

A Primer on Negotiations

By: *Brian Wygle*

“Trades would not take place unless it were advantageous to the parties concerned. Of course, it is better to strike as good a bargain as one’s bargaining position permits. The worst outcome is when, by overreaching greed, no bargain is struck, and a trade that could have been advantageous to both parties does not come off at all.”

*Benjamin
Franklin*

The following is a brief primer on negotiations. I am not going to try to go into all of the intricacies of negotiation science or game theory, but it is important to consider thing 10 things before going into a negotiation:

1. Desired Outcome

Before one enters into negotiations, it is important to define your desired outcomes. What is it that you ultimately want to have happen? It is also important to make estimates of what your opponent ultimately wants.

2. Best Alternative to a Negotiated Settlement

The next step is to articulate what your alternatives are if no negotiated resolution occurs. What is your best alternative to a negotiated settlement? For that matter is the alternative better than any settlement that can be negotiated? What about your opponent? If they have alternatives that are better for them than

negotiating away too much, there might not be any need for them to negotiate.

3. Reservation Price

Based on your analysis of the above, the next step is to set your reserve price. This is the bottom line outcome that, if not obtainable, it would be better to walk away and pursue your best alternative. Make an estimate of your opponent’s reserve prices, as well. Determine what price would be better for them than their best alternative.

4. Zone of Agreement

From these two positions we determine the “Zone of Agreement”. This is the spread between your reserve price and the opposing side’s. If the maximum price that you are willing to pay is lower than the minimum price your opponent is willing to accept, there is no zone of agreement and negotiation is not possible. For example, if you are not willing to pay more than \$ 6 million and the other side is not willing to accept less than \$ 7 million, there is no zone of agreement.

On the other hand, if the maximum price you are willing to pay is \$ 7 million and your opponent is willing to accept a minimum of \$ 6 million, then you have a \$ 1 million zone in which to negotiate.

5. Variables

From here we move to determining the variables that will impact the negotiations. For example there might be a determinate value of some

continuous variable (money) that can be mutually adjusted.

Time can also be a variable. While there might be a zone of agreement regarding a variable such as price, time may or may not be a movable target. For example, we may agree on a price, but cannot agree on the length of time of the deal. Or in this case target dates may not be acceptable and may cause the price zone to narrow.

Other variables include conditions and terms. Even if the price and timing is acceptable to both parties, there can be various terms and conditions sought by both parties which can render a deal impossible. On the other hand, time, terms, and conditions can be manipulated to make a certain price more palatable. The need to negotiate these factors may also alter the negotiation from a single issue negotiation to a multiple issue one, allowing variables to alter the outcome in a more positive way.

6. Ratification

One question to ask is this: Once you have a deal struck with the parties with whom you are negotiating, does the agreement then need to be ratified by others, on your side or the other's? If so, what will it take to assure that the deal is not altered by those needing to ratify it.

For example, attorneys can negotiate on behalf of a client, but the final deal will need to be ratified by the client. In the case of a loan restructuring for

example, even if the loan officer agrees to the deal, it will need to be ratified by a loan committee. The negotiating party may use the need for ratification to flesh out the opposing side's weaknesses by agreeing to a deal, only to come back saying that the "higher ups" wouldn't sign off and there needs to be more concessions.

7. Is agreement Required?

Another question to ask yourself is: is agreement required? Is it necessary to obtain agreement from the other side to achieve your desired outcome? Are there other ways to obtain your objectives?

8. Assumptions

It is important to take the time to think through your assumptions; about the deal, yourselves, and your opponents. It has been said that there is no such thing as an irrational act, merely faulty assumptions. A big part of the assumption planning process is an analysis of needs. It is valuable to take the time to evaluate your assumptions of the needs and motivations of the individuals with whom you are negotiating, as well as those of the organization for whom they are negotiating. It is also important to assess the needs and motivations of you and the others who are negotiating for you, as well.

The next thing to consider is the behavior of all parties; what does it tell you about the potential outcome of the negotiations and your best route to

success? This leads to the final areas of preparation:

9. Strategy

Based on an analysis of all of the above, what should your strategy be? This is not to be confused with the tactics you will take during the negotiations. Strategy involves an overall plan of action that will guide the negotiations on your side.

10. Tactics

Once you have determined your overall strategy, you can then begin to consider what tactics you will use to achieve your objectives.

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