

Negotiation Techniques

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April 8, 2014

Negotiation Techniques

I.
Turning Nego-
tiation into a Cor-
porate Capability

II.
Negotiating the
Spirit of the deal

III.
Six Habits of
Merely Effective
Negotiators

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Turning Negotiation into a Corporate Capability

(Danny Ertel)

Negotiating the Spirit of the Deal

(Ron S. Fortgang, David A. Lax, James J. Sebenius)

Six Habits of Merely Effective Negotiators

(Sebenius, James K.)

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1. Importance of negotiating
2. Situational view
3. Four steps to a systematical view
4. Conclusion

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- **Contracts**
 - Outsourcing
 - Purchasing
 - Product development
 - All business initiatives

- **Business development**
 - Partnership, Alliances and Agreements
 - No negotiation changes

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- Separate events
 - All negotiations independent
 - Own goals, tactics and measures

- Negotiators game
 - Personal judgment, timing and experience

- Complex to coordinate
 - Corporate conflicts
 - Negotiations can hurt relationships

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- Grupo Financiero Serfin
 - Traditional negotiating

- Negotiation infrastructure
 - Links to strategies
 - Better education and communication
 - Understanding
 - Priority order of negotiation interrests



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- Traditional measures
 - Best price and lowest cost

- Broader measures
 - Focus on process
 - Open communication
 - Relationship measures
 - Gains in quality, performance, image?
 - Ideas generated?

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- Hostage relationships
 - Attention to costly customers
 - One deal can hurt a relationship

- Distinction between deal and relationship
 - Independence
 - Willingness to make trade-offs
 - Building trust
 - Open conversation

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- Never lose a client policy
 - Must come to an Agreement
 - Forced to make concessions
 - South African Metropolitan
 - 45% of advertising space discounts
 - Reduced the papers revenues and profit

- Learning to walk away
 - Importance of BATNA
 - No is always an alternative

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- The impact of a negotiation infrastructure
 - More rewarding for negotiators
 - Simple preparations
 - BATNA – more freedom
 - More creative solutions
 - More creative relationships with suppliers, customers and other partners

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1. Social vs. economic contracts
2. The nature of social contracts
3. Underlying and ongoing social contracts
4. Risk factors
5. Conclusion

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- Economic understanding of a long-term contract:
 - Repeated transactions

- Social understanding:
 - Relationship between involved parties
 - Each party has expectations about a deal

- Dependency between these: No successful economic contract without a successful social contract and vice versa

- The social contract is not often not addressed

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- Social contracts include
 - Unarticulated expectations by both sides
 - Norms guiding the interaction

- A shared view is not implied in a social contract
 - Neither do cultures and values have to be compatible
 - But both sides should share expectations!

- A social contract does not imply an equal relationship

- „Just trust“ is not enough

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Underlying social contract (What?)

- Extent & nature of the relationship
- Duration – open-ended or fixed
- Problems often occur if parties have fundamentally different goals

Ongoing social contract (How?)

- Decision-making
- Handle changes
- Communication
- Often culture clashes
- Often unexpected problems

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- Problems with social contracts:
 - Misunderstanding about the nature of the contract

Spirit of the deal

vs.

Letter of the deal

- Changing circumstances
 - Buyouts, mergers, changing management
 - Shifts in attitude
 - Economic environment
- Solution: try to weave an interest web that commits both parties
 - e. g., do not depend on one person
 - But: do prepare exit clauses

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- Different cultures lead to misunderstandings
- Third parties not considered but involved in the contract
 - e. g. distributors, investors
- Not enough parties involved
 - Only CEOs discuss a deal

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- A contract should not be seen as a legalistic approach only
 - But: many social contracts details can be put into a written agreement

- It is important to deal with the social contract up front
 - But: negotiation does not stop „when the ink dries“
 - When circumstances change, dealing with the social contract can be the key to success

- Always try to find out whether your goals are in line with the other side's

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- Objective of any negotiation: result meets own interests better than best no-deal option
- Minimum requirement: understand your counterpart's point of view
- Better: understand your counterpart's interests and no-deal options
- otherwise: inability to influence counterpart's point of view ("If you want to change someone's mind, you should learn where that person's mind is.")

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- Danger: turn cooperative deal into adversarial one
- Price is an important factor, but not the only one:
 - Relationship: especially important in southern + Asian countries; follow-up deals
 - Social Contract: “spirit of the deal”; important for venture’s longevity + unforeseen conflicts
 - Process: should be personal, respectful, straightforward, fair ➤ sustainable results
 - Interests of the Full Set of Players: what is rational for the whole may not to be so for the parts!

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- Issue = topic for explicit agreement
 - e.g.: base salary in a job offer
- Position = a party's stand on issues
 - e.g.: I need to earn \$ 100.000
- Interests = underlying concerns affected by the resolution
 - e.g.: status, security, opportunities
- Cause: “fixed-pie view”: “your gain is my loss”
- Better: expand pie and share

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- Conventional wisdom: overcome differences; find win-win agreements
- Sources of value also arise from differences among parties.
- Finding differences can break open deadlocked deals.
- Differences in forecast can fuel joint gains.
- differences in risk-averseness, impatience, cost or revenue structure, tax status, ...
- ➤ If we were all alike, there would be little to negotiate!

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- recall: BATNA = best alternative to a negotiated agreement
- this can be
 - walk away
 - approach another potential buyer, supplier, investor
 - in-house achievement
 - going to court
- Accept good BATNA is better than a deal with damage.
- Also consider your counterpart's BATNAs!
- Don't damage your BATNAs!

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- Self-Serving Role Bias
 - “believe your own line”
 - interpret information in a self-serving way
- Partisan Perceptions
 - own talent, honesty, moral, intelligence, etc. is overestimated while counterpart is underestimated
 - danger: self-fulfilling prophecy
- Solutions
 - be aware of the problem
 - consult uninvolved parties

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- lessons learned:
 - focus on the full set of interests of all parties
 - identify value-creating differences
 - assess and shape BATNAs
 - avoid role biases and partisan perceptions
- more pitfalls to be aware of:
 - cultural gaffes (➤ next presentation)
 - disrespect
 - bad timing
 - miscommunication
 - wrong person to negotiate with
 - bad sequence
 - ...

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Questions



Answers

