

# Negotiation

People tend to think of negotiation as a game of charisma, if you can just be persuasive or forceful enough, you can strike a better deal, get more for less, etc etc. In reality, it is a game of knowledge, power, and some guesswork.

I did an internship when I was 21, and the manager was nice enough to give us a mini MBA course as part of the internship. It blew my mind that literally everything can be seen as a negotiation. There is no such thing as a fixed "price" for anything. Even what you get paid is ultimately a negotiation. This isn't very profound once you have this knowledge, but as a kid raised by parents who grew up very poor, were generally risk averse, and didn't understand large complicated systems that ran society, this was a game changer. So with this in mind, let's get to the fundamentals of a negotiation, settling on price for something.

One definition we'll talk about up front. BATNA: Best Alternative to negotiated agreement. This is what you do if you can't settle on a price, or an agreement in a negotiation. It's very important for assessing your power in the negotiation, and how far you are willing to push it.

So let's say you really want to go to a Taylor Swift concert (but it's 2008 so the prices aren't crazy and she ain't so famous yet), but either through you being dumb and forgetting to get a ticket until the night before the concert, or because there are a bunch of scalper assholes out there snatching up the tickets, you find yourself outside the stadium trying to get a ticket. What proceeds is a battle between you and the scalper to negotiate a price for the concert ticket.

The scalper says he will sell you a ticket for \$500 dollars. If you are not privy to negotiation, then the price is the price and you have to make a yes/no decision on this. You check your wallet, you only have \$400 dollars cash. Even if you had more, you think you'd rather put \$401 dollars to fulfill your dying wish of having a Playstation 3 that costs \$599 US dollars.

But let's not give up, remember, this is a game of secret information. How much did that scalper pay for the ticket?

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Oh well, let's look at that. The scalper is making money even if they sell it for \$250 dollars. In simple situations, this will be called ZOPA or Zone of Possible Agreement. In academic terms, this is where the final price should lie, and where you land here is a battle of risk taking and confidence. As you'll see, 200-400 isn't necessarily the zone of possible agreement here. But if you were putting in a new order for a laptop or some manufactured good, you'd need to be above their cost of making the good (it's actually a little more complicated than this, you'd technically need to be above their variable cost).

You think about making an offer to the guy. That Playstation 3 can wait, being a swifty cannot. But then this confidence leads to even more confidence. You start thinking... what if the scalper can't

sell any of his tickets? Once the concert is over, those tickets are worthless, and the asshole scalper lost \$200. Even if he sells it for \$5, he is still better off than selling for \$0.

So you wait, and wait. The crowd roars as Taylor Swift comes on stage. At this point you take a deep breath, and go to offer the man \$5. But someone beats you there.

What a loser! They offer the guy \$100 dollars. And so the bidding war begins. You realize there are no other scalpers out there. You remember you have terminal cancer and this is your last time you can see Taylor Swift before you die. You tell this to the scalper in hopes that he will lower his price for you. Instead, he doubles down, being an asshole scalper, and asks for \$500 dollar for the ticket. Fortunately, the other bidder was a rich European tourist who happened to be in town for the concert and had nothing better to do than tickle his desire for the thrill of negotiating, gives you \$100 bucks, and you pay the scalper \$500 for a ticket you said you were going to walk away from at \$400 dollars. FOMO is real, especially when YOLO is real.

Lets break down a few things that happened here.

1. Being desperate ruins your negotiation power. If your BATNA (best alternative to negotiated alternative) is to never see Taylor Swift in your life and save towards a PS3 you might not live to play, then you set yourself up for price gouging. This is particularly bad for people that are poor and have important things to do. For example, someone who is jobless might accept a very low salary because they have a kid to feed. Likewise, if someone is struggling to find a job that will sponsor a visa, they might accept well below market rate just to stay in the country.
2. Some sellers will hold firm because they don't want to train a certain behavior. Lets say there was no second buyer, and you were literally the last person willing to buy a ticket for \$5? Sure, its better in the moment for the seller to take \$5 instead of no money, but what happens when you post this on the internet, then everyone is pushing for that kind of deal? The scalper might just take the \$0 and establish a hard line that they won't negotiate with such an offer so far from asking price. Theoretically this is worse for the scalper, especially as future buyers can bid to drive each other's pricing up, but a small group of fierce negotiators can wear down a general public of weak negotiators.
3. Increase your information to improve your negotiation. Knowledge is power, and you won't know what the scalper paid for his ticket, but you can have a pretty good guess.
4. Improving your BATNA is key to getting the best outcomes. You get the best deals if you hold firm. But this also increases the chance the entire deal will fall through. This means that having a better BATNA is key to getting good pricing and good salaries.

How to improve your negotiation skills?

In every negotiation you can take the time to gather the needed info, do the math on where you think the over

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