NEGOTIATION STRATEGY

NEGOTIATION STRATEGY
CEMS MIM Programme
1st Semester, 2024/2025

Prof. Luís Almeida Costa
Nova School of Business and Economics

COURSE OVERVIEW

1 – INTRODUCTION TO COMPETITIVE BIDDING

2 – SINGLE-ISSUE NEGOTIATIONS

Simulation: Deal Maker™

3 – PACKAGE DEALS

4 – INTERNAL NEGOTIATIONS

5 – DEFINING THE ARCHITECTURE OF COMPLEX AGREEMENTS

6 – MANAGING ONGOING RELATIONSHIPS

7 – MASTERING PROCESS FUNDAMENTALS

DEAL MAKER™

Unique Features

- **EVOLVING BUSINESS RELATIONSHIP**
- **INFORMATION IS CRITICAL**
- **NEGOTIATE CREATIVE DEALS**
- **INTERPERSONAL DYNAMICS**
- **360º FEEDBACK**
- **PERSONAL DEVELOPMENT**

NOVA SCHOOL OF BUSINESS & ECONOMICS

INTRODUCTION TO COMPETITIVE BIDDING

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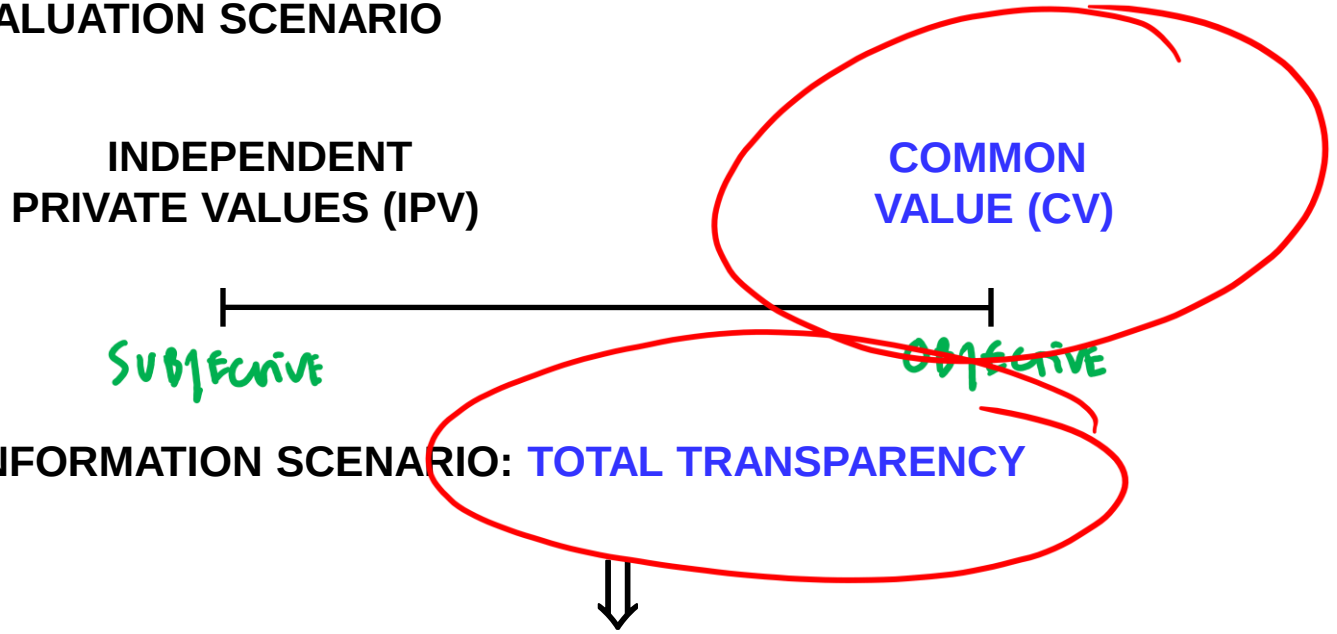
EXERCISE - *BIDDING FOR A DOLLAR* (*)

IN "BIDDING FOR A DOLLAR" THE AUCTION IS VERY EFFICIENT! WHY?

1 - VALUATION SCENARIO



2 - INFORMATION SCENARIO: TOTAL TRANSPARENCY

IF THESE TWO CONDITIONS ARE MET, AUCTIONS ARE VERY EFFICIENT

(*) *Acknowledgement: This handout is based on the teaching notes of Professor Ingemar Dierickx, which are used with his kind permission.*

STANDARD AUCTION FORMS

1 - ENGLISH AUCTION

2 - DUTCH AUCTION

3 - FIRST-PRICE SEALED-BID AUCTION

4 - SECOND-PRICE SEALED-BID AUCTION (VICKREY AUCTION)

ENGLISH AUCTION

OPTIMAL STRATEGY

3. **WHEN TO START** LATE
2. **INCREMENTS** SMALLEST INCREMENT [AVOID "OVERSHOOTING"]
1. **WHEN TO STOP** WHEN EVERYBODY STOPS; YOUR VALUATION

EXPECTED PRICE

$$v(2)$$

DUTCH AUCTION

OPTIMAL STRATEGY

STOPPING POINT → TRADEOFF — AMOUNT; PROB. OF WINNING

EXPECTED PRICE

? [v(1) - "something"]

FIRST-PRICE SEALED-BID AUCTION

OPTIMAL STRATEGY

HOW MUCH TO OFFER → TRADEOFF → AMOUNT, PROB. OF WINNING

EXPECTED PRICE

THE DUTCH AUCTION IS 'STRATEGICALLY EQUIVALENT' TO THE FIRST-PRICE SEALED-BID AUCTION ⇒ SAME EXPECTED PRICE

V(1) - "SOMETHING"

SECOND-PRICE SEALED-BID AUCTION

OPTIMAL STRATEGY

HOW MUCH TO OFFER → Your valuation

EXPECTED PRICE

v(2)

HOW TO CHOOSE AMONG THESE AUCTION TYPES?

CRITERIA

1 - GET INFORMATION → SPIBA

2 - AVOID BUYER COLLUSION → FPSBA / DA

3 - MINIMIZE TRANSACTION COSTS → DA , EA

4 - EFFICIENT ALLOCATION → EA

5 - MAXIMIZE EXPECTED PRICE

$EP_{EA} = EP_{SPIBA} = V(2)$

$EP_{DA} = EP_{FPIBA} = V(1) -$ "something"

HOW TO CHOOSE AMONG THESE AUCTION TYPES WHEN THE OBJECTIVE IS TO MAXIMIZE EXPECTED PRICE?

***"BENCHMARK CASE"* - ASSUMPTIONS:**

A1. THE BIDDERS ARE RISK NEUTRAL

A2. THE INDEPENDENT-PRIVATE-VALUES ASSUMPTION APPLIES

A3. THE BIDDERS ARE SYMMETRIC

A4. PAYMENT IS A FUNCTION OF BIDS ALONE

A5. THE NUMBER OF BIDDERS IS EXOGENOUS

"*REVENUE-EQUIVALENCE THEOREM*"

FOR THE BENCHMARK CASE, EACH OF THE ENGLISH AUCTION, THE DUTCH AUCTION, THE FIRST-PRICE SEALED-BID AUCTION, AND THE SECOND-PRICE SEALED-BID AUCTION YIELDS THE SAME PRICE ON AVERAGE

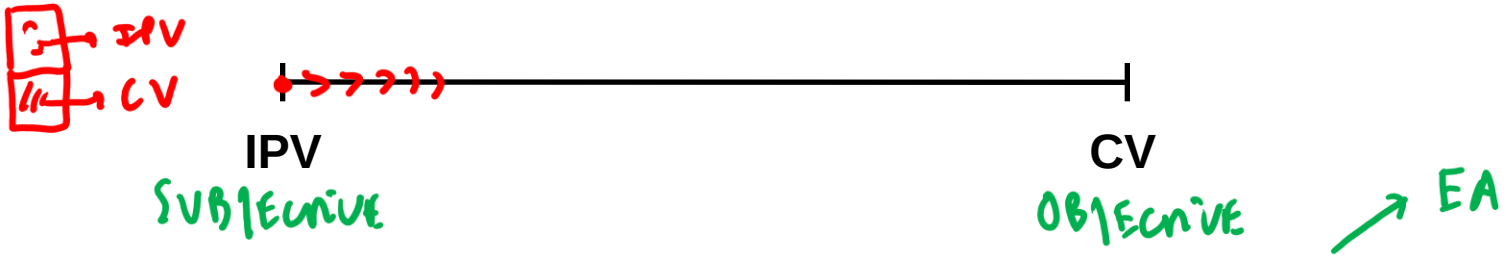
DETERMINANTS OF THE CHOICE AMONG THE DIFFERENT TYPES OF AUCTIONS

1 - RISK-AVERSE BIDDERS

FPSBA

How to take advantage of risk-aversion? INCREASE UNCERTAINTY

2 - CORRELATED VALUES



How to take advantage of correlated values? ALLOW VALUATIONS TO CONVERGE

DETERMINANTS OF THE CHOICE AMONG THE DIFFERENT TYPES OF AUCTIONS

3 - ASYMMETRIC BIDDERS

(A) VALUATION ASYMMETRY

How to deal with valuation asymmetry?

- HIDE ASYMMETRIES → FPSBA

- ARTIFICIALLY ENHANCE COMPETITIVE PRESSURE COMING FROM NON-COMPETITIVE BIDDERS

DISCRIMINATORY AUCTION
- HANDICAP
- FAVOURITISM

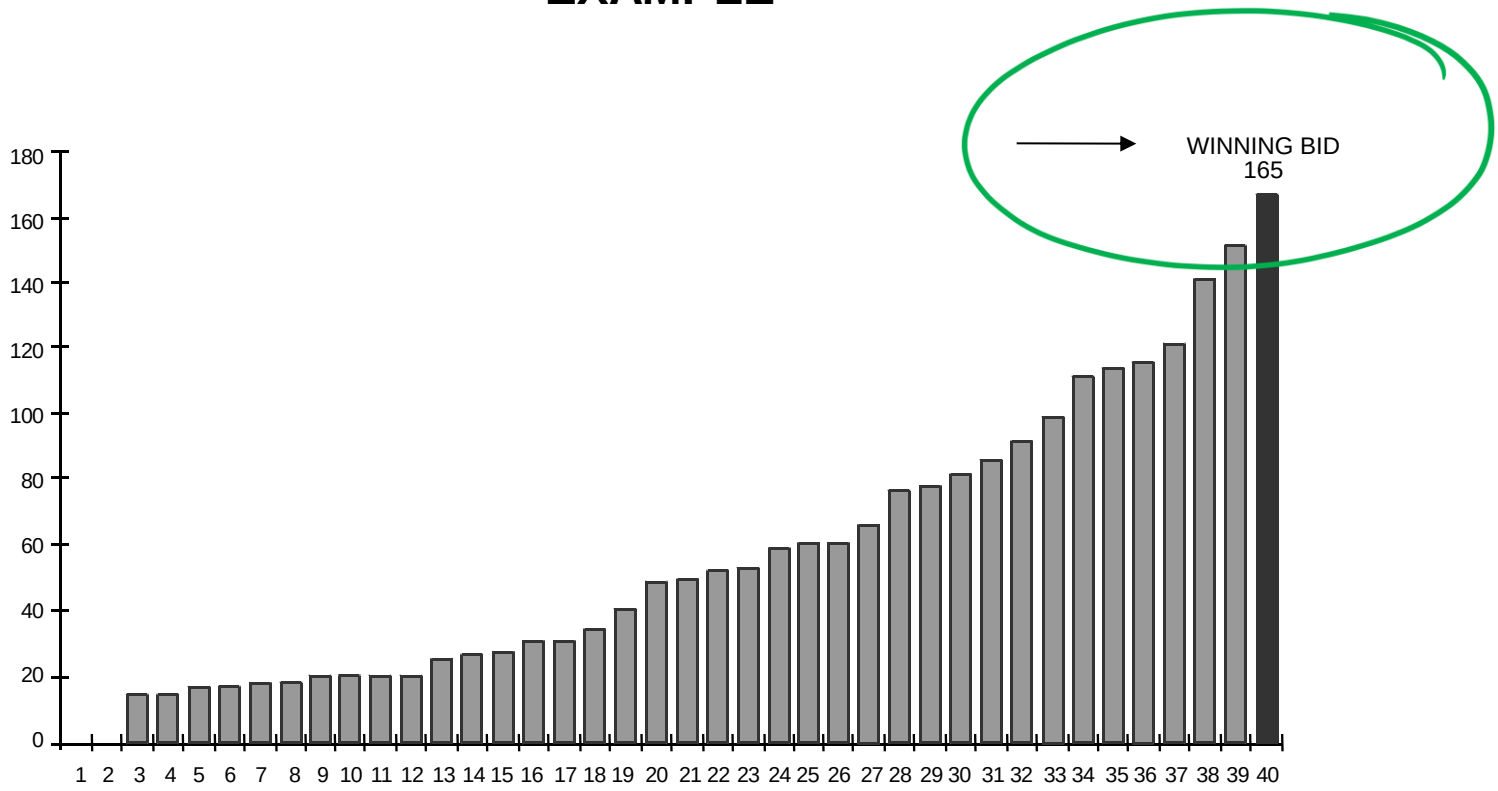
(B) INFORMATION ASYMMETRY

How to deal with information asymmetry?

- COLLECT STUDIES AND MAKE INTO AVAILABLE
- ENGLISH AUCTION

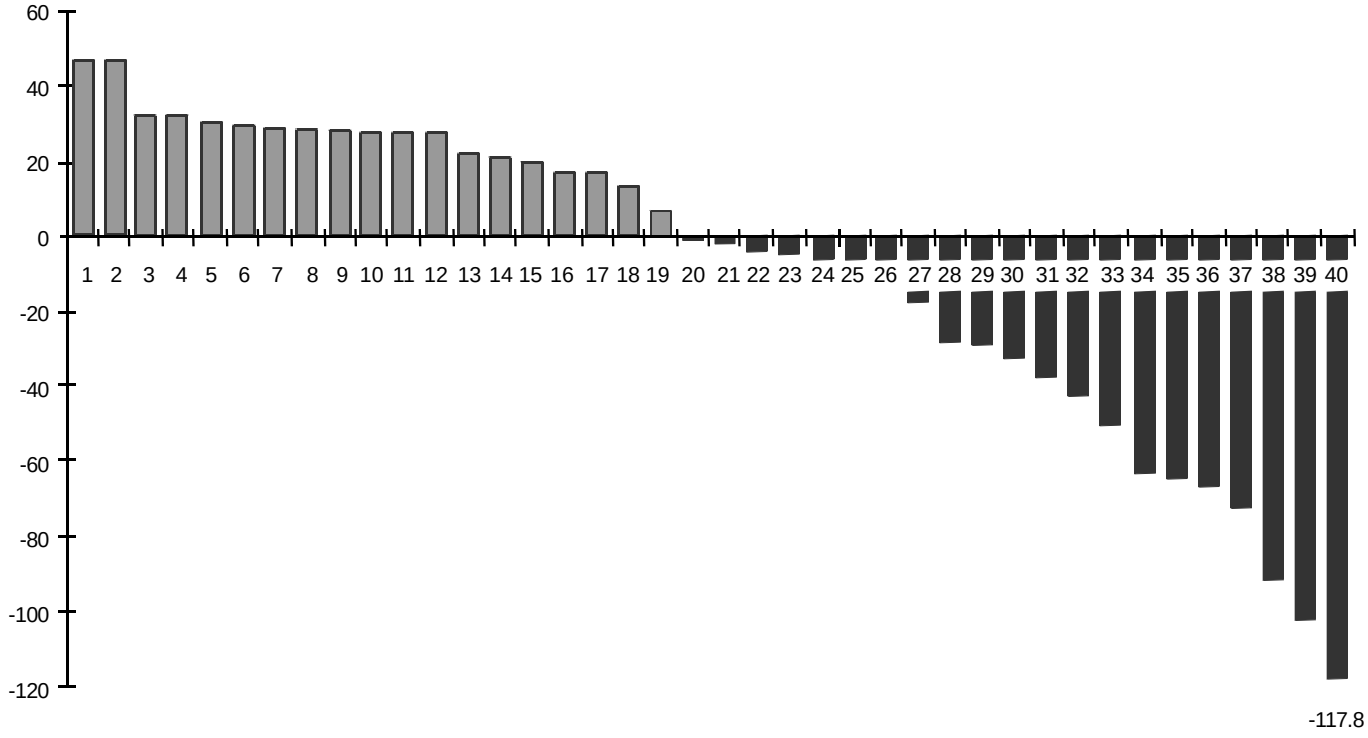
THE WINNER'S CURSE

EXAMPLE



THE WINNER'S CURSE

EXAMPLE



THE WINNER'S CURSE

THE WINNER'S CURSE IS DRIVEN BY:

1 – COMMON VALUE

2 – COMPETITION

3 – UNCERTAINTY