



Negotiation Principles & Terminology

By Richard Todd

Lesson 05 – BATNA and ZOPA

To talk about terminology, BATNA and ZOPA.

BATNA is the best alternative to a negotiated agreement. What does that mean? Basically, it means that we have a plan B. We have a walk-away position. So when I go into my negotiation, I should always have in my head, what's the alternative? What am I going to do if this goes wrong? If I don't get what I need to get, what's my plan B?

And you're probably thinking, yeah, but I have to negotiate with monopoly suppliers. I only have one potential supplier to use, so how can I have a plan B? Even with a monopoly supplier, you can have a plan B. Your plan B might be, for example, trying to redesign the part, trying to go back to your internal stakeholders and find a way of getting out of that monopoly situation. So there always is a plan B. And it's very, very important that you go into your negotiation with a plan B.

You'll reach a stage during your negotiation where maybe you start to feel like you're not getting what you need, and the plan B that you have is starting to look more attractive. If my BATNA, my best alternative, is looking better than what I think I'm going to achieve with the supplier I'm negotiating with, then that's the point where I recognize that I need to time out, walk away, and exit the negotiation.

This also answers the question of when to stop, when to know that I've done enough, when to know I'm not going to get any more out of this, and I need to walk away. So that's BATNA—always have a plan B.

The second one is ZOPA. ZOPA is the zone of possible agreement. Within any negotiation, you've got a zone of possible agreement around each topic that you are negotiating. The seller is going to want to get the best price that he can, and the buyer is going to want to get the cheapest price he can. Somewhere in the middle, there is a market range—a market price that you know because you've done your benchmarks. And then there's this zone of possible agreement.

As long as you get a final result that is somewhere within this zone of possible agreement, you've got a deal that both parties are going to stick to and both parties will honor. Now, obviously, we want the zone of possible agreement to be a little bit more in our favor if possible. For that reason, if we think about what's called small PI bias, this is where we go into the negotiation. We mustn't underestimate the size of this zone of possible agreement.

To do that, you should think about overestimating a little bit. If you think, "I don't know, maybe €25 is the best price you're going to get," you should be thinking, "Well, I'm going to ask for a little bit more than that—maybe 10-15 percent higher." So push that zone of possible agreement to the maximum level. Don't be afraid to ask for more. Don't underestimate it—this zone of possible agreement is usually pretty large.

If you show the video, there's a video with Erin Brockovich from the film "Erin Brockovich," which is quite an interesting video. Just to give a short summary of the negotiation tips we pick up from that video, you noticed that the legal representative sat up in his chair and adjusted his tie when he said the amount he was able to offer. This is called a comfort gesture. Because he felt a little bit awkward, a little bit uncomfortable about what he was saying, he comforted himself by sitting up in the chair and doing his tie.

Comfort gestures are things we do naturally with our hands. We all have them. To try to find out which is your comfort gesture, you should maybe ask a friend or a colleague to identify what you normally do when you ask questions. Is there some kind of special comfort gesture that you do? Ladies tend to play with their hair quite a bit. Gents tend to maybe stroke their arm or their legs, sit up, or do their tie up. These are all comfort gestures.

What it means is that I'm comforting myself because I'm not confident about what I'm saying or doing. So if you can spot the sales guy making that kind of gesture, it's a signal to you to say, "Hmm, what's coming next is probably a little bit fabricated." So, I should dig a little bit deeper, keep pushing to try to work out if it's true or not.

You noticed in the Erin Brockovich video as well that the BATNA and the ZOPA. The BATNA, in this case, was to take the company to court and continue with legal action. That's why at the end he said, "Okay, I can walk away from this negotiation and take you to court." The zone of possible agreement shifted. At the beginning of the video, we were thinking of zero to \$250,000. At the end of the video, we had a starting point of \$250,000 and an ending point, which could be up to the value of the company that they were negotiating with, PG&E—up to several million euros.

So, zone of possible agreement and BATNA—that's the end of that one. And now, we move on to building negotiation teams.
