical, but value creation in negotiation requires finding *uncommon* ground, areas in which the parties have differing preferences or perceptions. These include possible differences in:
    a. **Valuation.** People's need for a particular item or service may differ, as may their resources. For example, if someone likes the antique clock that she owns, but another person absolutely loves it, having the latter buy it should leave both better off.
    b. **Time horizon.** Countless loans are made every day between borrowers who don't have cash on hand for a new home or car, but who are willing to pay installments, including interest over time…
    c. **Expectations.** Deals are easy when an owner of an asset thinks its value has peaked finds a buyer who is convinced its worth will continue to grow. Basically, that's a case of a pessimist selling to an optimist. It's even possible for an optimist to sell to a pessimist, if a contingency clause is included, adjusting the ultimate deal depending on performance.
    d. **Risk tolerance.** Parties may share the same expectations for the future, yet still make a successful deal if one of them is more willing to bear the risk than the other. That difference can be due to temperament or circumstances, where one of the parties can balance a portfolio of holdings (as do insurance companies).
2. **Barriers to agreement.** The fact that there is a potential value to be created in a negotiation does not guarantee that it will be maximized or even achieved at all. One or more things may get in the way:
    a. **Lack of creativity.** Having a zero-sum mindset can be a self-fulfilling prophecy. Creative negotiators are good at seeing opportunities in what others might regard as stalemates.
    b. **Tactical miscalculation.** As we saw in the prior module, sometimes there is psychological advantage in anchoring boldly (by demanding a lot, or only offering a little). That can backfire, however, if the other part mistakenly believes the proposal is genuine—or insulting.
    c. **Poor process management.** If negotiators lock themselves into dealing with one issue at a time, they inadvertently trap themselves in a series of win-lose transactions. Value is created only if parties consider packages of two or more issues simultaneously.
    d. **Relationship problems.** Distrust hampers value creation. It isn't always easy to tell whether a demand is legitimate or merely a bluff. Likewise, there may be doubts about whether a party will deliver on his or her promises. Incentives, like penalty clauses, sometimes address such issues.

3. **Preparing for value creation.** Before and during negotiation it is important to:
    a. **Weigh your tradeoffs.** Identify and rank your priorities. Decide how much you would be willing to sacrifice on a particular issue to get a greater value on another.
    b. **Establish a baseline.** Formulate a package that you would be willing to accept, though barely. Now imagine two other packages that would be no better—but no worse—than the first one. This enables you to make on the spot decisions as you negotiate.
    c. **Set a stretch goal.** What would be a plausible best-case scenario; what other packages would be just as good? Have a bold, but plausible objective.
    d. **Consider your counterpart's likely priorities.** Carefully consider different scenarios so that you can test and refine your assumptions as the negotiation unfolds.

Summing up and Looking Ahead

In the Unshrinkit case you saw how Des Stolar and Nate Barbera used negotiations to launch and grow their Unshrinkit business. They made an agreement with a supplier, but when there were performance problems, they had to negotiate an exit. They ultimately found a better one, though there were some hard issues along the way. Then, of course, there was the high drama of negotiating on *Shark Tank*. No less important were the deals they subsequently made for foreign distribution.

The common element in all their negotiations was the importance of relationships. That's a theme that you'll explore in greater depth in Module 3, which comes next. You'll also get to see how emotion plays a critical role in the process. We hope you're already putting what you are learning to good use in your professional and personal lives.