GOOD FOR YOU, GREAT FOR ME

Finding the Trading Zone *and* Winning at Win-Win Negotiation

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CREATE MORE VALUE

Propose Packages That Arc Good for Them and Great for You

CREATING MORE VALUE THROUGH TRADES

does your past negotiation experience bear out the optimistic notion that it's possible to uncover hidden value that improves each side's outcomes in virtually every negotiation? Or are you skeptical?

At the Program on Negotiation at Harvard Law School, the mutual-gains approach to negotiation lies at the center of much of the prescriptive advice we offer practitioners. This way of thinking puts a premium on value creation—that is, enlarging the pie before dividing it. Value creation hinges on finding and making trades that allow each party to meet their underlying interests. If the package you invent helps both sides exceed their *best alternative to a negotiated agreement,* it makes sense to do the deal.

Most people agree that value creation sounds like a good idea. Yet many argue that *their* negotiations can't be handled that way, either because their counterparts are too committed to hard bargaining or because no additional value exists. In effect, they presume that most negotiations are zero-sum games in which every bit of gain for one side is matched by a loss to the other, and vice versa.

It's true that finding issues to trade is not always easy. If you are negotiating with one person over just one issue, such as the price of a used computer on eBay, and you're unlikely to have any future dealings with him, you may indeed be hard- pressed to create value.

Most of the time, however, the agenda in any negotiation can be expanded, and items can be packaged. For example, a financial deal that seems to be exclusively based on price (Issue I) usually also concerns when the money will change hands (Issue 2) and the likely interest rate that will be charged in the interim (Issue 3). Suppose that a salesperson's commission is determined by the price a buyer agrees to pay, and that the amount the buyer is willing to pay depends on when that payment is due. "If you sign the papers now, you won't have to pay for a year," the salesperson seeking a commission might say. "We'll extend you a line of credit at no interest." If the client can't afford the purchase immediately, but knows that she'll have the necessary funds in six months, the two sides can reach a value-creating deal by exploiting their differing rankings of the three issues on the table.

Often it seems as if there is only one issue at stake in a negotiation. But this is rarely the case. For example, if a negotiation is entirely focused on how much something will cost, it is possible to add issues like when payment will be due, how it can be financed, and how payment for one thing can be linked to subsequent purchases or sales. The key is to put together a package that exceeds each party's expectations. Using a wide variety of examples—from negotiating a strategic alliance to resolving conflict that threatened the viability of a business—I'll present four value-creating moves that all negotiators should be ready to use: preparing to create value, exploring interests and adding issues, playing the What-lf Game, and bringing new parties to the table.

Prepare to **create value.** When preparing to negotiate, always take time to consider two important questions from your perspective, as well as that of the other side: What is your walkaway option, and what, in rank order, are your interests? While most negotiators think about them, they do so only from their own perspective. Careful analysis and estimation, as well as conversations with others, can help you answer these questions.

It is important to spend as much time contemplating the other side's walk-away options and interests as you spend thinking about your own. After all, you probably won't be able to propose a package that the other side will accept if you haven't thought through their away-from-the-table options and their most important needs and wants. In addition, be sure you have a mandate from your superiors or partners to explore options for mutual gain. Finally, get ready to propose packages that exceed the other side's walk-away (if only slightly), meet their interests (reasonably well), greatly exceed your walk-away, and elegantly meet your interests.

By preparing to propose multiple packages at the same time, you can avoid having a preliminary offer misconstrued as a final offer. Each package should be designed to test whether your estimates of the deal space are correct. The more extensively you prepare to address the other side's interests, the more value- creating opportunities you are likely to find once talks begin.

Explore interests and add issues. When seated at the bargaining table, what's the best way to uncover your negotiation counterpart's unspoken interests? Ask questions, then listen carefully to his answers. Even if you've decided to make the first offer and are ready with a number of alternatives, the process of asking and listening to assess interests should always come before proposing options.

Note that if your style of listening isn't sufficiently empathetic, it won't elicit honest responses. Furthermore, you'll have to ask a lot of questions to get a clear picture of someone's interests. Also, to model the type of response you're seeking, you must be willing to reveal your *own* interests. All too often many people assume that exposing their interests will give the other side an unfair advantage, but this is rarely true.

If your attempts to uncover the other party's interests fail, even after you've revealed your own, try probing in a different way. Suppose that you ask a potential client, "Are you more concerned about the cost or the quality of the service we are proposing to provide?" His reply: "Both!" You might then ask, "Would you prefer that we assign our most senior staff member to your account, even though her hourly rate is a bit higher than anyone else's? She's one of the best in the field, without a doubt." The client's response will reveal whether he's more concerned about price or quality.

Here's another way to probe the same person's interest:

"Other clients have raved about some of our junior people—and *W* we take only the best—assigning them entirely to a single ac-

V count. This has allowed us to charge a lower hourly rate than usual while giving the client the attention they want. Would you like to talk to some of our clients who have used this approach?"

Value creation can be especially difficult when parties get snagged on an underlying value difference. When this happens, bridge the gap by identifying overarching values that could provide a motivation to work together. Take for example the abutters challenging Anaconda, the manufacturer (see chapter i), to pay more attention to the health concerns of nearby residents. As a member of Anaconda's management team, rather than arguing that your company has to stay focused on the bottom line, point out that you share the neighbors' commitment to environmental and health improvement. Then consider proposing an effort to replace aging, polluting equipment with more efficient production technologies that will save your firm money in the long run while simultaneously reducing the neighbors' health risk. Such value-creating opportunities can be uncovered by searching for a common interest, such as commitment to health and environmental improvement, rather than letting differences between you dominate the discussion.

Play the What-If Game. The practice of value creation almost always means playing the What-If Game. Specifically, to test whether a trade genuinely creates value, try it out on the other side.

Imagine that you're renegotiating a contract with a customer who is satisfied with the product you currently supply. Your company, however, has invested heavily in a new, improved version of the product, and your own interest lies in persuading the customer to switch to it. By questioning him about his interests, you learn that he's concerned about the rising costs associated with expanding his business. Here's one what-if scenario you might propose: "If I offered you a io percent rebate on every new unit you purchase beyond the $50,000 mark, would you be willing to switch to our improved version?"

Assuming you've agreed to brainstorm ideas before putting together a final deal, you can feel comfortable testing a variety of packages. You can further reduce the risk that your customer will assume prematurely that you're ready to make a specific offer by putting forward more than one what-if proposal at a time. "I can either offer you free delivery," you might say before he has had a chance to respond to your first offer, "or give you a 10 percent rebate on orders of the new product that exceed $50,000." The other party's response should reveal which trade he values more. If he appears to value a rebate more than free delivery, follow up with two more proposals: "I could even give you a rebate of 15 percent on orders above $100,000 if you buy the new version of the product, or I can extend the payment due date by three months with no interest." Each package is designed to create a little more value by taking advantage of mutually beneficial trades.

Make no mistake: there comes a time in every negotiation when the value you've created must be divided or distributed. That's the moment when your chance to win arises. Sometimes anxiety about this competitive dimension inhibits negotiators' ability to create value. Sharing information and engaging in empathetic listening may seem like risky behaviors when you anticipate a distributive battle, but I hope I can convince you otherwise.

Bring new parties to the table. What do you do when little or no trust exists between negotiators? Consider recruiting an intermediary, trusted by both sides, to serve as a go- between focused on creating value. This role could be filled by a professional mediator or by someone with whom both sides have worked in the past, such as a banker who has financed earlier deals. The neutral person's duties would include meeting privately with each side, exploring their interests, and helping to identify mutually advantageous trades. Adding a neutral to the negotiation can assist you in overcoming any uneasiness or reluctance about revealing information about your interests. (Both sides retain subsequent deniability if the go-between is unable to suggest value-creating trades.)

When two parties have found little or nothing to trade, they can create value by inviting still more potentially interested parties to participate in the negotiation. Bringing in an additional equity partner, for example, might close a gap between a buyer and a seller, though a third party would likely reduce the original players' profit. Similarly, a company seeking to buy a new technology through its global purchasing department might find that involving its engineering staff in early discussions with the license holder could lead to new ideas about how to test the technology (once it is in the buyer's hands) in ways that will give the seller new performance results and thus greater credibility with a far larger market. While adding parties to a negotiation undoubtedly adds complexity, it can also

FOUR VALUE-CREATING MOVES:

- *Prepare to create value*
- *Explore interests and add issues*
- *Play the What-If Game*
- *Bring new parties to the table*

help you enlarge the pie before turning to traditional issues such as cost, delivery, and maintenance.

In sum, remember that situations appearing to be zero-sum rarely are. The key to value creation? Bringing a degree of optimism about the chances of expanding the pie to every negotiation. It is a lot easier to win at win-win negotiation— that is, claim a disproportionate share of the value being distributed— if you have done everything you can to create as much value as possible.

NEGOTIATING STRATEGIC ALLIANCES

when we care a lot about maintaining important relationships, we work harder to invent options that are good for our partners and great for us. Often business partnerships are important to a company's strategy, but some are more important than others. This is especially true in supply chains, where producers of key components can be irreplaceable. When you are negotiating with such partners, you want to move into the trading zone as quickly as possible. But just because you are negotiating with a strategic partner doesn't mean you shouldn't try to claim as much value as you possibly can in such negotiations. By adjusting your approach when bargaining with a partner who is key to your strategy, you can build alliances in ways that will help you win at win-win negotiation.

Consider the relationship between "Brattlebury Corporation," which manufactures computers and peripherals, and "Viatex," the company that supplies the plastic ink cartridges for Brattlebury's printers. The companies' ten-year relationship has