Bargaining ranges & anchoring

• Bargaining ranges (or ZoPAs) are established by each of the parties during preparation for negotiations.
• They are presented in a potentially hidden form through a process known as anchoring
  – They are anchored through the establishing & using power

Bargaining ranges & anchoring

• The negotiation dance attempts to influence the anchoring process of the other side as well as to establish anchors for one’s own side or bargaining zone.
• The objective is to do an effective job of anchoring one’s own side, while influencing– hopefully negatively, the anchoring of the other side

Anchoring

• The process by which a negotiator establishes, in the perception of the other party, the points which define the bargaining zone– the target (aspiration level) and the reservation point.
  – These are not usually disclosed. The negotiator is met with an opening position (an anchoring device) and efforts to frame the negotiation a particular way.
  – The dance deals with discovering aspiration levels and reservation points.
Anchoring & the use of power

"Anchoring" is more than merely stating the point. It involves the use of power mechanisms in the process of establishing these points and one’s resolve and commitment to them. Success in this process impacts the process of arbitrarily slicing the pie in one’s favor. Here arbitrarily means “through the subjective use of power”.

Objective of the dance

So… Is it the objective of the negotiator’s dance to establish as narrow a positive bargaining range as is possible from one’s own anchor, while making it as wide as possible from the opponent’s anchor?

That is, to shift the positive bargaining zone toward the end of the spectrum which favors getting the larger piece of the pie?

Yes… and No.
Deadlock

Simply stated, deadlock occurs when the parties are unable to slice the pie. There is a case of deadlock when there is a negative bargaining zone, since there is no pie available—reservation points do not create any positive overlap.

Deadlock

However, deadlock also occurs and is more insidious in its impact on negotiation, when there is a positive bargaining zone, but the parties are unable to determine where to slice within that zone. The result of that situation is a lose-lose negotiation.

Concern

- Either or both parties focus so intently on achieving their aspiration levels and targets that they accept a deadlock when the cost of their BATNAs are lower values than settling in the ZoPA. This is irrational distributive bargaining.
- Either or both parties are negotiating within the zone of potential agreement, but fail to slice the pie.
Slicing the Pie in Negotiation

Slicing within the positive bargaining zone...

- $14 agreed price, favors the seller
- $11 agreed price, favors the buyer
- $12.50 splits the difference

Contributors to deadlock
If the agreement settles for $14...

- then the seller has left something on the table up to the point of $15. Why not get more than $14, since the buyer’s reservation price allows this? If not, then something is left on the table.
- The buyer has also left something on the table… a huge piece of pie, since the seller’s reservation price was near $10!

Parties become concerned about not leaving anything on the table

Leaving something on the table

- One of Thompson’s characteristics of an ineffective negotiator--one who goes away leaving something.

- But why not do so… if for no other reason than to be “fair and reasonable” or “to be nice” or “to not appear as too greedy” or “for other reasons”? 
Leaving something on the table

- BECAUSE… doing so defeats part of the purpose of a reservation price and of anchoring – your defense against irrationality. If the negotiation is longer-term or repetitive, then leaving something on the table can be used against you next time. Furthermore, the objective of distributive slicing is to get all one can, otherwise it is soft competitive negotiating.

Success means finding balance

- If carried too far, attempts to not leave something on the table result in deadlock.
  - Under distributive or arbitrary pie slicing, one of the parties, at least, has to leave something on the table.
  - However, it is not necessary that both do!
- Success at the distributive tool set of pie slicing is to be the slide that leaves nothing on the table or at least as little as one can.
- Worst case scenario—splitting the difference so that both leave equal amounts. Why?

Bargaining surplus is…

…the amount of overlap in the zone produced by a party’s reservation point. Setting the point broadly creates significant surplus for the other side. Setting it narrowly creates a smaller positive zone or perhaps a negative zone. Setting it broadly also creates aspirations for the other party and, consequently, results in leaving something on the table.
Anchoring and Bargaining surplus

- The anchoring portion of the negotiation dance impacts bargaining surplus as well as pie slicing and leaving something on the table results. Anchoring is the presentation of the point.

Negotiator’s Surplus

Negotiator’s Surplus—what you caused the other side to leave on the table...

![Diagram showing seller’s surplus (Sr) and buyer’s surplus (Br) with settlement point between $10 and $15.]

Objective of the dance

The underlying objective of pie slicing is to create a negotiator surplus for one’s side, without creating deadlock.

The effectiveness of a negotiator’s use of distributive bargaining lies in the amount of surplus which can be achieved in the pie slicing process...

... Or how good was the negotiation dance?
The nature of the dance

Thus, by definition, the negotiation dance is a seductive and manipulative dance, aimed at maximizing surplus, although the other side should never really know what surplus was left and, consequently, the results and impact of the dance.

Pie Slicing Strategies

- Know your BATNA
- Research the other side’s BATNA effectively
- Set high aspirations
- Make the first offer
- Counteroffer immediately
- Avoid stating ranges

Policies for Distributive Bargaining

- Don’t do premature anchoring
- Make bilateral, not unilateral concessions, and small, time-dependent ones
- Use an objective-appearing rationale to support your offers to slice
- Appeal to norms of fairness
- Don’t fall for the even split or split the difference ploy
General Distributive Strategies

- Information gathering and protection
- Caucus to assess the process, establish expectations, and determine courses of action
- Make counter offers involving ranges, and link them to other “pies”
- Watch the concession patterns and degrees of your side and the other side

Issues in Distributive Bargaining

- Beware of using a norm of reciprocity in negotiation
- Should I reveal my reservation point?
- Should I lie about my reservation point?
- Should I lie in protecting information impacting the perception or knowledge of my reservation point, my BATNA or even my aspiration or target levels?