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CASE-STUDY: PRICE NEGOTIATION BETWEEN *AMAZON* AND *WHOLE FOODS*

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Case-study: Price Negotiation between *Amazon* and *Whole Foods*

ABSTRACT

This project illustrates the key strategic issues involved in price negotiations and discusses the main concepts and ideas to analyze such situations. In particular, this report presents a case-study of a price negotiation to be used in Masters Programs and executive education workshops, as well as an analysis of the case-study. The case-study is based on a real-life price negotiation which happened in the context of an acquisition process between a global online retailer (the acquirer, *Amazon.com,* renamed *Borneo*) and a natural and biological certified grocery store (the target, *Whole Foods Market*, renamed *Fit Veggies*). The report is organized as follows: we start by briefly describing the negotiation between *Amazon* and *Whole Foods*. We then present the case-study, particularly the general and confidential instructions for both parties. Finally, we conduct a case review introducing the main ideas for analysis of a price negotiation.

Keywords: Price negotiations, Single-issue negotiation; Distributive bargaining; Case-study; Role-play.

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INTRODUCTION

Price negotiations occur in everyday life: from buying a house or discussing your promotion's future wage up to leveraging millions of dollars in mergers and acquisitions' deals. This project analyzes the key strategic issues involved in price negotiations and introduces the main concepts, tools and methodologies to deal with such situations. In particular, we present a case-study of a negotiation between a natural grocery store and an e-commerce retailer to be used in Masters and executive education programs. The presented case-study is a practical negotiation exercise. In fact, we provide general and confidential instructions to enable students to role play and to simulate a real negotiating situation. The case-study is based on a real-life negotiating case, namely the negotiation between *Whole Foods Market*, renamed as *Fit Veggies,* and *Amazon.com,* renamed as *Borneo.com*.

The project is organized as follows: right at the beginning, the reader is provided with the illustration of the real case between *Amazon* and *Whole Foods*. Next, the *Fit Veggies – Borneo.com* case-study is deployed. Lastly, it follows a literature review which explains the foundations of superiorly performed price negotiations.

To create the case-study, we used the information retrieved from several reports, and mainly the *Whole Foods Preliminary Proxy Statement* provided by the *Security and Exchange Commission* ("*SEC*"), the *Amazon* and *Whole Foods* 2016 Annual Reports. We also considered some key articles from *The Financial Times* in order to collect opinions and beliefs regarding the negotiation. Additionally, interviews with managers (whose names we cannot disclose because of confidentiality) directly from retail and e-commerce industry have been conducted to enhance understanding of frameworks in this kind of negotiations. Finally, we also conducted a literature review, to obtain background information on the factors which influence the final outcome.

The analysis of the case study illustrates that probing for information is a fundamental part in the preparation phase and during the negotiation. We also discuss a fundamental dimension of price negotiations: the positioning battle. In such negotiations, the final outcome is largely determined by to what extent each negotiator is able to anchor the negotiation around the other side's limit (or Reservation Price) or, in contrast, lets the other side anchor the discussion around his/her limit (or Reservation Price). In addition, we emphasize the importance of carefully managing the negotiation process. This means arguing less and asking more questions, active listening and managing the interpersonal relationship using the golden rule "soft on people, taught on issues".

Context of Negotiations

The typical M&A venture involves two parties: an acquirer (the buyer) and a target (the seller). There are many reasons behind merger and acquisition ventures. Acquirers could simply look for beneficial products or services; and quite often human capital is involved. The buyer targets a team of knowledgeable people to enlarge competences and abilities of its own company (Cannella & Hambrick, 1993). Additionally, patents and licenses play a special role in the motifs of M&As (Walsh & Ellwood, 1991). Finally, when the buyer faces a situation in which some needed assets are difficult to extricate from other unneeded assets, M&As allow the acquirer to buy only part of the firm (Hennart, 1988). In general, the acquirer is usually a company that has access to liquidity, funds for developments, and further investments (Hussinger, 2010). The target is a company that has developed valuable knowledge, products or services for which is considered as an appraisable resource, up to the point that bigger companies are willing to pay for it. Obviously, while the acquirer wants to lower the purchase price, the target wants to increase it.

M&A negotiations are often largely centered on price, thus constituting a very good example of price negotiations. There are many different dimensions in M&As such as certainty of value, likelihood of completion, among other dimensions that are quite important. However, the objective of the case-study is to introduce the discussion of how to deal with single-issue negotiations and, in particular, price negotiations. For this reason, other plausible and realistic M&A disputable issues have not been discussed or considered.

Moreover, information asymmetries often play a crucial role, as a result of the reluctance of parties to be totally transparent throughout the negotiation process (Sebenius, 2001). Finally, in M&A negotiations, time is typically a very important element, as parties face tight deadlines imposed by corporate policies, the evolution of stock prices and shareholders' interests (Hussinger, 2010).

Parties involved in Negotiation

In this section, we provide a brief description of the two companies involved in the negotiation, *Amazon.com*, Inc. ("*Amazon*"), the acquirer, and *Whole Foods Market, Inc*. ("*Whole Foods*"), the target.

Whole Foods Market, Inc. is an American listed (WFM) corporation whose main operating segment is natural and organic supermarkets. The main objective of the company is to go beyond the well-known food retailing commerce and become a pioneer in the "Certified Organic" food while providing superior performance to consumers, and remaining an active protagonist in environmental stewardship (Johnston & Szabo, 2011). Financially speaking, after almost 40 years of profitable activity, *Whole Foods* started experiencing a steady decline in stock price and net profits. For this last reason, *Whole Foods Market* became open to the idea of being acquired by a company, which would enable it to yield again.

On the other hand, *Amazon.com* is a Seattle-based e-commerce company (AMZN). Currently, *Amazon* is a global "customer-centric" behemoth serving consumers, sellers, and developers with operations in twenty-two countries. *Amazon* reached financial flexibility and evident inclination to inquire further investments opportunities. In the past decade, *Amazon* has been focusing on embracing external trends, and thwarting first and secondary competition. This is similar to the acquisition of a bio and healthy food retail company like *Whole Foods Market, Inc* (Johnson & Szabo, 2011). With the acquisition of *Whole Foods, Amazon* would obtain the guarantee to have one less competitor in the fast-growing industry of ecological and sustainable products and, at the same time, acquire its valuable resources.

THE REAL CASE

Before presenting the case-study, we present, in this section, the real negotiating situation. During the last two years, *Whole Foods* has been delivering poor performances due to a general decrease in efficacy and efficiency. As a result of it, at the beginning of the spring, *Whole Foods* started being pressured by *JANA Partners* ("*JANA*"), the activist hedge fund who acquired almost 9% of the Company's outstanding common stock. *JANA* main concerns focused on the composition of the Board of Directors and the general management style of the Administration.

In the light of the *JANA* activism, four different private equity firms started sending separate inquiries to *Whole Foods*. In addition, two not-known "*Company X*" from the retail industry expressed the interest in creating a partnership. In the same week, *Whole Foods'* CEO, Mr. Mackey, and Mr. Meyer, the Executive Vice President of Operations, put another possibility on the table that, since then, has not been considered: *Amazon.com*. Recent media reports suggested that *Amazon.com* would have been interested in acquiring the company to increase its growth opportunities in the retail sector. Even though no previous encounter happened between *Amazon* and *Whole Foods*, the idea of being targeted by the online behemoth clearly resonated into the ears of the *Whole Foods*' higher-level management.

Meanwhile, *JANA* pressure did not cease. In fact, only after a month from the beginning of the tension between *JANA* and *Whole Foods*, the hedge fund sent a harsh letter pointing out the deficiencies of the company, and calling for immediate action. After careful deliberations, Mr. Mackey decided to invite *JANA* for a personal meeting, with the hope of persuading them to be more patient. The meeting did not turn out as planned as the hedge fund activism got even more ardent. *JANA* strongly asserted that the poor past results achieved by *Whole Foods* were attributed to the management style of the Executive Officers. Because of it, it enquired *Whole*

Foods to make significant changes in the Board of Directors. In other terms, Mr. Mackey's CEO position at *Whole Foods* was at stake.

Mr. Mackey had to immediately find a better alternative to prevent a scenario in which he and his team would have been literally dismissed from their own company. The *Whole Foods*' Board of Directors believed that a meeting with *Amazon.com* would have better clarified their eventual additional opportunities. Therefore, without hesitation, on a Sunday afternoon of late spring, Mr. Mackey and other top Executives met with Mr. Benzos, *Amazon*'s CEO and other *Amazon.com* representatives to discuss the actual *Amazon* interest in acquiring *Whole Foods* (all this neither raising any financial parties' evaluation nor assessing quantitative transactions). As a proof of real commitment, just a week later, Top Executives from *Amazon.com* met again in Austin, Texas at *Whole Foods* headquarter.

Until the end of May, *Whole Foods* continued in evaluating several options: from negotiating with *Amazon*, to consider additional Private Investment in Public Equity (PIPE), M&As and the two *Company X* initial interest in partnering with *Whole Foods*. However, *Whole Foods* continued violating the stringent requests of *JANA*. Because of this, the latter company started sending mails, letters and calls. At this point, Mr. Mackey could not ignore the escalation of conflict and the tension coming out of the situation: he had to make a choice.

At the end of May, *Amazon.com* sent the first official offer for an acquisition: US$41.00 per share of the *Whole Foods*' common stock. There is need to point out two major points. First, in the letter proposal, *Amazon* emphasized the importance of the deal since *Whole Foods* was a strategic investment. Secondly, the e-commerce global company vigorously demanded secrecy during the negotiations. The agreement was that disclosure of any information to the public would lead to termination of the agreement. In fact, two days later a consultant involved in the negotiation directly called the CFO from *Whole Foods* to reiterate that confidentiality was mandatory and that *Amazon* was not interested in a multiparty bidding war. After several discussions and researches, *Whole Foods* decided to pursue its effort in the negotiation with

Amazon. In this way, *Whole Foods* not only would have high return, but also *JANA* pressure would have finally stopped.

Whole Foods sent a counter-proposal at a higher price: US$ 45.00 per share. An *Amazon's* consultant said that: "as the last stretch *Amazon.com* was willing to offer US$42.00 per share but stressed several times that this was *Amazon.com*'s best and final offer" (SEC, 2017). On top of that, *Amazon* insisted on the fact that *Whole Foods* should not have considered other potential bidders while the negotiations were still ongoing. For the ensuing two weeks, both companies unostentatiously kept performing their researches and making their considerations, until in the middle of June when *Whole Foods* communicated its approval to the deal with the e-commerce bidder: *Amazon* would acquire *Whole Foods* for US$42.00 per share - 13.7 billion US$ including debt.

CASE-STUDY

In this section, we present the general and confidential instructions of the case-study. A crucial ingredient of the negotiation exercise is that both parties lack some important information about the negotiation context and, in particular, about the other side's situation. Participants are allowed, before and during the negotiation, to ask for clarification and other specific questions with the objective of obtaining additional information. Students may use these questions to get a better understanding of the negotiation context.

The negotiation process is as important as its outcome. Both participants highly benefit from a process that is held in appropriately and constructively. In fact, it is crucial to build a long-lasting and trustful relationship with the other side (regardless of the fact that we deal with one shot or a repeated set of negotiations). A positive negotiation process guarantees no resentment and the feeling of a fair outcome for both sides. Because of this, students will be evaluated both on their negotiated outcomes and their negotiating process. In order to do so, students will be asked questions about the process of the negotiation. The negotiation process questions will be included in the confidential instructions (Appendix 1).

In the section of confidential instructions, minor changes are made: *Silvia's Market* and the other companies mentioned are fictitious. This happens because everything is set to create a story and to guide the player through it.

<u>General Instructions</u>

This negotiation is about the possibility of sealing an acquisition deal between *Fit Veggies* and *Borneo.com,* in which *Borneo.com* is the buyer and *Fit Veggies* the seller. *Fit Veggies* believed that a personal meeting with *Borneo.com* would better clarify their eventual additional opportunities. Therefore, it has been agreed to meet face to face.

Organic and Natural Goods Retailer – *Fit Veggies*

Fit Veggies calls himself the "American Healthiest Grocery Store". Founded more than 30 years ago, it was the first American supermarket chain to fully develop itself around the concept of selling organic and biological products. From Austin, then Houston, Dallas and slowly reaching every top city in the US and UK, *Fit Veggies* was able to build a strong brand recognition based on its core values of natural, organic, and high-quality goods sold. Three years ago, *Fit Veggies* became the first national "Certified Organic" grocer and still today it is the only national supermarket with all stores and departments certified. *Fit Veggies* is ranked among the Top 100 retail chains in the world, in terms of annual revenue.

Giant E-Commerce – *Borneo.com*

Borneo aims to be "Earth's most customer-centric company". It engages in the supply of online retail shopping services, even though the company's spectrum of interests is getting wider day after day. Two years ago, *Borneo* became the world's eighth-largest retail company. According to *Borneo's* strategy, it is necessary to quickly embrace powerful trends. The continuous research for upcoming trends and the relevance given to the high speed of every operation are the reasons why *Borneo.com* got global success. Because of these core values, in the latest *Borneo*'s Annual Report, it is stated: "valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate". At the time of the negotiation, the principal sources of liquidity of *Borneo* are at fair value of 26.0 billion US$.

Industry Overview

An estimated two-thirds of the U.S. Gross Domestic Product (GDP) comes from retail consumption. This involves 13 major types of retailing business, in which only the *Food & Beverage* segment reaches the 13% of the total sales generated annually in the U.S. retail industry. Lately, the Industry reported an increase in sales of 2%, reaching 649.1 billion US$ of national expenses (Chieng, 2017). Finally, researches show that organic and natural products saw an increase of 9% in sales overall retail channels. Experts suggest that the whole retail industry faces several big challenges due to the speed of e-commerce advancement and the large primary and secondary competition that stores face (Chieng, 2017). Nonetheless, Millennials are the driving force of the new trend of 0 km process, organic and vegetarian/vegan, which has seen an increase of sales up to 107.9 billion US$ this year (Rowland, 2018).

Tomorrow's Negotiation

In tomorrow's negotiation, *Borneo.com* and *Fit Veggies* will negotiate the terms of an eventual acquisition in which *Borneo.com* represents the buyer and *Fit Veggies* the seller. It is important to keep in mind that M&As are commonly known as very stressful business activities due to the deadlines projected by the trading floors, third parties or intermediaries and pressures put by internal management and shareholders. Because of the challenges just mentioned, a no-deal solution is a possible option. However, both players may have a lot to gain with a deal.

Confidential Instructions for *Fit Veggies*

Fit Veggies is facing a very hard and stressful time. As a result of past poor performances, the company is facing pressure coming from an activist hedge fund who acquired 8.8% of the Company's outstanding common stock. You are *Fit Veggie*'s CEO and your main concern is that the activist hedge fund proactively endures changes in the Company's Board of Directors. This pressure comes from the Company's declining financial situation: 1. Net Income Prior Tax in the last Financial year was equal to 1,009,602 US$, later on it got a huge decline reaching 466,113 US$; 2. Gross profit as a percentage of sales decreased 78 basis points; 3. In the first quarter of the year, *Fit Veggies* reported their sixth consecutive quarters of declining sales and announced that the company would be closing nine stores. As *Fit Veggies*' CEO, you feel incredibly constrained and stressed. Therefore, you are analyzing all the potential solutions and gaining prospects.

An interesting option would be pursuing a leveraged buy-out or a Private Investment in Public Equity, in light of the interest shown by a Private Equity firm. The firm offered a share cash price of 36.00 US$. The price offered is in line with the market value of the Company and its historical share price with a small premium. Financially speaking, a PIPE (Private Investment in Public Equity) represents a valuable and relevant agreement because it would enable *Fit Veggies* to quickly access equity financing and liquidity. Moreover, PIPEs usually are the shortcuts of companies in need because of fewer regulatory issues with the Securities and Exchange Commission ("SEC"). Rather than waiting for several months or longer, the business normally obtains the required funding in few weeks (two or three). Nevertheless, in case of pursing this kind of solution, *Fit Veggies* could face several disadvantages. As a result of the buyout, shareholders could decide to quickly sell their stock, which would mean a decrease in the share price of the company. If a large amount of share is sold at lower prices, the Private Equity firm could start pressurizing *Fit Veggies* and even claim a majority ownership of the Company. Overall, the immediate acquisition of equity investments and all the mentioned advantages equal to evaluation of 2.00 US$ per share premium.

About 10 days ago, the *Borneo.com*'s CEO contacted you. The call was expected since recent media reported that Borneo would be interested in acquiring the Company for further growth opportunities in the retail sector. After several discussions, review analysis, and scenario comparisons, you decided to pursue *Fit Veggies*' effort in meeting *Borneo* for a potential agreement. The reasons which sustain this choice are the following:

Attractive value. Even without any actual quantitative offer, it is predictable that *Borneo* would guarantee a substantial premium. *Borneo* confirmation of setting a personal meeting to discuss a merger is a first clear signal of commitment. Thus, the online retailer surely is going to offer a superior price, which means profitable gains for *Fit Veggies*. The point of the negotiation will be around the maximization of value creation and extraction.

Strategic deal. The continued operation of *Fit Veggies* on a standalone basis seems to be less strategic than entering into the merger agreement with *Borneo.com*. Intense competition faced in the supermarket & grocery industry, challenges experienced in carrying out technological enhancements, price reductions and cost optimization, and, the overall macroeconomic declines leading to the deterioration of sales and prices, are all important factors that should be considered. What just mentioned induces to conclude that the *Borneo's* financial capacity, technological and knowledge-related resources are crucial elements in order to jeopardize any kind of risks for the long-term *Fit Veggies* plan. Furthermore, *Borneo* just launched a new service called *BorneoFresh* which seems to fit perfectly with what *Fit Veggies* already developed: a local-based fresh-goods delivery system. For this reason, you believe that the knowledge and expertise you got during the last years in distributing novel products could be highly relevant.

Confidential Instructions for *Borneo*

Borneo has seen a constant rise in sales, net income and free cash flows with the applause of financial experts, global common stocks and shareholders. Regardless of the outstanding results achieved during the last decade, *Borneo* knows that every decision regarding the retail industry is critical and pivotal. Six months ago, you became the CEO of *Borneo* and since then your only concern has been *Borneo's* strategic growth. After months of research, meetings and consultations, you finally decided that the time to enter the fresh and natural grocery store market has come. You know that purchasing the right supermarket chain will significantly affect the future of U.S. groceries stores and entire supermarket industry. In fact, this is part of what *Borneo* develops constantly as one of the main sides of its operational and growth strategies: acquiring and merging developing and potentially profitable companies.

You ran a Comparable Company Analysis as part of the valuation process to estimate your best alternatives. The comparison considers the financial information of the selected companies, the price you will eventually offer and finally the synergies you share. You ended up with two very different yet discussable options: *Fit Veggies* and *Silvia's Market*.

Silvia's Market is a generalist retailer company, more specifically, a supermarket chain which operates solely in the US. Its strategy focuses on the average American family, aiming to become the best supermarket that a middle-class family would trust. For this reason, *Silvia's Market* model is based on a balanced price-quality ratio: relatively high-quality food for a reasonable price. For the already big reach won by the company and the long-term tactical scheme, *Silvia's Market* competes to become the next strategic *Borneo's* acquisition. After some calculations, you estimated the *Silvia's Market*'s share market value for an acquisition deal is 46.00 US$.

However, when you looked at the potential synergies between the two companies, you started having some doubts. In fact, *Silvia's Market*'s mission seems to be very far away from what is a core *Borneo's* value: innovation. The whole company structure and administration is indeed very conservative and not ready to be adaptable to changes. As the CEO of one of the most dynamic and fast-moving companies in the world, you are afraid that this could compromise the entire M&A's outcome.

Furthermore, four months ago *Borneo* launched a new service for an overall expense of 2 million US$: *BorneoFresh*. It is a system that delivers fresh grocery products, including fruits, vegetables, and herbs to the buyer's address. Considering the money invested and your expectations towards the *BorneoFresh* delivery service, the acquisition you are planning to do needs to be necessarily supportive to *BorneoFresh*. Having said this, you believe that *Silvia's Market* could be the wrong choice. In fact, the company has very little variety of fresh fruits and vegetables and the majority of its suppliers for other products is not US based (in other terms, the freshness of the goods is significantly lower). Finally, as a result of the strong belief in word of mouth marketing, *Silvia's Market* only online activity so far has been *Google AdWords* and similar, with no intention of getting deeper into the online and internet-based kind of business. The level of strategic and operational divorce makes you reluctant in pursuing your M&A effort towards *Silvia's Market*. To conclude, the overall estimated advantages in acquiring *Silvia's Market* equal to an evaluation of 2.00 US$ per share premium in the *Borneo.com*'s future share price.

Your second option and most attractive one is *Fit Veggies*. You highly evaluate the synergies between *Borneo*, *BorneoFresh* and *Fit Veggies* and this is the reason why you called to schedule a meeting with the company's CEO to discuss a potential M&A agreement. More specifically, you listed all the components and synergies that make you believe *Fit Veggies* to be the best option available:

*Food Delivery Service***.** This point and the one that follows are mostly related to the strategic intents of *Borneo*. In fact, *Borneo* understands that convenience, for American (and international) consumers, is one of the forces driving everyday purchases. Additionally, there is the undeniable increase in online delivery food sales. Two years ago, Americans spent US$30 billion (4 of them exclusively by online delivery platforms). Last year, *Statista* found out that the 10% of Americans use delivery services at least once a week and that around 48% of diners stated that "they enjoy using food delivery services *very much* or *quite a lot*". This is the reason why *Borneo* invested in its own online grocery business *BorneoFresh*. The retail company expansionistic visions perceive the acquisition of *Fit Veggies* as the final and decisive step into the door of fresh, natural and organic food in the online delivery industry. The grocery company has indeed much more experience and expertise than *Borneo* in the delivery of fresh goods. *Fit Veggies* developed several local fresh delivery systems several years ago from which it acquired a very high and estimable level of knowledge.

Distribution Hub. In one of the meeting with your consultant company, you were also informed of an important aspect: urban real estate. Last year, *Fit Veggies* could praise 456 stores: 436 stores in 42 U.S. states and the District of Columbia; 11 stores in Canada; and 9 stores in the U.K. Moreover, 21 *Fit Veggies*' leased properties and adjacent spaces are not being utilized in current operations and its main use is being postponed by the natural grocery company. Overall, property and equipment totaled 3.442 million US$. *Borneo* extreme growth also needs physical retail presence or more distribution hubs.

Financial Resources and Returns. Borneo.com subscribes counts on more than half of American households with income over 100.000 US$, and they spend more than 1.000 US$ a year in using it. Wealthy families regularly spend 500 US$ a month at *Fit Veggies*, which means that *Borneo* could expect its richest customers to spend thousands of dollars a year through *Borneo*. *Borneo's* penetration of the affluent natural-focused market will undeniably grow with the acquisition of the most recognized organic brand in the US.

One core aspect of *Borneo's* strategy is the High-Velocity Decision Making. "The senior team at *Borneo* is determined to keep out decision-making velocity high. Speed matters in business" you wrote to *Borneo's* shareholders in the last letter you sent them. For this reason, you recommend the decisional strategy of "*Disagree and Commit*". Indeed, most negotiators face an internal battle regarding what to offer, what is reasonable to accept and what are your real interests in the negotiation. In this process, you want people to think hard and fast. You know that time is important in negotiations, and that period you take to make decisions is crucial.

Additionally, the alternatives of *Fit Veggies* (if any), are unclear, but in spite of that, *Borneo* has to be the only focus of attention of the grocery opponent. *Fit Veggies* clearly needs to receive the message that the e-commerce giant is not in a position to get into a long bidding war. *Fit Veggies* has to be exclusively interested in *Borneo* proposal or else *Borneo* would turn its interests to other opportunities in the retail sector. The threat works because it is credible: *Borneo* has the capability to inflict real damage to the opponent by resigning, it has the incentive to carry out the threat because of the various options in acquiring other retail companies and, lastly, it is a realistic and plausible promise to cease the threats if *Fit Veggies* would collaborate.

Finally, you vigorously demand secrecy during the negotiations. Leaking any information to the public would force you, as CEO of *Borneo*, to immediately terminate the discussion on the agreement. In competitive bidding situations, total secrecy and information control is vital. Information asymmetries, the leak of confidentiality and inconsistent concealment behavior mean disastrous outcomes regarding deals and agreements. In fact, *Borneo* needs to ensure stability in share prices: the company has to avoid any kind of speculation to make the negotiation faster and more efficient. *Borneo* has always been a Master of secrecy and during all the past mergers this has been one of the company's major strategies. With non-disclosure, *Borneo* guaranteed steadiness, speed, and information symmetries among the covenants.

Additional Information

Both before and during the negotiation, students are allowed to ask, not only clarifying questions, but also questions to obtain additional information – information that they consider relevant for the negotiation, but that is not contemplated in their general and confidential instructions. We list below the additional information that students may get by asking the appropriate questions.

Relevant information that Fit Veggies players may get

Q: What is the maximum price that Borneo is willing to offer?

A: To help *Fit Veggies* with its final evaluation, external consultants made some forecast about the *Borneo*'s bidding range. Considering future synergies, company's comparisons, and strategic consequences, they believe *Borneo* will offer between 44.00 US$ and 48.00 US$.

Q: Does *Borneo* have other options available?

A: A managing director from a Partner company of yours received the information that *Borneo* is also considering a generalist retailer as an alternative acquirable company: *Silvia's Market*.

Q: How high would *Borneo* offer for their other alternative?

A: Your Account Manager gave you a report about Comparable Companies' relevant data. More specifically, you know that the historical share price of *Krogy.com*, *Publima*, *The Fresh* and *Flower Markets* are the following: 31.00 US$, 83.00 US$, 28.00 US$, and 64.70 US$. All of the share price just mentioned have the 89% probability to remain constant.

Relevant information that Fit Veggies players may get

Q: What is the historical *Fit Veggies* share price?

A: After you asked your Account Manager to do some research, you know that the historical *Fit Veggies* share price lies between 33.00 US$ and 37.00 US$.

Q: Is any other party interesting in acquiring *Fit Veggies*?

A: There have been rumors of a Private Equity firm showing interest towards the possibility of acquiring *Fit Veggies*.

Q: How much is the Private Equity firm willing to offer for *Fit Veggies*?

A: A journalist got the information from the *Fit Veggies* Head Account Manager: the company will offer somewhere between 34.00 US$ and 38.00 US$.

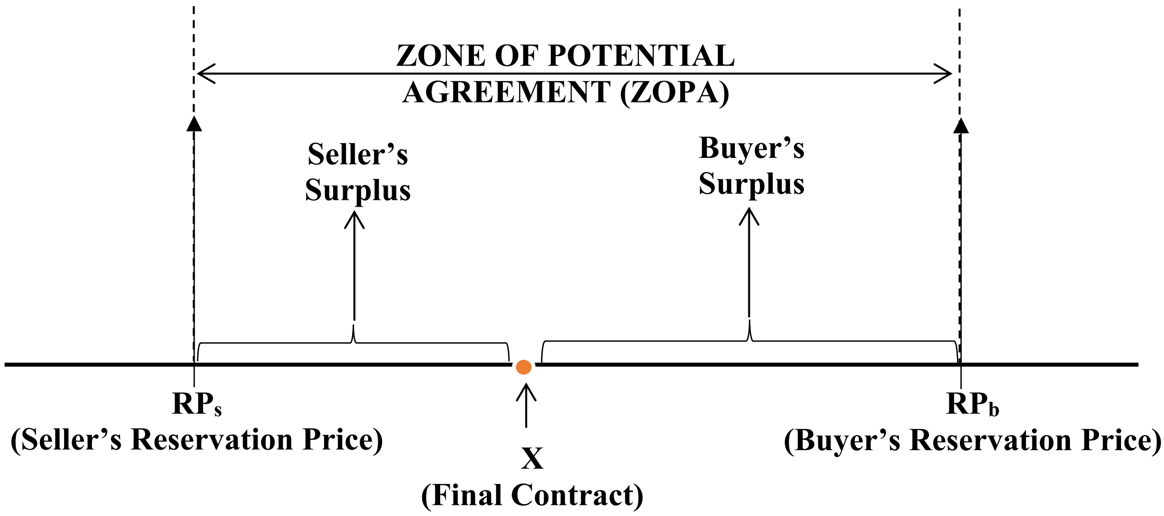
LITERARY REVIEW AND ANALYSIS

In this section, we discuss the key strategic issues involved in price negotiation and present the main concepts and tools to study them. The section is organized as follows: we start by introducing the structure of a price negotiation. We then present a key strategic dimension of price negotiations, namely the positioning battle. Next, we argue that the outcome of a negotiation is largely determined by a process of convergence of expectations. Finally, we apply these ideas to the analysis of the presented role play negotiation case-study.

Structure of a Price Negotiation

Price negotiations constitute a very common type of single-issue negotiations. In fact, when there is only one issue on the table, it is often price. In single-issue negotiations, the main dimension is the distributive dimension. For one site to get more, the other side has to get less. Because of this tension between players, the negotiation process is often very difficult: the gain of one party is the loss of the other party. The purpose of the "haggling problem of the bazaar" (Raiffa, 2002-p.126) is to appoint a price that is acceptable to both parties. In this kind of negotiations, it is very painful and troublesome to maintain a constructive climate, due to the logic behind the confrontation. When only the price *per se* rules the bargaining game, it is always quite easy to understand who gains and who is not. As Raiffa puts it: "Distributive negotiation is about getting a bigger piece [of the pie] for oneself" (Raiffa, 2002-p.97).

The graph below shows the structural elements of a typical price negotiation:



To explain the above depicted graph, we are going to refer mainly to the chapter *Distributive Negotiations: The Basic Problem*, of Raiffa (2002). There are four key concepts that need to be highlighted:

The BATNA. In the III Section of *Getting Yes: Negotiating Agreement without Giving In*, Fisher, Roger and Ury (2011) introduce the concept of the Best Alternative to a Negotiated Agreement (BATNA). This represents the ability to identify the optimal backup plan in case the negotiation starts to wobble out of control. The usefulness of having a clear and determined BATNA is reiterated by Sebenius, who states: “Many people associate the ability to inflict or withstand damage with bargaining power, but your willingness to walk away to an apparently good BATNA is often more important” (Sebenius, 2001-p.94). Knowing your own BATNA is crucial: it gives you a greater power.

The Reservation Price. Both side's walk away price is also called Reservation Price (RP). In assessing our walk away price, scrutiny and rational should be the only instruments used when trying to establish our RP. Moreover, an undeniably essential part of our negotiation search is about the uncertainty regarding our opponent's RP. In fact, it would be almost impossible to determine accuracy about the other side's RP. Therefore, we have to estimate a “Fuzzy Range”. This is the area in which we believe our opponent's RP lies.

The ZOPA. The Zone of Potential Agreement (ZOPA) is simply the bargaining range defined by the Reservation Prices of both parties. In other words, the bargaining zone is the space between the Buyer's Reservation Price (RP_b) and the Seller's Reservation Price (RP_s) that is the zone of potential agreement. If $RP_b > RP_s$, then a Positive ZOPA exists. On the contrary, if $RP_b < RP_s$, there is no room for reaching an agreement. The negotiating problem is about how the negotiators should divide the ZOPA between the two of them.

The Surplus. By agreeing on a price P, the negotiating problem is solved, and it defines the Surplus of each party. Indeed, $Surplus_b = RP_b - P$ and $Surplus_s = P - RP_b$.

Negotiation Strategy: The Positioning Battle

The outcome in the price negotiation is largely determined by whether a given party is able to anchor the negotiation around the other side's RP or, in contrast, whether it lets the other side anchor the negotiation around its RP. This is the positioning battle. Negotiators should "watch and interpret each other's behavior", which entails focusing on the opponent (Schelling, 1960a-p.22). In fact, the commonest mistake for a negotiator is keeping the focus on its own RP, rather than the opponent's. Strategically speaking, to gain a higher surplus, the positioning battle needs anchor the dispute around the other side's RP. The closer we get to the opponent's walk away price, the bigger our outcome is going to be (as it is shown in the previous section's graph). This is the mindset of a successful negotiator: approaching the negotiation from the other side's perspective. Thus, understanding and successively embracing the other side's point of view is a fundamental part of a successful negotiation strategy.

In order to be able to properly anchor the discussion around the opponent's RP, the main negotiation task is to probe for additional information. The three-pillar strategy *Ask, Listen and Probe* (Fortgang, Lax and Sebenius, 2003-p.76) embeds the high relevancy of capturing information about the other side's interests and expectations during the negotiation. Additionally, negotiators should gather information while preparing for the negotiation. In fact, preparation is one, if not the most, important ingredient of the recipe.

Determinants of Outcomes in Price Negotiations

According to Thomas Schelling (1960a, 1960b), the final outcome in a negotiation is fundamentally determined, not by arguments, but by a process of convergence of expectations. The final outcome is the point where expectations converge: both parties accept it because neither expects the other side to retreat. For example, a seller will only accept to sell a car for 12.000 Euros if he/she is convinced (has the expectation) that the buyer would not accept to pay a higher price. If the seller believes that the buyer would be willing to pay, for instance, 18.000 Euros, he/she will not accept a final price of 12.000 Euros and will think: “There is still room to go!”. Similarly, the buyer will only accept to pay 12.000 Euros if he/she is convinced that the seller would not accept to sell for less. Once both parties believe it is not possible to keep haggling, the negotiation ceases: “these infinitely reflexive expectations must somehow converge on a single point, at which each expects the other not to expect to be expected to retreat” (Schelling, 1960b-p.70).

Another important dimension of a negotiation is how to manage the interpersonal relationship. Not only transactions are important: well-built human relationships play a crucial role and represent a predominant part of the negotiating deal (Sebenius, 2001). As a result of it, also how the negotiation process is held is paramount. As Laubert and Geiger put it: “The majority of handling strategies for complex negotiation issues can be subsumed as negotiation process management” (Laubert and Geiger, 2018-p.30).

Finally, a crucial determinant of outcomes in price negotiation is the following: “words are cheap and money talks” (Goldwich, 2010-p.87). Often happens that negotiators try to persuade the opponent through arguments. Nonetheless, excessive argumentation does not convince, and it does not allow active listening. According to Schelling (1960) arguments do not convince the opponent, on the contrary they irritate. Additionally, excessive argumentation could reveal important information that can advantage the counterpart (Sebenius, 2001). The words of Max Bazerman and Margaret Neale (1993) hold together the crucial issues just explained:

> Often executives anchor on their initial understanding without taking advantage of the additional information that can emerge over the course of the negotiation. If you are too committed to persuading your opponent to concede, you will miss the important information you can glean from their verbal, and nonverbal, responses. Thus, you need to constantly update your information base, think about the other side's decisions, and formulate your negotiation strategy dynamically.
>
> Bazerman, Max H. and Neale, Margaret Ann, *Negotiating Rationally,* p. 88.

Applying Negotiation Theories

In this section, we apply these concepts and ideas to the analysis of the case-study and of the real situation behind it.

In the *Fit Veggies – Borneo* price negotiation, the limits of the offering price for each party are well explained. In fact, both parties can compute their RP. Secondly, as a result, parties will typically have the tendency to approach the negotiation from their perspective. Smart students will approach the negotiation from the other side perspective, they who will be able to get the right information and will win the positioning battle. In fact, the players still have to probe for information in order to understand the other side's walk away price. What is missing is the other side's information about their RP. In other words, with solely the given facts, each party fails to depict the so called ZOPA, because of the forgetfulness of the opponent's walk away price.

The real negotiating situation illustrates the typical dynamics of the positioning battle. When *Amazon.com* first bid, it evaluated the *Whole Foods*' share fairly above its historical trading stock value (US$35.00 per share). At first glance, it could seem that *Amazon.com* overbid and that their information regarding the other side was incorrect. However, the calculations *Amazon* made were totally in line with the prospect of growth of *Whole Foods*, in case of acquisition. Moreover, the accuracy in retrieving information and not dispersing it are two fundamentals of *Amazon's* negotiation strategies. On the other hand, *Whole Foods* outrageous counter offer

(US$45.00) was an attempt to hold onto the financial resources of the behemoth online retailer (in other terms, trying to anchor the discussion to the other side).

The final outcome illustrates that in a negotiation the result is largely determined by a process of convergence of expectations. Indeed, when *Amazon* offered for US$42.00, *Whole Foods* expected *Amazon* not to be willing to haggle for a higher price; at the same time, *Amazon* expected *Whole Foods* to accept, due to the highly profitable offer. The expectations of each party converged on focal point that seemed reasonable and advantageous for both sides.

Identically, if *Fit Veggies – Borneo* parties reach an agreement, this means that each player is confident about the uselessness of keep negotiating because of the merge in expectations. Furthermore, a profitable outcome will depend also on how contestants deal and discuss during the negotiation process. Certainly, being active listeners, open to discuss the issue and not identifying the people with the problem is crucial. This is proven in the real case *Amazon – Whole Food*. Both parties showed authentic interest, while being kind to people. The meeting in *Amazon* HQ lasted 2-5 hours and Mr. Mackey, *Whole Foods'* CEO, later on, said it was "love at first sight" (Morrell, 2017). During the *Fit Veggies – Borneo* negotiation, the players that will demonstrate high professionalism and competency, are the ones that will have the ability to build a trustful atmosphere and a resourceful collaboration.

The *Amazon – Whole Food* is the perfect example of how theory can be applied in reality and the *Fit Veggies – Borneo* case-study tries to emulate the real case dynamics, while giving the change of learning and implementing the best price negotiation's strategies.

CONCLUSIONS

In conclusion, strategically speaking, the final outcome is determined by the convergence of expectations, the positioning battle (anchoring the discussion on the other side's RP) and importance of information.

The primary finding is that without sufficient information, it is almost impossible to create and claim value. Specifically, parties must make an effort to retrieve data regarding both sides (its own and the opponent's one), quantify and evaluate the outcome of each possible solution.

Secondly, a wiser negotiator will try to anchor the positioning battle around the opponent's RP. It is crucial to consider the other side perspective and to take action focusing on the other's side situation rather than our own. It will help negotiators in obtaining information and interests about the other side, while building trust and, consequently, a resourceful negotiation process management.

Lastly, the final outcome will be reached when parties' expectations converge. Indeed, each side has to be fully convinced of the fact that it is useless to retreat. In that moment, the negotiation will end.

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APPENDIXES

Appendix 1

Questionnaire

1. *How do you evaluate the overall process during the negotiation?*

(Miserable) 1 2 3 4 5 6 7 8 9 10 (Excellent)

2. *How do you rate the other side's behavior during the negotiation?*

1st Opponent (Name________________________):

(Obnoxious) 1 2 3 4 5 6 7 8 9 10 (Courteous)

2st Opponent (Name________________________):

(Obnoxious) 1 2 3 4 5 6 7 8 9 10 (Courteous)

3. *Would you feel comfortable to ask the other half to negotiate on your behalf?*

1st Opponent (Name________________________):

(Not at all) 1 2 3 4 5 6 7 8 9 10 (Very much)

2st Opponent (Name________________________):

(Not at all) 1 2 3 4 5 6 7 8 9 10 (Very much)