Two Plus Two Equals Forty-Two

Driving Your Bargain On the Road Less Traveled

By Keld Jensen, July 2010

You enter the conference room and take your seat across the table from a guy who has something you want. It could be money, or services, or widgets. You have an expectation in your mind of the probable outcome based on past experience with similar people. Before you even get started, you're pretty clear as to what you will leave the table with, give or take a percentage point or two.

Now take that figure and double it. Triple it, even! Your vision of what you can come away with isn't big enough. The traditional rules governing negotiation in commercial transactions don't work anymore. If you stay on this customary path, you are losing out on millions—not because of increased costs, but through lost opportunity. You have failed to take advantage of the added value in the transaction that you can't even see until you get on the road less traveled.

Here's the roadmap for the alternative route:

1. Redirect your energy to trust, honesty, and fair dealing
2. Leverage the differences between you and them
3. Cooperate to reduce risk and improve the utilization of resources

These sound like simple steps, but failure to follow them has enormous costs. According to studies by the Copenhagen Business School, businesses are forfeiting as much as 42% of the total value of the transaction because both sides fail to bargain for hidden variables—variables which may allow for an alternate solution that enhances the relative value of the transaction for both parties.

Consider this example. A boxing promoter is in negotiations with Madison Square Garden to host a fight there, and the maximum capacity for the fight is 10,000 people. They agree that the arena will cover the rental and operational costs, as well as the cost of marketing the event; the promoter is responsible for paying the boxers. They will split the gross gate receipts between them.

When it comes time to divide the gross, they run into a problem. The arena wants 65% of gross receipts; even assuming a capacity crowd, the promoter calculates that his 35% cut won't cover the cost of paying his boxers. He counterbids for 50% of the receipts, but the arena insists that they can't go below 58% on their end and still cover their costs. The two sides are miles apart, with no apparent resolution in sight. Traditional negotiators would spend the next weeks trying various ploys and tactics, and eventually might wind up canceling the fight.

Instead, the promoter takes off his blinders and considers what hidden variables could be keeping them apart. After asking the stadium management what their costs and projected revenue for the event will be, the promoter realizes that the stadium is projecting far less than 100% capacity—their demand for 58% of the gross is based on the assumption that only 65% of tickets will be sold. The promoter pitches a new arrangement: "You'll have 58% of the gross of the first 6,500 tickets we sell, and I'll have 42%. If we sell more than 6,500 tickets, you'll have 25% of the surplus gross, and I'll have 75%."

They accept the deal, and both sides walk away happy: arena management gets their 58% cut if 65% of the seats are sold, and the promoter, confident that he can fill the stadium, has a real chance of turning a profit. What seemed like an impasse is turned into a win-win situation.

The point is not that a perfect compromise may be found in any negotiation. But without being open and honest about their needs and underlying motivations—in this case, that the stadium's revenue projections were based on differing attendance expectations—they never could have moved past the gridlock. Having identified the source of their disagreement, they leveraged their difference in expectations to devise a creative solution. Finally, they eschewed the traditional "competitive" model of negotiation in favor of one that emphasized cooperating toward a common goal. In so doing, they found an alternative solution that brought value to both parties.

Under the traditional method of negotiation, that value is typically lost. In this case the deal likely would have failed altogether; recent studies by the Copenhagen Business School of over 25,000 negotiations found that over a third likewise failed to reach a deal. In other cases, the negotiation "succeeds," but value is still lost due to poor preparation and failure to account for hidden variables—that invisible 42% that most negotiators don't even realize exists.

Traditional negotiations often take the form of two parties fighting over a bigger slice of the pie, but their failure to leverage the differences between them means that there is additional value in the transaction that neither side can see. By taking the road less travelled, both sides can realize more by negotiating for a piece of the non-visible value and coming away from the table with a greater percentage than they originally expected.

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