

NEGOTIATION STRATEGIES

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Negotiation is the decision-making process by which buyers and sellers resolve areas of conflict and/or arrive at agreements. Negotiation involves two (or more) parties that disagree about some issue(s). Both parties must have feasible alternative courses of action for negotiation to occur. If one (or both) party does not have feasible alternative courses of action, there is nothing to negotiate!

Two Main Types of Negotiation

- (1) *Win-Lose Negotiations*: each party tries to win on all-important issues and to triumph over the opponent. The negotiating parties assume an adversarial, competitive orientation.
- (2) *Win-Win Negotiations*: parties try to reach an agreement that satisfies both. The negotiating parties assume a more cooperative orientation. Win-win perspective can produce high outcomes regardless of time pressures. Negotiating parties with a win-win perspective are more likely to trust each other and are more willing to share information that is useful in reaching equitable solutions.

What is Negotiated?

Any aspect of the partner deal, plan and/or contract is subject to negotiations.

Negotiation Objectives

Target position: What the Company hopes to achieve.

- A negotiator must know corporate goals and strategies to achieve those goals before entering into negotiations. Without a clear idea of goals and strategies, negotiations can be unproductive and may lead to settlements that are not very favorable to the unprepared party.

Minimum position: The absolute minimum level the Company will accept. Also known as the “walk away” position.

- For the seller, this is the least amount that the seller will accept.
- For the buyer, this can be the maximum amount the buyer will pay.



Opening position: The initial proposal. An opening position can be extreme or more moderate.

- A party that begins negotiations with an extreme opening offer may be able to reach an agreement that is more favorable to him/her. This is likely because, all else equal, the final predicted settlement point is midway between the two opening offers.
- On the other hand, an extreme opening offer is more likely to lead to no agreement as the other party may view the distance between the positions of the negotiators as too great. In that case, the other party may refuse to counter, thus closing negotiations before an agreement can be reached.
- A party that begins negotiations with a more moderate opening offer increases the likelihood that a settlement can be reached. A more moderate (or less extreme) opening offer is more likely to signal to the other negotiator that the party is serious about negotiating and about reaching an agreement. Thus, the other party is more likely to counter and to work to reach an agreement.

Mini-max strategy: What is the minimum I can accept? The maximum I can ask for? What is the minimum I can offer? The maximum I can give away?

Concession strategy: Number and size of concessions offered during negotiations. The number of concessions made and the size of each concession determine a concession strategy.

- Since bargaining often proceeds in a “tit-for-tat” manner (i.e., a concession by one party motivates a concession by the other), concessions can move bargaining parties closer to an agreement.
- The concession strategy will be determined, in part by the opening position. Extreme opening positions leave more room for large concessions or for many smaller concessions.

Negotiation Teams

Business negotiations are often conducted with teams representing the two bargaining parties.

Pros of Negotiation Teams

- Enhanced knowledge and creativity. The composition of a negotiation team depends on the issues under discussion, but generally includes individuals with different areas of expertise (e.g., technical, finance, strategy, production, sales, operations, and marketing). Teams comprised of individuals with different areas of expertise bring more knowledge and creativity to the bargaining table.
- Reduced risk of mistakes. By having team members with different areas of expertise, there is less likelihood that a mistake can be made in that area. Further,



there are more people to act as a check on statements made (and agreed to) during negotiations.

Cons of Negotiation Teams

- Negotiation by democracy. No clear leader accepted by team; leader undermined by members. “Too many cooks spoil the stew.”
- More time required reaching agreements. Significant time increase in trying to reach a consensus among groups of individuals, as opposed to between two individuals.
- Conflict or lack of coordination among team members. Team members must first come to an agreement about bargaining objectives and strategies before the negotiation process begins. Different people from different areas of an organization are likely to have different ideas and priorities about what those goals and strategies should be. These differences *must* be resolved in order to negotiate effectively. Reaching this agreement, however, is likely to further increase the amount of time that it takes to reach an agreement with the other negotiating party.

Planning for Negotiation Teams

Rules for developing negotiation teams are similar to the rules that apply when forming any team, whether for selling (sales teams), strategizing (strategy groups), or negotiating.

- *Strive to have equally sized teams.* Although having a larger team may appear to give that team a psychological advantage, it may motivate a more competitive orientation in the other party. Alternatively, it may motivate the other team to increase the number of members on that team. The end result may be teams that are too large to be effective – more time is required to resolve differences within a team than differences between the two teams.
- *Define the role of each team member.* Each team member is likely to have a different area of expertise. The responsibility of each team members should be consistent with their area of expertise.
- *Identify a team leader to manage the actual negotiation session.* The team leader will serve as the spokesperson for the negotiating team, but is not the only person who speaks definitively. Other teams members will be used to address particular areas of concern that are related to their areas of expertise or will be in attendance merely to observe and serve as additional eyes/ears. The team leader, however, may be the individual that makes and responds to offers.
- *Set team rules.* Who will respond to what kinds of questions? A team member is generally given responsibility for responding to questions related to his/her area of expertise.
- *Who will offer and respond to concessions?* This could be the team leader.



Negotiating Behaviors

Negotiating behavior can be categorized along two dimensions:

- (1) The extent to which the party is assertive or unassertive; and
- (2) The extent to which the party is cooperative or uncooperative.

Using these 2 dimensions, we can create a 2x2 matrix and identify the following types of negotiating behavior.

- *Avoiding*. Although this type of negotiating behavior is probably not common in a business setting, weaker parties may avoid negotiating if they do not feel they are in a position to assert their demands.
- *Unassertive and Uncooperative*. Don't attempt to address needs, resolve conflict, or strive for agreement.
- *Accommodating*. Again, this type of negotiating behavior is probably not common in a business setting except, perhaps, among weaker parties that want to maintain a relationship with another.
- *Unassertive and highly cooperative*. Neglect on needs and desires in order to satisfy those of the other party.
- *Competing*. Negotiators assume a win-lose orientation and try to win concessions from the other party so that their own needs are met. Bargainers assume that one party will "win" and the other party will "lose." There is little concern about meeting the needs of the other party.
- *Assertive and uncooperative*. Pursue own goals at the expense of the other party.
- *Compromising*. Negotiators assume a win-win orientation and try to find solutions that satisfy the needs of both. However, the solution that is reached is one that satisfies, rather than maximizes the satisfaction of both. Finding a creative solution that maximizes satisfaction requires collaboration among negotiating parties.
- *Somewhat assertive and somewhat cooperative*. Attempt to find a quick, mutually acceptable, satisfying solution.
- *Collaborating*. Collaborating to identify creative solutions that maximize the satisfaction of both parties requires considerable resources (e.g., time, effort, and skill). Negotiators are more likely to be willing to collaborate if they trust each other, view the relationship as important and long-term, and want to continue the relationship. Parties must be confident that they can share (confidential) information with each other and that this information will be used to identify creative solutions rather than used against them.
- *Assertive and cooperative*. Seek to maximize the satisfaction of both parties. Requires the motivation, skill, and determination to dig into the issues and explore all possible solutions.



Distributive vs. Integrative Bargaining

Distributive

- Problems involve the allocation or distribution of scarce resources.
- Often leads to competitive bargaining.
- If several issues are involved, and rankings of the bargaining parties differ on the rankings, distributive agreements are easier to reach.

Integrative

- Problems are primarily technical or procedural.
- Often leads to collaborative bargaining.
- Problems that involve several distributive issues can be approached with a collaborative mode as parties search for an equitable package of agreements.
- Collaborative bargaining requires
- Openness; trust; acceptance of each other goals, values, constraints; freedom to share ideas
- Equal or counterbalancing power
- Desire to continue the relationship
- Negotiators who have the authority to make and respond to offers
- Skill and time

Negotiation Outcomes

Everything else equal, outcomes are often midway between the two opening positions.

Outcomes can be affected by:

- *Balance of Power.* When one party is more powerful than the other is, the more powerful party is likely to be more competitive. The powerful party is likely to be more demanding (e.g., set higher target and walk away positions, start with more extreme offers), to make fewer concessions, and to make smaller concessions. Thus, if an agreement is reached, the outcome is more likely to favor the powerful party.
- *Knowledge of the Other's Position.* Knowledge of the other's position is a source of power. Thus, the negotiating process and outcomes will be affected in the same manner as discussed above. The more powerful party is likely to be more competitive. The powerful party is likely to be more demanding (e.g., set higher target and walk away positions, start with more extreme offers), to make fewer concessions, and to make smaller concessions. Thus, if an agreement is reached, the outcome is more likely to favor the powerful party.



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- *Accountability.* When the negotiator is accountable to another for the outcomes of the negotiation process, the negotiator is likely to assume a more competitive bargaining stance. The accountable negotiator is likely to be more demanding (e.g., set higher target and walk away positions, start with more extreme offers), to make fewer concessions, and to make smaller concessions. Thus, if an agreement is reached, the outcome is more likely to favor the accountable party.
- *Prior Commitment to Goals.* When a negotiator is highly committed to achieving their desired goals, the committed negotiator is likely to assume a more competitive bargaining stance. The accountable negotiator is likely to be more demanding (e.g., set higher target and walk away positions, start with more extreme offers), to make fewer concessions, and to make smaller concessions. Thus, if an agreement is reached, the outcome is more likely to favor the committed party.
- *Future Expectations.* When negotiators expect their relationship to continue into the future, they are more likely to assume a cooperative bargaining stance. Negotiating behavior is more likely to be compromising or collaborating. Negotiators are more likely to make reasonable demands, and to concede or collaborate on issues. A successful agreement is more likely, and that agreement is likely to satisfy both parties.

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Cohen Strategy Group isn't in the game of building better websites; we are focused on building better businesses...because the valuations of Fortune 1,000 companies, *and all companies for that matter*, are driven by their business strategy not the sophistication of their website.

Cohen Strategy Group is a relationship accelerator, which speeds a company's time to market. We know that actively building value and realizing opportunities are the primary keys to business success.

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