

The Card Game 2

As in Theme D, I keep 40 black cards and distribute one red card to each of the 40 participants. Now, imagine that the AGSM's Dean has put up another \$4,000 in prize money: he has offered to pay \$100 to anyone—either me or one of the participants—who turns in a pair of cards, one black and one red.

The stipulation is still that the participants may not get together and bargain as a group with me, but must bargain on an individual basis.

Rule 2: it's a free-form negotiation between me and the participants, not just take-it-or-leave-it.

Where will the negotiations end up?

As a participant offered \$20 for your card, would you take it?

Well, it's true I have a monopoly in black cards, but without red cards my black cards are worthless.

Even if I have all 39 of the other red cards, your red card still has value to me.

The game is really *40 separate bilateral negotiations*.

What is the added value each participant brings to the game?

What added value do I bring?

The Card Game 3

As above, I distribute 40 red cards to the 40 participants, *but now I have only 37 black cards of my own.* The overly generous Dean has put up \$3,700 in prize money: \$100 to each red-and-black pair of cards.

The participants must still bargain on an individual basis. *Rule 2 still holds.*

Where will the negotiations end up now?

As a participant offered \$20 for your card, would you take it?

It's still true I have a monopoly in black cards, and without red cards my black cards are worthless.

What if you hold out for more than \$20?

Since I have only 37 black cards, I am only interested in obtaining 37 red cards. If 37 of your fellow participants have already reached deals with me, then your red card has no further value to me.

This is true for any participant: I should expect to buy 37 red cards for \$20 each. Or even less.

In this version of the Card Game, each individual participant brings very little added value, and so can extract little added value out of it.

(See Brandenburger & Nalebuff in the Folder.)

The Card Game 4

As in The Card Game 2, I keep 40 black cards myself, and distribute 40 red cards to the 40 participants. There is \$4,000 in prize money: \$100 to each red-and-black pair of cards. The participants must still bargain on an individual basis. *Rule 2 still holds.*

But before negotiations start, a mobile phone rings and one of the 40, KO, announces he's been called away. No problem: I promise KO that he'll get equal to the best deal agreed with any of the other students—he's a *most-favoured-customer* (MFC).

Where will the negotiations end up now?

As a participant offered \$20 for your card, would you take it? It's still true I have a monopoly in black cards, and without red cards my black cards are worthless.

What if you hold out for more than \$20?

Since I have promised KO the best deal, I shall be a much tougher bargainer, since each dollar I concede to anyone in the room will cost me another, to KO.

I have the incentive to push twice as hard as before, and should end up with more than \$50.

MFC clauses change the game, in my favour, despite their name.

The Texas Shoot-Out or Savoy Clause

When two partners set up a business or joint venture, they often include *a rule specifying what to do if one of the partners wants out*. A common rule is called the Texas Shoot-Out or Savoy Clause.

The opting-out partner states a price. The other partner must then either buy the first one out at that price or sell his partnership interest at that price.

If you wanted out, what price would you pick?

A price at which you're equally happy being bought out or buying your partner out? What should matter isn't just what you think the venture is worth, but also what you think the other partner thinks it's worth.

The right strategy takes account of *your perception of the other partner's perception of the pie*.

If you value it at \$1 million, and you know she values it at \$600,000, then a good price to offer would be \$310,000: at this price she'd rather sell to you than buy you out—just.

If you don't know her value, you could ask \$500,000, which you get regardless of her response.

Or you could encourage her to shoot first, giving you the choice of buying or selling: below \$500,000, buy; above \$500,000, sell.

Rationality: Yours and Others'

A person is rational if he does the best he can, given how he perceives the game (including his perceptions of perceptions) and how he evaluates the various possible outcomes of the game.

Players' perceptions may vary: different information.

Players' evaluations of the same outcome can vary (see The Wisdom of Solomon): different motivations.

Simply dismissing someone as irrational closes the mind. Better to try to see the world as the other person sees it.

Look at the game from multiple perspectives:

- ***To assess your added value, put yourself in the other players' shoes and ask what you bring to them.***
- ***To understand the impact of a rule, put yourself in the other players' shoes and anticipate how they'll react to your move.***
- ***To appreciate differing perceptions, put yourself in the other players' shoes and see how they look at you and the game.***

**But not: how would you analyse the game from the others' perspective.
Rather: how would *they* analyse the game from their perspective.**

In Other People's Shoes

“When I am getting ready to reason with a man I spend one-third of my time thinking about myself and what I am going to say, and two-thirds thinking about him and what he is going to say.”

— Abraham Lincoln

“The ability to see the situation as the other side sees it, as difficult as it may be, is one of the most important skills a negotiator can possess. It is not enough to know that they see things differently. If you want to influence them, you also need to understand empathetically the power of their point of view and to feel the emotional force with which they believe it. It is not enough to study them like beetles under a microscope; you need to know what it feels like to be a beetle. To accomplish this task you should be prepared to withhold judgement for a while as you “try on” their views. They may well believe that their views are “right” as strongly as you believe that yours are. You may see the glass as half full of cool water. Your spouse may see a dirty, half-empty glass about to cause a ring on the mahogany finish.”

— Fisher & Ury: *Getting to Yes*