

# **SINGLE-ISSUE NEGOTIATIONS**

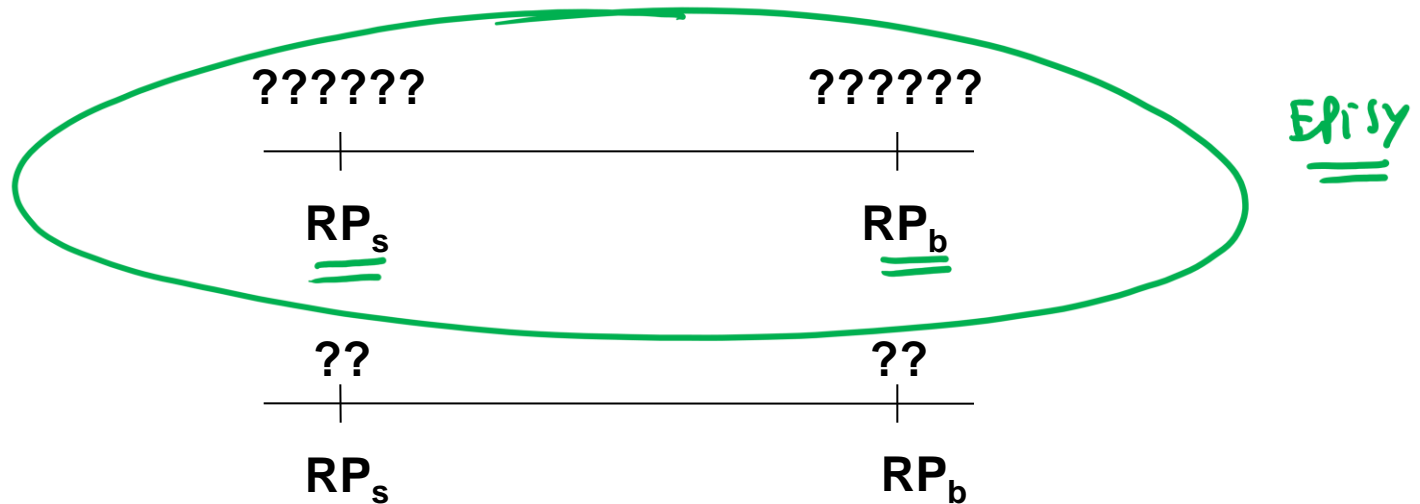
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**NEGOTIATION STRATEGY**  
**CEMS MIM Programme**  
**1<sup>st</sup> Semester, 2024/2025**

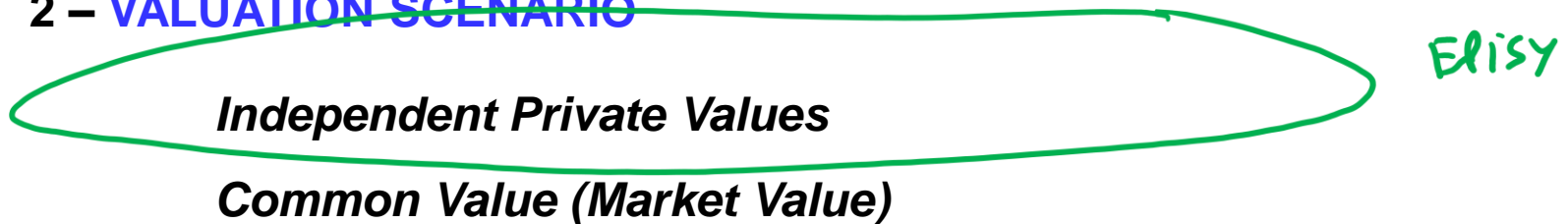
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# PRICE NEGOTIATIONS - KEY DIMENSIONS (\*)

## ⇒ 1 – INFORMATION SCENARIO



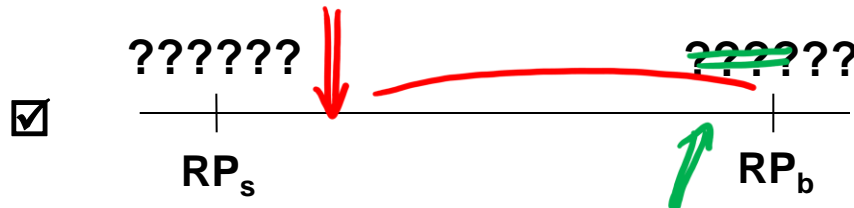
## ⇒ 2 – VALUATION SCENARIO



(\*) Acknowledgement: This handout is based on I. Dierickx, "Price Negotiations - The Distributive Dimension of Bargaining", 2008, mimeo, which is used with his kind permission.

# IMPLICATIONS

## I - *EPI*SY CASE – INFORMATION AND VALUATION SCENARIOS ARE NOT UNREALISTIC

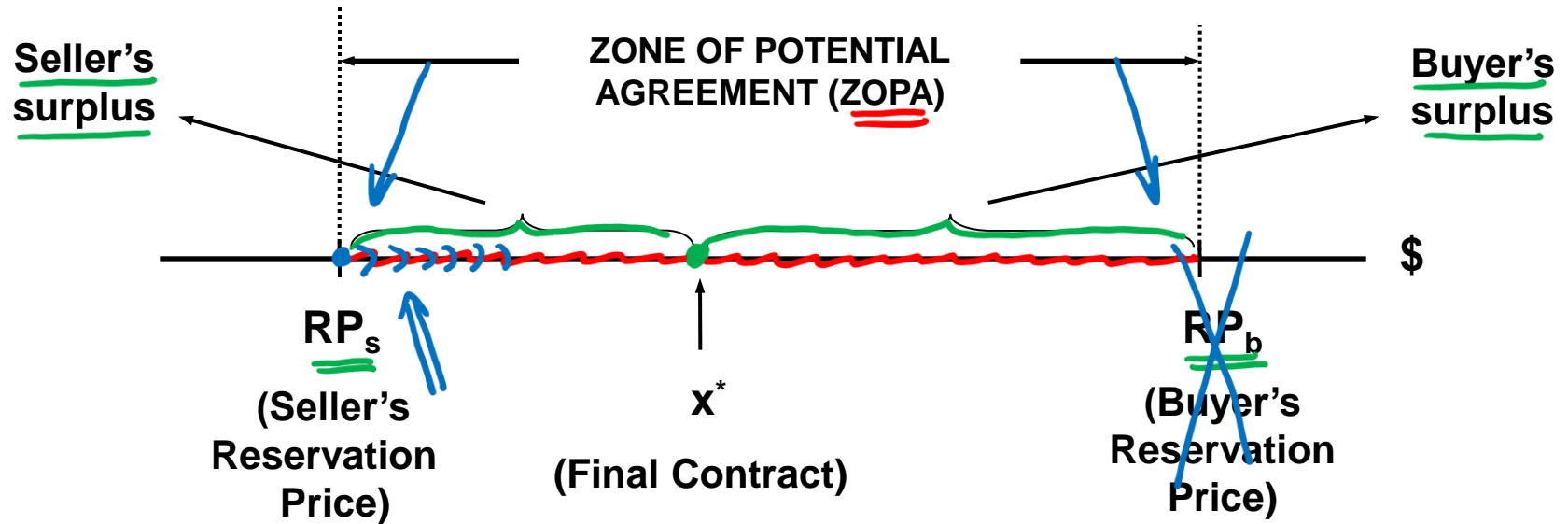


✓ Independent Private Values (IPV)

## II - NEGOTIATION STRATEGY: OUR MAIN TASK AS A NEGOTIATOR IS TO PROBE FOR ADDITIONAL INFORMATION

[⇒ What negotiators should do is to eliminate "??????" and to take advantage of differences in valuation to price discriminate]

# STRUCTURE OF THE NEGOTIATION



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# DETERMINING OUR LIMIT

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## EXAMPLE:

**SELLER:** “Look, it’s either 250 €/m<sup>2</sup> or no deal. And no more “ifs and buts”. 250 is my final offer.”

**BUYER:** “Shouldn’t we look for a price that is fair to both of us? Sure, this lot has special value to me, but it is virtually worthless to you. If I don’t buy it, you couldn’t get more than 15 €/m<sup>2</sup>. I would be happy to buy the land, but I don’t think it is fair for you to insist on a windfall profit. The adjacent lots sold for 80 €/m<sup>2</sup>. I do not see why a tiny plot which can only be used as a garden would be worth more than three times as much. I’m sorry, but 250 Euros is simply not realistic.”

**SELLER:** “I told you, 250 €/m<sup>2</sup> is my final offer. Take it or leave it.”

## DETERMINING OUR LIMIT:

☒ **OBJECTIVE COMPUTATION OF OUR BATNA (Best Alternative to a Negotiated Agreement)**



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# DETERMINING OUR TARGET

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## EXAMPLE:

- Pamphlet distributed by Theodore Roosevelt during the U.S. Presidential Campaign, in 1912.
- George Perkins (Campaign Manager):  
*“We are planning to distribute many pamphlets with Roosevelt’s picture on the cover. It will be great publicity for the studio whose photograph we use. How much will you pay us to use yours? Respond immediately.”*
- Answer:  
*“We’ve never done this before, but, under the circumstances, we’d be pleased to offer you \$250”.*

## DETERMINING OUR TARGET:

✓ LOOK OUTWARD - What is their perception of the problem?  
What options do they have? What are their benefits?

✓ TARGETS ARE OFTEN UNDULY CONDITIONED BY PRECEDENTS



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# THE “NEGOTIATION DANCE”

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## *Tactical Issues Discussed*



- AMOUNT OF OPENING OFFER



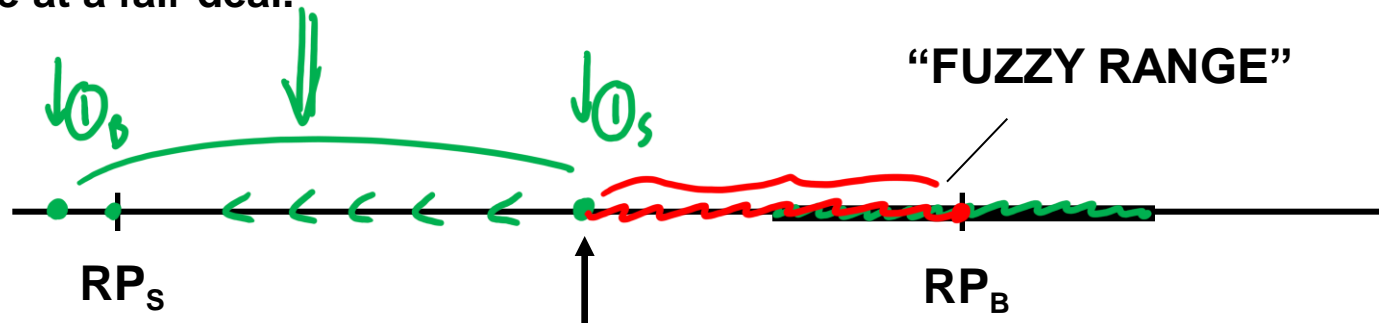
- WHO MOVES FIRST?

- REACTING TO OPENING OFFERS

- CONCESSION PATTERNS

# AMOUNT OF OPENING OFFER - ALTERNATIVES

1 – **A MODERATE (OR REASONABLE) OFFER**, *i.e.*, an offer which should be acceptable to the other side and should allow both parties to quickly arrive at a fair deal.



**MODERATE OFFER**  
“YES” (??)

- LEAVES \$ “ON THE TABLE”
- LEAVES LITTLE BARGAINING ROOM
- INDUCES THE OTHER SIDE TO REVISE EXPECTATIONS
- CREATES AN ASYMMETRY AGAINST U)



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# AMOUNT OF OPENING OFFER - ALTERNATIVES

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⇒ **“BOULWARIAN OFFER” (OR “BOULWARISM”)**, a specific and extreme case of a moderate or reasonable offer:

**FACTS + LOGIC = THE ‘FAIR’ PRICE**

**PROBLEMS:**      *PROCESS PERCEIVED AS UNFAIR*

*WHAT IS FAIR?*

*EXCESSIVE RIGIDITY*

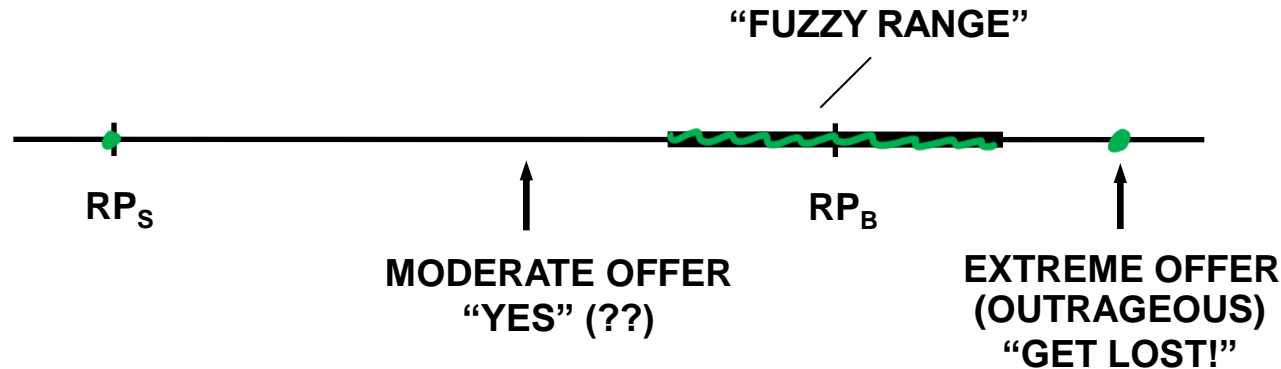


# AMOUNT OF OPENING OFFER - ALTERNATIVES

## 2 – AN EXTREME OFFER, to shake up the other side

*“If agreement is usually found between the two starting points, there is no point in making moderate offers. Good technique would suggest a point of departure far more extreme than one is willing to accept. The more outrageous the initial proposition, the better is the prospect that what one ‘really’ wants will be considered a compromise”.*

*Kissinger, Henry A., “The Necessity of Choice”, NY, Harper and Row: 205*



**PROBLEM: LOSS OF CREDIBILITY** - an extreme offer will be recognised as insincere, i.e., as a deliberate ploy to gain an unfair advantage

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# AMOUNT OF OPENING OFFER - ALTERNATIVES

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## HOW FAR CAN I GO WITHOUT LOSING CREDIBILITY?

### EXAMPLE I

- $RP_b = 5500$  (*common knowledge*)
- The seller offers 7000. Is this offer credible?

*Conclusion:*     **PERFECT INFORMATION**     $\Rightarrow$     **CREDIBLE = ACCEPTABLE**

### EXAMPLE II

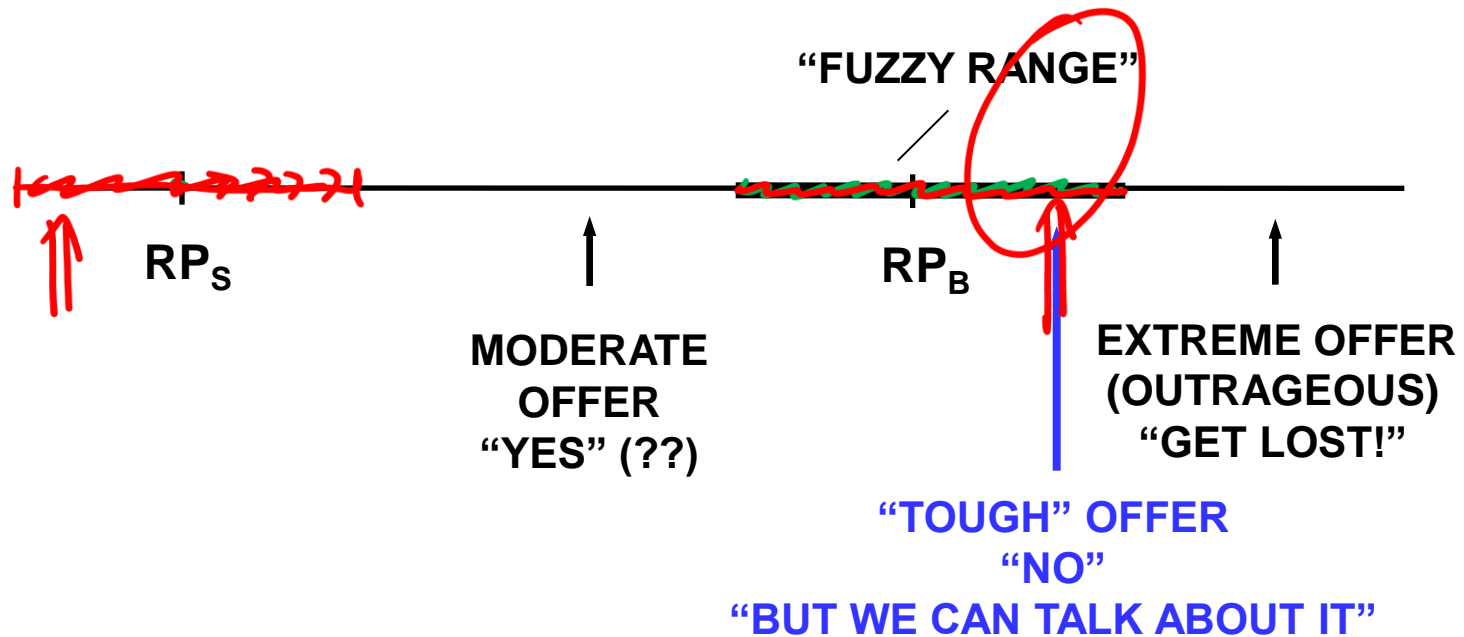
- $RP_b = 5500$  (the seller does not know this value and the buyer knows that)
- $\Rightarrow a)$  - How would the buyer react to an offer of 7000?
- $\Rightarrow b)$  - And if the object is available in the market at prices between 5200 and 5800?

*Conclusion:*     **UNCERTAINTY**     $\Rightarrow$     **UNACCEPTABLE OFFERS MAY BE CREDIBLE**

# AMOUNT OF OPENING OFFER - ALTERNATIVES

## MOST EFFICIENT OFFER:

3 – A **“TOUGH” OFFER**, *i.e.*, an offer which is not acceptable, yet “discussable”  
(credible)

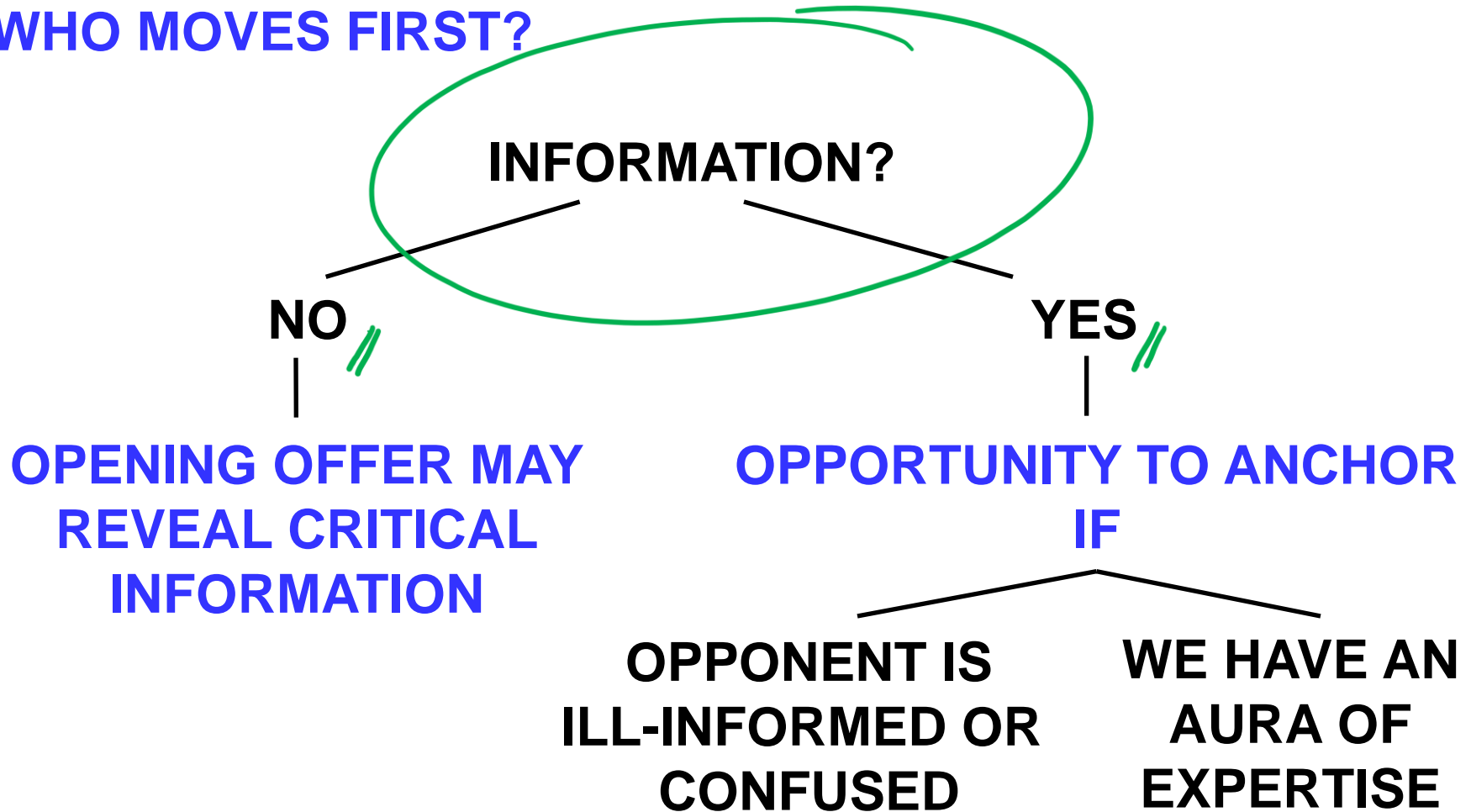


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# MOVING FIRST OR SECOND?

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## WHO MOVES FIRST?



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# REACTING TO OPENING OFFERS

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1 - HOW TO REACT TO AN OFFER WHICH IS NOT ACCEPTABLE,  
YET “DISCUSSABLE”? COUNTER WITH A SIMILAR OFFER

2 - HOW TO REACT TO A BOULWARE-STYLE OFFER?

## EXAMPLE

*DUVERGER: “Listen. You don’t want to sell for less than 15. I don’t want to buy for more than 150. I don’t see any reason why your land should be worth more than mine. Your lot is right next to my two lots, and they’re worth 150 €/m<sup>2</sup>. I say we split it 50/50. You win, I win. We split the difference: 82.5 €/m<sup>2</sup> or 33,000 for the lot. This is my final offer.”*



# REACTING TO OPENING OFFERS

## HOW TO REACT TO SUCH AN OFFER?

### (a) STROKE HIS EGO

*LAFFONT: "I appreciate the fact that this is a serious offer. I think you've given this considerable thought to come up with a realistic proposal. Actually, I don't like bazaar-style haggling either."*

### (b) DO NOT MAKE A COUNTEROFFER: AVOID DROPPING A FIGURE VERY DIFFERENT FROM HIS OWN

*"I'm sorry I can't accept your offer..."*

### (c) ADJOURN TO "CHECK THE FACTS" (CALL EXPERTS?)

*"Perhaps we could check prices and get together tomorrow to see where we come out."*

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# REACTING TO OPENING OFFERS

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## 3 - HOW TO REACT TO AN EXTREME OFFER?

- ANSWER WITH QUESTIONS

③ - INTERRUPT THE NEGOTIATION, LEAVING THE DOOR OPEN TO CONTINUE IT LATER ON, BUT ON A COMPLETELY DIFFERENT BASIS

- COUNTER WITH AN EXTREME OFFER

- REACT WITH HUMOR

③ - REVERSE THE NEGOTIATION

- APPLY THE “SILENCE TREATMENT”

⇒ ATTENTION: - DO NOT LET THEM ANCHOR!

- DO NOT ARGUE!

- DO NOT REACT WITH AN EMOTIONAL OUTBURST WHICH GIVES AWAY YOUR LIMIT!



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# CONCESSION PATTERNS

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## OBJECTIVES

### 1 - TO FIND OUT THE OTHER SIDE'S POINT OF INDIFFERENCE (PROBING)

⇒ AVOID OVERSHOOTING

### 2 - TO MANAGE OUR OPPONENT'S BELIEFS ABOUT OUR OWN RESERVATION PRICE (SIGNALLING)

⇒ SUGGEST AN INCREASING LIKELIHOOD THAT THE NEGOTIATION  
WILL RESULT IN AN IMPASSE IF OUR OFFER IS NOT ACCEPTED

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# CONCESSION PATTERNS

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## EXAMPLES

E.g. 1:                      8000        7000        6000        5000        “FINAL!”

E.g. 2:                      8000        7000        6000        /        7000        6200        5650        “FINAL!”



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# CONCESSION PATTERNS

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## GENERAL RULES

**RULE # 1: MOVE IN INCREASINGLY SMALLER STEPS**

**RULE # 2: MOVE TOWARDS GREATER PRECISION AS WE GET A BETTER HANDLE ON THE OTHER SIDE'S 'RP'**

**RULE # 3: WITH EACH CONSECUTIVE CONCESSION, THINK LONGER, ASK MORE CLARIFYING QUESTIONS, ADD MORE "IFS"**

**RULE # 4: UNLESS A CONCESSION HAS EXPLICITLY BEEN LABELLED AS "TENTATIVE", IT CANNOT BE WITHDRAWN AT A LATER STAGE IN THE NEGOTIATION**

**RULE # 5: GIVE YOUR COUNTERPART A TARGET TO SHOOT FOR BY TELLING HIM WHAT HE CANNOT GET**



# CONCESSION PATTERNS

## EXAMPLE

E.g. 3:

### “MEXICAN SELLING A BRIEFCASE”

[Raiffa, H. *The Art and Science of Negotiation*, Harvard University Press, Cambridge, MA, 1982, p.51]

- 15 “not interested”
- 14 “I already have a perfectly good briefcase”
- 13 “I’m sorry”
- 12 “I’m really sorry”
- 11 “really”
- ⑫ ???!

