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1. Should a seller know the "full" cost of a buyer's purchase? Why? What does the full cost consist of?

Full cost of a buyer's purchase consists of the money spent, the time spent, the resources used, and the opportunity cost of the purchase. The money spent on the item is obvious. If the item costs a lot of money, the buyer may spend a significant amount of time researching alternative items that he may have purchased instead. An additional cost is the resources used in the process of making the purchase. The buyer may have used his Internet connection, used his phone, or had face-to-face discussions with people about the item prior to the purchase. These costs, the money, time, and resources, can be considered an investment in the item that was purchased. Another cost of the buyer's purchase is the opportunity cost, which is what the buyer gave up in order to purchase the given item. Opportunity cost includes the alternative items that the buyer could have purchased instead. It also includes the time invested that could have been spent doing other things. Additionally, the buyer could have used his computer and Internet connection, and phone for purposes other than researching this purchase.

If a seller wants to make as much profit as he possibly can, it would be of great help for him to know the full cost of a buyer's purchase. This information can aid the seller in his negotiation with the buyer. In negotiating the price of a car, the car salesman is better equipped to keep the price higher if he has an idea of how much money the buyer is willing to spend. If, during the course of their negotiation, the buyer reveals the amount of research he has done in his search for an automobile, the seller can estimate how much time and how many resources the shopper has invested in his potential purchase. With knowledge of the potential buyer's opportunity cost, the salesman can place emphasis the value of the car. The salesman can speak of the benefit the car will have in the buyer's life over the other potential purchases at other dealerships. Knowing the buyer's full cost aids the seller in making the buyer think and feel that they are making a wise purchase. This information is powerful to the seller accomplishing his goal.

2. Should a negotiation begin six months before it reaches the table? Why?

If the opportunity is available, initial negotiations should begin six months prior to the negotiation reaching the table. At the very least, initial discussions could be had to achieve familiarity between the parties. Although negotiations between nations require research, most likely that research happens on a daily basis all the time. If a trade negotiation is scheduled to happen in six months, it may help one or both nations to begin initial negotiations immediately. Doing so can help each side understand the expectations of the other. These expectations can be considered during the ensuing months prior to the major meetings. Additional negotiation can be arranged if either side wants to change expectations. Moreover, priorities for the nations may change, which also potentially change expectations. If the nations avoided meeting until the official negotiations happen in six months, very little progress may be accomplished at those negotiations. By establishing relations and creating a process for negotiating, the two nations can accomplish more than they would by waiting.

3. Why do assumptions influence behavior?

Assumptions influence behavior, because they greatly affect an individual's judgment of different situations and people they encounter. Assumptions are formed on the basis of perceptions, which influence behavior. (Lewicki, Barry, & Saunders, 138) People behave in situations based on the assumptions they form. People prefer to be comfortable, and when they develop thoughts on different circumstances, they become predisposed to stick to those thoughts.

Their thoughts are a comfort zone, and they form biases or assumptions. Since assumptions are thoughts, and people act on their thoughts, they will, thus, behave on the basis of their assumptions.

4. How do we become trapped by our assumptions?

We become trapped by our assumptions for different reasons, such as resistance to change, lack of evidence, laziness, or initial prejudice. People have developed some assumptions over time and are not so easily convinced to change those assumptions. They are stubborn, willful, or resistant to change. They may cling to their assumptions, because they have always believed in those assumptions. These assumptions can lead people to establish an initial prejudice against a situation, circumstance, or even another person. They refuse to move away from these assumptions and become trapped by them. A refusal to modify assumptions based on new and better information can constitute a form of laziness. It's easier to keep the same thought processes than it is to rethink them and consider new ideas. If there's a lack of evidence for a counter-assumption, people will readily allow themselves be trapped by their assumptions.

5. What are some bad assumptions buyers make?

Buyers assume that a product or service should always be less than its price, which is also called the endowment effect. (Lewicki, Barry, & Saunders, 159) They believe that everything they consider purchasing should be a good deal. A common theme among buyers is that a person gets what they pay for. This theme indicates that buyers will always get value equal to the money that they spend. However, this assumption is not always true. A lot of cash can be invested in something that does not return the value that was expected. Buyers who research medical conditions online might go to the drug store and buy expensive over-the-counter medicine but the medicine ends up not working as well as similar medicine priced lower. Buyers also make the bad assumption that sellers will always care about the value that is put into the product or service. Sometimes, the seller is having a bad day and just going through the motions until they can get to the weekend.

6. What are some bad assumptions sellers make?

Sellers assume that a product or service should always sell for a higher price than buyers are willing to pay, which is described by the endowment effect. (Lewicki, Barry, & Saunders, 159) Sellers assume that buyers will view an item at the same value level as they do. An over-arching bad assumption is that the seller assumes there is even a market for what he is selling. Perhaps the market of buyers he thought would be interested in what he has to sell does not really exist. Many times on eBay, items are listed for sale, but the auction ends without any buyers. Even though those eBay items are sometimes listed for reasonable prices, no bids have been made on them.

7. How good are estimates?

Estimates are good if they are based on information of both sound quality and sound quantity. When someone is asked for a good estimate, they are really being asked for information that is as close to reality as possible. Estimates are good if they have commitment from the people doing the estimating. Estimates are good if much background work is performed to derive them. Having a lot of data to analyze can help to develop a good estimate. It can be said that estimates are only as good as the data on which they are made. Moreover, estimates are only as good as their unbiased and objective nature, as they should be based on data, not someone's opinion of circumstances. An estimate made in a manner of subjectivity is not a good estimate. In fact, such an estimate is not an estimate at all and is really an opinion. Estimates are not much good if they are simply guessed without having been given much thought or research. Estimates given based on what someone wants to accomplish are really targets. (McConnell, 7) Also, estimates are only as good as how useful they are. For example, if an estimate is based on out-of-date data, then they may not provide the information that is needed for negotiating.

8. Can you trust your perceptions?

Perceptions can be trusted to an extent if they are rooted in reality. If perceptions are based on past events, they can aid an individual in judging situations. Perceptions help prevent individuals from engaging in harmful activities. People can use perceptions to avoid situations that could adversely affect them. Trusting perceptions is necessary when faced with risky circumstances. Experience, research, and knowledge can all contribute to making an individual's perception realistic. Perceptions are trustworthy when the individual is willing to accept that they may be wrong. This humility means that perceptions can be changed or modified based on new information. Trustworthy perceptions require thought as to why they should exist. For example, a manager may perceive an employee to be lazy based on observations over a certain amount of time. These observations are based in reality, making the perception of the employee as lazy valid and trustworthy.

At other times, perceptions cannot be trusted. Perceptions cannot necessarily be trusted when they are based on rumors, other individuals' vague judgments, or compromised information. These second-hand, unverified sources render perceptions invalid. Perceptions also may not be trustworthy, because they may be formed without much thought. Perceptions may not be trustworthy, because they might be formed early and based on a complex environment.

Complex environments make it difficult to process all the information that is encountered. (Lewicki, Barry, & Saunders, 139) Everyday, people judge why the Dow Jones Industrial Average and the NASDAQ go up or down. With the world's markets creating a highly complex environment, it is very difficult to understand everything that is happening. Because of this chaos, people try to perceive what the entire market is doing based on a few statements. These perceptions should be treated carefully, as the world's markets are based on many decisions made daily. Due to stereotypes, projections, selective perceptions, or the halo effect, perceptions are not trustworthy, because they create perceptual distortion. (Lewicki, Barry, & Saunders, 159) These mental barriers allow people to perceive situations and other people from a clouded viewpoint, or perceptions not based in reality. Rather, these perceptions are based in people's warped realities. Another reason why perceptions cannot necessarily be trusted is that they may be based on beliefs, which could be based on incredible information. (Lewicki, Barry, & Saunders, 159) People may never think to question the source of the invalid information and go about their business believing that what they perceive is true. A contributing factor to distrust of perceptions is ownership of an item, because it artificially inflates value. (Lewicki, Barry, & Saunders, 159) People want to believe that the things they own are worth more than the things owned by others. When they initially set prices for selling things, often those prices are higher than what anyone would actually pay. This overrated perception of worth is based on individuals' inflated sense of themselves. These perceptions cannot always be trusted. Furthermore, false perceptions can be based on emotion. When people are depressed or ebullient, they can easily change their perceptions instead of staying rooted in reality. When people are in love for the first time, they often allow the emotion to cloud reality, creating the perception of the other person that they want to see. Later on, when those perceptions are removed, people wish they hadn't trusted their perceptions at the time.

9. Why should a seller never give price breakdowns?

A seller should not give price breakdowns, because this information gives the buyer ammunition with which he can negotiate a lower price. A price breakdown reveals how much margin exists between cost of production and the price assigned to the good or service. This margin is the profit that a seller will make. If a buyer found out the actual cost of production, he would want to negotiate with the seller for a lower price or take his business elsewhere. The seller would lose business from this buyer and potentially other buyers if word of mouth spread about his pricing strategy.

10. How can a seller avoid giving price breakdowns?

A seller can use different tactics to avoid giving a price breakdown. The seller can simply provide the buyer with the price that a good or service is available for sale. Doing so, the seller can hope that they buyer will just accept the price and pay it. Another method for sellers to avoid giving price breakdowns is to create a company policy that prevents employees from revealing costs and profits of products and services. Breaching this policy can result in termination of employment. Upon hiring employees, the company can make them agree to keep the company's pricing strategy private.

References

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McConnell, S. (2006). Software Estimation. Redmond: Microsoft Press.