**BATNA and Risky Negotiation Tactics**

**BATNA: Negotiation examples involving leveraging your best alternative away from the table to reach an agreement at the bargaining table**

**By** [**PON Staff**](https://www.pon.harvard.edu/author/pon_staff/) **— on July 10th, 2018 /** [**BATNA**](https://www.pon.harvard.edu/category/daily/batna/)

Your BATNA is your “best alternative to a negotiated agreement.” Expect that your negotiating counterpart has one going into a negotiation, and so should you. Below is a good [BATNA negotiation example](http://www.pon.harvard.edu/tag/batna-negotiation-example/) involving how to leverage your away-from-the-bargaining-table options and the risks inherent with such a [negotiation strategy](http://www.pon.harvard.edu/tag/negotiation-strategy/).

Negotiation Coach Ian Larkin, Harvard Business School professor, explains in a Q&A from our newsletter:

**Question:**

*One of my company’s suppliers recently lost its only other big customer. Our contract comes up for renegotiation next month.*

*I know the supplier can’t afford to lose my business. In fact, it faces bankruptcy if I don’t continue our relationship.*

*I have a good idea of the supplier’s cost structure. Should I simply demand that it sell to me at cost, perhaps plus a small profit margin?*

*We’ve been very happy with this supplier.*

**Leveraging Your** [**Best Alternative to a Negotiated Agreement**](http://www.pon.harvard.edu/tag/best-alternative-to-a-negotiated-agreement/)

In the example above, the BATNA in this situation would be keeping the relationship with the supplier at the existing rate if they don’t budge on price. Here’s how Larkin suggests approaching this sensitive issue and avoiding the [WATNA](http://www.pon.harvard.edu/glossary/watna/) (worst alternative to a negotiated agreement), which would be damaging a long-standing relationship with the supplier, and having the supplier chose to close their doors rather than take a less than savory deal.

**Answer:**

When you appear to have all the bargaining power, it’s tempting to make take-it-or-leave-it offers that appear reasonable.

Many impartial observers would consider the offer you’re contemplating to be objectively fair, for example, because your supplier would not lose money and has little choice but to accept your terms.

In other words, you have all the power in this negotiation, and it seems as if your supplier will realize this fact and accede to your proposal.

However, I usually urge caution in bargaining situations such as this.

In a seminal series of experiments, negotiation researchers have found that perceived fairness, not impartial analysis, often drives the behavior of the powerless party in such cases. In experiments using the “ultimatum game,” one person (“the proposer”) is endowed with a certain amount of money—say $10.

She then must propose a split of the money to another person (“the responder”), who must either accept or reject the offer. If the responder rejects the offer, neither side gets any money.

Economic analysis suggests the responder should accept any proposed split because a rejection would leave both parties with nothing.

Recognizing this, the proposer should offer only a small amount of money to the responder, such as $1 out of $10.

Yet people behave very differently from this prediction.

Well over half of responders who receive only a token offer from the proposer reject it. Also, proposers typically offer nearly 40% of the money, suggesting they recognize that responders are likely to reject small offers.

Across cultures and even when substantial sums of money are at stake, the results do not change significantly.

Neuroscientists have shown why this may be the case. In their negotiation studies, participants wore devices that scanned their brain activity while they played the ultimatum game. When responders received an offer they perceived to be fair, the logical, planning parts of their brains lit up with activity.

When responders faced a very small offer, the emotional parts of their brains, which handle feelings such as disgust, repugnance, and conflict, lit up.

As this research demonstrates, we often have strongly negative, emotional responses to proposals that leave us with very little of the value from a relationship, no matter how fair such offers are from a rational economic perspective.

**Avoiding a WATNA when calculating your BATNA**

To avoid the emotional cost of accepting an offer that gives us very little, we often react self-destructively. For example, private equity companies report that retailers facing bankruptcy often choose to close their doors rather than accept a low offer that would leave the owners better off.

In your case, the supplier might reject your terms and risk bankruptcy rather than ceding almost all the value of your relationship to you.

Just because you have all the power in your upcoming negotiation doesn’t mean you should squeeze all the value from your supplier. This is especially true given that you have good relations with the supplier and want to work with the company in the future. Of course, you’re certainly within your rights to request a price reduction from the supplier. When doing so, consider tried-and-true [negotiation methods](http://www.pon.harvard.edu/tag/negotiation-methods/) such as justifying your request and probing to learn your supplier’s interests—perhaps, for example, a long-term contract that frees it from its current threat.