Types of Negotiation: Many Paths to a Deal

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Negotiation

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Types of Negotiation

Many Paths to a Deal

Key Topics Covered in This Chapter

- *Distributive negotiation: claiming value*
- *Integrative negotiation: creating* and *claiming value*
- *The negotiator's dilemma: trying to determine which game to play*
- *Multiphase and multiparty negotiations*

THERE ARE TWO primary kinds of negotiation. Chances are you have been involved in both at one time or another:

- **Distributive:** A negotiation in which the parties compete over the distribution of a fixed sum of value. The key question in a distributed negotiation is "Who will claim the most value?" In distributive negotiations, a gain by one side is made at the expense of the other.

- **Integrative:** A negotiation in which the parties cooperate to achieve maximum benefits by integrating their interests into an agreement. These deals are about creating value and claiming it.

Few of your negotiations will be purely distributive. Although direct competition between the interests and goals of negotiating parties is commonplace, opportunities to integrate the parties' interests and preferences usually exist. But for the purposes of pedagogy, this chapter examines each type in its pure form. These forms are complicated by two other facts of life addressed at the end of the chapter: Negotiations often take place in phases and may involve multiple parties.

Distributive Negotiation

The issue in a distributive negotiation is who will claim the most value. Some people refer to this type of negotiation as *zero-sum* or constant-sum negotiation. The term *win-lose* is probably more representative of what's involved. Classic examples include the following:

- The sale of a carpet, where the buyer and the seller do not know one another. There is no relationship; all that matters is the price, and each side haggles for the best deal. Every gain by one party represents a loss to the other.
- Wage negotiations between business owners and their union employees. The owners know that any amount conceded to the union will come out of their own pockets—and vice versa.

In a purely distributive negotiation, the value at stake is fixed, and each side's goal is to get as much of it as possible. Consider the example of two people negotiating over shares of a freshly baked apple pie. Each aims to negotiate for as large a portion of that pie as possible, knowing that any concession made to the other party will reduce his or her share by an equal amount. Or consider this typical business example:

> *Acme Manufacturing and a supplier, Best Parts Company, are negotiating an agreement under which Best Parts will make and deliver 10,000 specified widgets over a period of six months. Acme's purchasing manager has been instructed to get the lowest possible price, so she's pushing for $1.75 per widget. Best Parts's sales manager, on the other hand, is trying to maximize the price his employer receives; he's asking for $2.00 per widget. Neither is willing to discuss anything but price.*
>
> *In the end, Acme Manufacturing gets its price. With several potential sellers to turn to, its purchasing manager holds out until the other side, which lacks other sales outlets, caves in and takes $1.75 per widget.*

The seller's goal in a distributive deal is to negotiate as high a price as possible; the buyer's goal is to negotiate as low a price as possible. A dollar more to one side is a dollar less to the other. Thus, the seller and the buyer compete to claim the greatest possible value for themselves. There is a tug of war going on here. Each negotiator aims to "pull" the final deal point as close to his or her side's desired price as possible (or even beyond it).

Relationship and reputation mean little in this tug of war: The negotiators are not willing to trade value in the deal for value in their relationship with the other side. For example, a business executive being transferred to another metropolitan area is shopping for a house. She is not concerned with her long-term relationship with a home seller when she begins negotiating to purchase the seller's house. Chances are that the seller is a total stranger—and will remain so after the transaction takes place.

Information plays an important role in this type of negotiation. The less the other side knows about your weaknesses and real preferences, and the more it knows about your bargaining strength, the better will be your position. For example, the Best Parts sale manager would be unwise if he let the other side know that he had few other takers for his company's widgets, or that he was currently selling the same widgets to another manufacturer for less than $2 each. Conversely, Acme's buyer would be eager to let the other side know that other parts manufacturers are currently knocking on her door, each eager to get the business.

To achieve success in a distributive negotiation, remember the following:

- The first offer can become a strong psychological anchor point, one that sets the bargaining range. Studies show that negotiation outcomes often correlate with the first offer. So start at the right place.
- Do not disclose any significant information about your circumstances—including why you want to make a deal, your real interests or business constraints, your preferences among issues or options, or the point at which you'd walk away from the table. It is advantageous, however, to let the other side know that you have good options if this deal falls through.
- Information about the other side can benefit you. Learn as much as possible about the other side's circumstances and preferences—including why they want to make a deal, their real interests and business constraints, and their preferences among issues or options.

- Exploit what you learn about the other side in setting your first offer or demand.
- Don't overshoot. If you claim aggressively or greedily, the other side may walk away. You will have lost the opportunity to make a deal.

Integrative Negotiation

In an integrative negotiation, the parties cooperate to achieve maximum benefits by integrating their interests into an agreement while also competing to divide the value. In integrative negotiations you have to be good at both creating value and claiming it.

Consider the following typical business example of an integrative negotiation:

> *Gomez Electronics and one of its primary suppliers, Kraft Components Company, are negotiating an agreement under which Kraft will build and deliver 10,000 switches over a period of six months. Gomez is interested in getting the lowest possible price, but is likewise interested in maintaining a long-term relationship with Kraft, which has been an innovative and reliable supplier over the years. Kraft's sales manager would like to maximize the price his company receives under the contract, but must be mindful of the relationship. He'd hate to lose this long-term customer.*
>
> *As long-term partners, each side is willing to disclose some of its interests to the other. That way, if one party must give ground on price, the other party might be able to offer value on some other front.*
>
> *Together, the two negotiators settle on an agreement that gives Kraft what it wants: $2 per switch. But in return, Kraft agrees to give Gomez Electronics sixty days to pay instead of the usual thirty-day arrangement. The extra thirty-day float helps Gomez reduce its working capital requirements over the term of the agreement. Further, the two firms agree to collaborate in designing a new set of switches for a Gomez product currently on the drawing boards.*

Examples like this one have become more and more commonplace on the manufacturer-supplier front as big companies shift their tactics from squeezing suppliers—and dealing with many of them through short-term transactions—to developing long-term relationships with just a handful of suppliers. In many of these cases, suppliers and original equipment manufacturers (OEMs) collaborate in areas of quality control and product development. The growing use of joint ventures and outsourcing has likewise motivated organizations to think more about relationships and less about winning what often appears to be a zero-sum game.

In an integrative negotiation, your task is twofold: (1) to create as much value as possible for you and for the other side, and (2) to claim value for yourself. Many use the term *win-win* in referring to this type of arrangement. Unfortunately, that term implies that all parties get everything they want, which is rarely the case. More likely, each makes trade-offs to get the things they value most, while giving up other, less critical factors. For example, in the manufacturer-supplier case just described, Kraft got the unit price it wanted, but gave ground to Gomez Electronics on payment terms.

Sometimes, the two sides' interests do not compete at all. In these cases the task is to arrive at a deal that integrates their interests as efficiently as possible. Agreeing to yield more of what one negotiator values does not necessarily require the other negotiator to take less of anything he or she values. Thus, the ability of one side to claim or win what it wants or needs in the deal does not necessarily detract from the other's ability to claim or win just as much.

There are often many items or issues to be negotiated in an integrated negotiation—not simply price, delivery date, or any other single issue. Indeed, opportunities for creativity abound.

Negotiation specialist Mark Gordon, who coined the term "collaborative bargaining" for this type of negotiation, says that the parties should look for creative options, and not focus on which concessions to make. "You have to believe that it's in your interest to look for ways to benefit your negotiating counterpart. Your goal is not to hurt them, but to help them at little cost to yourself—and have them help you at little cost to them. The more creative you are at coming up with things that are good for both of you the happier both of you will be."[1] This creativity is only possible if both parties understand their own key interests *and* the key interests of the other side.

Is Win-Win for Real?

Most books and training courses on negotiations use the term "win-win" to describe integrative deals. In fact, both the term and the concept have become so popular that they have become clichés: "We're looking for a win-win deal with our customers." "Here at ExploitCo, management and employees share a win-win attitude."

It all sounds very high-minded. Win-win resonates with our cultural belief that relationships should be mutually beneficial, not exploitive, one-sided, or coercive.

But not everyone is happy with the term. Author and negotiating consultant Jim Camp is an outspoken critic. To him, win-win is a sucker's game, and more likely to be a losing game for the unwary:

> *[S]hrewd negotiators in every field understand that a gung ho, win-win negotiator on the other side of the table is a sitting duck. . . . Those smooth-talking negotiators* don't *compromise, but they demand that you do. (In the case of corporate purchasing departments, I guess their compromise is that they're buying from you instead of from someone else.) And all the while, they put the happy face on their negotiations.*[3]

Win-win in this sense follows the old Soviet approach to "getting to yes" in its negotiations with the West during the Cold War era: "What's ours is ours; what's yours is negotiable."

As Gordon told readers of *Harvard Management Communication Letter,* "If you read the classic texts, they talk about extreme opening positions, getting the other side to make a concession first, offering to split the difference only after both sides have gone a few rounds, and so on." In Gordon's view, concessions are not necessary. "Instead, you look for creative options. . . . If there is a range of possible acceptable outcomes, then there is always a set of outcomes that will make both of us happier than the minimum acceptable outcome would."[2]

The Negotiator's Dilemma: A Preview

Few business negotiations are purely distributive or purely integrative. Most are integrative to some degree, containing opportunities for both competition and collaboration. Indeed, the playing field of negotiations is better described as a continuum that includes those two extremes and mixtures of the two in between. Knowing where to play in that continuum involves a tension known as the *negotiator's dilemma.* "Should I compete for as big a share of this small pie as possible," one participant asks, "but risk having the other side claim the value? Or should I collaborate in hopes of doing well?" These questions involve difficult strategic choices, which means balancing competitive strategies with cooperative strategies. Knowing whether to compete where interests conflict—claiming more instead of less—or to create value by exchanging the information that leads to mutually advantageous options is at the core of the negotiator's art.

The negotiator's dilemma is explored at greater length in chapter 6.

Fisher, Ury, and Patton's popular book *Getting to Yes* supports this view. It shifted people's focus from I-win-you-lose situations to integrative negotiations, in which each party can claim satisfaction. Some have mistaken this to mean that everybody can get everything they want (win-win), which is not what the authors meant. They provide approaches both for creating value (focus on interests, not position; separate the people from the problem) and for "principled" value claiming (identify objective standards). Likewise, other authors, notably David Lax and James Sebenius in *The Manager as Negotiator,* tell readers to focus on enlarging the pie through trades (creating value) while seeking to get a reasonable piece of the expanded pie for themselves (claiming value).

Finding opportunities for mutual benefit naturally requires information sharing. Unlike the distributive situation, in which you deliberately play your cards close to the vest, an integrative negotiation encourages negotiators to do the following:

- Provide significant information about their circumstances.
- Explain why they want to make a deal.
- Talk about their real interests or business constraints.
- Reveal and explain in general terms their preferences among issues or options.
- Consider and reveal any additional capabilities or resources they have that might meet the other side's interests and could be added to the deal.
- Use what they learn to find creative options that will meet the interests of both parties to the greatest extent possible.

Multiple Phases and Multiple Parties

When thinking about negotiating, most people envision one person or one team of people sitting across the table from another.[4] The individual parties eventually hammer out their differences or walk away. This characterization is often accurate. It describes how bosses and their direct reports deal with performance and pay issues, how an individual negotiates for the purchase of a new car, and so forth. Such negotiations are one-on-one and focus on a clear issue, and they are usually handled in a single meeting.

In reality, many negotiations are not so simple. They involve more than two parties, and they sometimes take place in phases, each devoted to one of several important issues. Though these more complex situations are beyond the scope of this book, you need to be aware of them. Each represents a "type" of negotiation.

Multiphase Negotiations

Multiphase transactions and the prospect of future dealings offer important advantages for parties who are trustworthy and who would like to foster cooperative behavior. In these situations, early phases allow the parties to build trust by performing their agreements as promised. A failure to perform warns the other side to be careful and to create enforcement mechanisms for agreements. Early phases also allow the parties to become familiar with each other's communication and negotiation styles. That familiarity often makes subsequent phases more productive.

Multiparty Negotiations

Business and professional negotiations commonly involve more than two parties, and certainly more than two people. Such *multiparty negotiations* can differ significantly from two-party negotiations in one important respect: Coalitions can form among the parties. Coalitions make it possible for weaker parties to gather the strength to push through their preferred proposals, or at least to block those they find unacceptable.

There are at least two types of coalitions: a *natural coalition* of allies who share a broad range of common interests, and a *single-issue coalition,* in which parties that differ on other issues unite to support or block a single issue (often for different reasons).

The challenge of multiparty negotiation is managing coalitions, breaking them apart or keeping them together depending on your own interests. Just as in a two-party negotiation, you must understand the goals, interests, and relationships of the many parties, and work from there.

A natural coalition of allies is hard to break. For example, an environmental agency and a citizen's nature conservation group share basic agendas and will often act in concert to block development initiatives, even without explicit agreement to do so.

A single-issue coalition of otherwise disassociated parties, in contrast, is generally more vulnerable. For example, a labor union and a nature conservation group might form a coalition to block an antiunion developer from building a shopping mall in a wooded area. Each has very different reasons for joining the blocking coalition, which makes it feasible for the other side to put a wedge between them. For example, if the property owner finds a different developer with a better track record in its dealing with unions, the union is likely to withdraw its opposition, leaving the conservationists to fight alone. Or, if the original developer agrees to move the project to a different location, the nature conservation group is likely to pull out, leaving the union as the sole opponent.

Summing Up

This chapter has introduced the basic types of negotiation you're likely to encounter, and what's at stake in each.

- A distributive negotiation pits two or more parties in competition for a fixed amount of value. Here, each side's goal is to claim as much value as possible, as in the sale of a rug at a street bazaar. Value gained by one party is unavailable to others.
- Integrative negotiation is about creating *and* claiming value. Through collaboration and information sharing, the parties look for opportunities to satisfy the key objectives of each, recognizing that they will probably have to give ground on other objectives.
- The negotiator's dilemma describes the situation faced by people who enter any type of bargaining situation. They must determine which game to play: aggressively claim the value currently on the table (and possibly come out the loser), or work with the other side to create even better opportunities that can be shared.
- No matter which type of negotiation you're faced with, it's bound to be more complex if it is multiphased or involves multiple parties. If your negotiation is multiphased, use the early phases to build trust and to become familiar with the other parties. If many parties are involved, consider the benefits of forming a coalition to improve your bargaining power.

Notes

Chapter 1

1. "Win-Win with Mark Gordon," *Harvard Management Communication Letter,* March 1999, 1–3.
2. Ibid.
3. Jim Camp, *Start with No* (New York: Crown, 2002), 4–6.
4. This section is adapted from the Negotiating module of Harvard ManageMentor, an online service of Harvard Business School Publishing.

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