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The Car Deal

An exercise to teach about "first gambits" in negotiation

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The following exercise can be adapted to different settings to teach participants the importance of the first offer or demand in a negotiation.

The following negotiation skills exercise is a variation of Howard Raiffa's [\[1\]](#) car sale. The version reported

here is used in a graduate class at a university. The model of the car, the pricing, and the reasons to negotiate are relevant for this student population. For company training exercises, the car might be replaced by a building or a piece of machinery, and the pricing and rationale for selling would be adapted to that set of circumstances.

The exercise is quite simple. The buyer is given one set of facts and the seller, another. Neither is told what the other party knows. The Buyer is given the additional information concerning the Seller's reservation point and BATNA (Best Alternative To a Negotiated Agreement). [2] Both negotiators are given very general values of comparable cars and the Kelly Blue Book pricing.

The focus of the exercise is on the importance of the opening offer/demand. Other elements of negotiation are not directly addressed in the exercise as written.

Background Information Known to the Parties

Buyer's Facts:

You really want to buy a CRX. Since it came on the market, it has been the car of your dreams. You have been car shopping for the last three or four months, but the cars you have seen either have very high mileage or they are trashed. It is not a pretty picture.

Recently, you found Seller's CRX, and it is exactly what you want. You know the Kelly Blue Book indicates for this model a value range of \$1,000 to \$6,000, [3] depending on a number of possible variables. This is your second time to see the car.

Your best friend, Mary, also knows Seller, although Seller does not know that she is your friend. Seller told Mary that s/he, the seller, has to have \$1,500 within a few days and really must sell this car. At the time that Mary mentioned something to you about the car and Seller's need to sell it in order to take a trip, she did not know that you were looking for a car. However, because of her comments, you know that Seller's BATNA is \$1,500, and you also know that there are a few days until this trip deadline. You anticipate that the seller will try to get more money than \$1,500. But remember, you know his/her BATNA!

However, the BATNA may not be Seller's reservation point. If you disclose that you know anything about the \$1,500, it is probable you will make Seller mad and blow a good deal. You want this car, especially if you can get it for a good price.

If Seller throws out the first price, talk about how high the price is, how you don't really need the car, and say you have to think about it. Pretend you are ready to leave. However, remember that this is the best CRX you have seen, and you really want this car!!!

Seller's Facts:

You need to sell your CRX. You want to go to Europe, and you just got the deal of a lifetime on a special package that your best friend can get for you. You have decided that you are going. At a minimum, you need \$1,500 for the car. This is your BATNA (Best Alternative To a Negotiated Settlement), but you certainly could use more. You know the Kelly Blue book value is between \$1,000 and \$6,000, depending on a lot of things.

You are not sure how much you can get for your car, but whatever the price, your present reservation point (Seller's RP), below which you do not want to go, is \$3,000. You will gladly accept anything above your RP, but you are not willing to go below the RP at this time. If you have not made a deal by the last

day before the trip, and if someone comes up with cash on or near the last day, you will reconsider.

You are not in a desperate situation yet, but you know that you have just a few days left before you have to turn in the money for the trip. Keep in mind that you have been trying with no luck to sell this car for the last nine weeks. You have had a few nibbles, but nothing sure, and time is running out. You know an excellent CRX might fetch up to \$5,500. You are pretty sure that amount is not reasonable to expect for your car, but you certainly would take it if you could get it from this buyer.

You are hoping for something around \$4,500, but because of the time issue, you will go lower. You just want to sell it and be on your way. If Buyer makes the first offer and it is lower than you like, work with him or her to get the price up to what you want. Remember, you **MUST** work with Buyer.

This is the second time Buyer has been by. S/he has asked all the right questions, has driven the car, and you think that Buyer is very interested. Be careful though. If you are too stubborn, you could lose the sale. If you are too quick to accept an offer, you might get less than you would than if you held out for a bit.

Rules of the Negotiation Process

The class is divided into teams of two: a Buyer and a Seller. The two parties are given a grid to help them keep track of the offers and demands. At the end of the exercise, they must report who made the first offer, the amount of the first offer, the initial response, and the final price. For the sake of the exercise, teams are required to keep negotiating until they reach an agreement. They are not allowed to "just walk away."

At the end of the exercise, we do a debriefing to determine what the two-party teams did and how they got their results. We compare all the teams' results and discuss why results differed. Finally, we attempt to quantify the "take away" lessons.

Results from a Recent Class:

Table 1 shows the results of teams from a recent class that used the CRX example.

Table 1: CRX Negotiation Results

* Indicates the party that made the first offer

| Buyer's First Offer | Seller's First Demand | Sale Price |
|---------------------|-----------------------|------------|
| \$400 * | \$5,500 | \$1,100 |
| \$750 * | \$4,500 | \$1,350 |
| \$1,000 * | \$6,500 | \$1,700 |
| \$1,000 * | \$4,500 | \$1,800 |
| \$1,200 * | \$5,500 | \$2,000 |
| \$1,500 | \$5,000 * | \$2,000 |
| \$ 950 * | \$7,600 | \$2,500 |
| \$1,500 * | \$5,000 | \$2,500 |
| \$2,000 | \$5,500 * | \$3,000 |
| \$2,000 * | \$5,000 | \$3,000 |

| | | |
|------------------------------|-------------------------------|---------------------------|
| \$1,200 * | \$5,500 | \$3,100 |
| \$1,500 | \$4,500 * | \$3,400 |
| \$1,500 | \$4,000 * | \$3,500 |
| \$2,500 | \$6,500 * | \$4,200 |
| Average of All Offers | Average of All Demands | Average Sale Price |
| \$1,366.66 | \$5,340 | \$2,576.66 |
| | | |

The sole purpose of this exercise is to show the effect of making the first offer/demand. Using these figures in Table 1, we cannot determine which party received a disproportionate amount of the surplus, if any, because we do not have all of the negotiation figures. For example, in the first case, neither \$400 nor \$5,500 was a reasonable opening. We would expect the first reasonable offer by the buyer to be in the area of \$600 to \$700 and \$1,500 to \$1,600 by the seller.

The figures do show that when the buyer makes the first offer, and it is low, the resulting sale is correspondingly lower than it is in the cases in which the seller made the first demand. For example, in the case in which the first offer was \$400, the sales price was \$1,100. In the case in which the seller made a first demand of \$6,500, the final sale price was \$4,200. During the debriefing session, the buyer in the latter case acknowledged that the higher-than-expected demand did affect his/her response and the buyer felt obliged to raise his/her first response to \$2,500.

At first glance, it appears that a few of the offers/demands would fall into the "insult zone," an area in which the offer/demand is so low/high that it would normally not invite a response. However, since the rules of the exercise required the parties to complete the negotiation and come to a final figure, the parties could not just walk away, as might well have happened in a real world situation.

It is also important to remember that in this example, there is an asymmetry of information. The buyer knows both the seller's reservation point and his/her BATNA. The results in the table reflect the buyer's prior knowledge. This circumstance is included in the class exercise to give the students an opportunity to work with these concepts. However, the exercise can be adjusted to eliminate this "buyer's advantage."

The Debriefing

In discussing the exercise, the participants should be encouraged to consider several "take away" lessons.

Disparity of Results

The first comments usually focus on the disparity of sales prices. In the situation reported here, the class members are in approximately the same place in their education. While most classes are ethnically diverse, they are socially and economically similar. All pairs of negotiators had the same facts, yet the sales price ranged from \$1,100 to \$4,200.

When questioned, most students indicated that they were happy with their deal until they saw what others did in their negotiations. The different results definitely impacted their views of the value of the product and their skills as negotiators. In some cases, the disparity of results caused students to view themselves in a negative light even though this exercise was simply a game.

Buyer's/Seller's Remorse

Typically, if the buyer's purchase price was lower than that of others, that buyer touted his/her skills as a

negotiator. This outcome provides a perfect opportunity to discuss buyer's/seller's remorse. For example, suppose a person offers you \$500 for your watch. It is a fair price, you are tired of the timepiece, and you could use the money. Without further discussion, you say, "Yes." The buyer's first thought will be, "I should have offered less." On the other hand, if you offer to sell your watch for \$500 and the buyer says, "Yes," your first thought will be, "I could have asked more." Seeing the different results in the class exercise gave rise to the same feelings.

Other Considerations in Using This Exercise

Ignoring the BATNA

The facts in the Car Exercise given to the buyer included the seller's BATNA, yet in the results reported for the class, the final price usually exceeded the given BATNA. In fact, some of the opening offers exceeded the BATNA. When asked, the students indicated that they felt sorry for the seller or they gave some other emotional response. One can only wonder if such emotional reactions reflect school camaraderie or some other situation unique to the school environment. In most situations it would seem unusual to hear that a buyer is willing to increase an offer solely on the perceived need of a third party who is a "stranger" to the buyer. (If you are using this exercise with a group that has existing relationships, you should be aware that factors external to the exercise may influence the results.)

Not Requiring That a Final Agreement Be Reached

As has already been mentioned, the trainer or instructor can avoid the asymmetry issue by not giving the buyer the additional information about the seller's BATNA and time pressure. Another possible modification would be to offer some small incentive to the teams to reach a final agreement, but not mandate that they come to agreement. For example, in a business environment, one might offer movie tickets or coupons for muffins and coffee at the local deli to those teams who reached agreement. Such an incentive could encourage team participants in the training exercise to try hard to make a deal, but it could also give them the leverage to threaten to walk away if the partner did not negotiate in good faith. In the debriefing session, these paired negotiators would have to explain - or justify - their positions to the entire group.

[1] Howard Raiffa, *The Art and Science of Negotiation*, (Boston: Harvard University Press, 1994).

[2] BATNA (Best Alternative To a Negotiated Agreement) is a term coined by Roger Fisher & William Ury in their book, *Getting to Yes: Negotiating Agreement Without Giving In*, (New York: Penguin Books, 1981). BATNA represents the point at which walking away makes more sense than making a deal.

[3] I made the range absurd to quell the complaints the participants made for more "facts."



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