Negotiations

• Let’s start with an exercise.
• Buying or selling a book.

Outline

• Decision-making for Negotiations
• Negotiation exercises
• Preview of Assignment 7

Negotiations

• Distributive bargaining
  – A negotiation situation where only one issue
    is at stake. Focus is on distributing one type of
    utility between two parties.

• Integrative bargaining
  – A negotiation situation where several issue
    are at stake. Focus is on distributing more
    than one type of utility between two parties.
BATNA

- BATNA: Best Alternative to a Negotiated Agreement.
- BATNA is the resistance point beyond which a party would rather leave the negotiation without an agreement.
- B: “I will not pay more than $80 for this.”
- S: “I will not sell this for less than $60.”
- $\text{BATNA}_B = $80, $\text{BATNA}_S = $60
Integrative Bargaining

- Example:
  - Two sides are negotiating. There are two issues at stake. The sides have different utility perceptions and weights for the two issues.
  - Settlement points are discreet (not continuous.)

Analysis for I.B.

- There are 3x3=9 settlement points.
- The best settlement for the seller is Price=320k; Delivery=3 months (Utility=700+300=1000)
- The best settlement for the buyer is Price=300k; Delivery=1 month (Utility=400+600=1000)

Analysis for I.B.

- The best integrative settlement is Price=320k; Delivery=1 month (Seller’s Utility=700+0=700) (Buyer’s Utility=0+600=600) (Total Utility=700+600=1300)
- This settlement maximizes the total utility and provides a balanced (although not equal) distribution of utility.
Integrative Bargaining

• Integrative bargaining exercise
• Peace talks between Bluebird and Yellowstone