

Case Brief On Price Negotiation

Summary

Negotiation power is a major determinant of successful deals and failures in the business environment. It is for this reason that negotiation skills are considered a core competency of the managers in particular and the workforce in general. Various theoretic and negotiation models aim to elaborate the negotiation process. Once put into practice in real time situations, the negotiation models define how the dynamics of the deal change by negotiation strategies of the parties involved. Same is exhibited by the classic case of Microsoft and Netscape Internet Browsers, contending for the contract with AOL (a Mass Media Giant) to market its products. The case outlines how different approaches to negotiation framed the final decision; which might now have seemed like a possible outcome in the beginning. Netscape being a much better contender in terms of their superior browser and huge market share and experience, lost the deal to Microsoft, the then newcomer into the market with a lesser quality browser, but the best strategy to negotiate. The case studies the creative negotiation strategy adapted by Microsoft that made AOL sign the deal with them, resulted in a successful strategy for Microsoft to create a strong brand image in consumers market in later years.

The Entrepreneurial Process

Effective business negotiation skills are one of the core competencies of the leadership today (Staff, 2016). Negotiations in business encompass a wide variety of contexts, be it sales dealings with vendor and distributors, employment contracts, team performance and labor dealing etc. Adapting a creative strategy in business negotiations gives a competitive edge and it involves breaking the problem into small sections, formulation of effective deal terms and continuous brain storming for more ideas (HBR n.d). According to Scott (2016), anchoring is also important in negotiations which are process of forwarding a flexible but extreme offer on the table. The suitable anchoring reduces the risks and act as a reference Point of benchmark set for opposite party in negotiation. The zone of possible agreement becomes easy to reach with a suitable anchor in the negotiation process. Therefore, negotiators should have a clear offer or demand in their mind before start of the negotiation process.

A negotiators power is crucial to the negotiation process as it can determine how rewards are allocated in the process of negotiation (Kim et al 2005). An effective case study that sets the principles of negotiation in motion is that of Microsoft and Netscape browsers competing to market AOL Products. While focusing on the entrepreneurial process, it is defined as a move towards a new venture, that is not just trying to solve a problem at hand, but also includes the development of an opportunity that paves way for future rewards as well. Same is seen in this case where Microsoft has opted for the entrepreneurial way to pave its way to contract a greater market share and a more prominent image in the market.

The Problem Identification Phase

In 1996, AOL was looking for the best internet browser to market their products. Both the giants Microsoft and Netscape Navigator were fighting to get the contract of marketing AOL Products. Netscape had the competitive advantage of technical superiority, and dominance in browser market at their BATNA against Microsoft at that time. Microsoft on the other hand was just a new firm in the browser market, with a considerably inferior browser than Netscape. Yet they were competing.

Development Of The Business Plan

When negotiations commenced Netscape took the power position and decided to negotiate the deal by holding out for a very high per copy fee. The CEO of AOL looked at the position of Netscape as being "very aggressive" and with "unreasonably high price offer".

Netscape entered the negotiation with a very high BATNA (best alternative to the negotiated agreement). The attitude was not appreciated, as per the 15th Proposition, Power-use tactics will be more successful for extracting benefits from a negotiation when they are conciliatory than when they are hostile (Kim et al 2005). Microsoft on the other hand, due to its inferior browser came to the negotiation table with a much more humble gesture as they had a low BA (best agreement). Microsoft used a very effective and creative strategy and they focused their negotiation terms to marketing AOL products in the most effective way, and underplayed their inferior browser technology thereby, considerably increasing their BA and lowering the BATNA of the agreement. This turned tables in their own favor and weakened Netscape's position. This stage is when Microsoft played the perceived power role to tilt the perception of AOL in their favor through a better negotiation gesture. The perceived power of AOL declined as a result of this useful techniques used by Microsoft.

Determination Of Required Resources

Microsoft focused on marketing techniques it could offer to AOL, for instance, they recommended bundling AOL products into the Window operating system for FREE! Netscape could never match such an offer. Further, they offered to make additional technical adaptations if a Multi-year contract was signed with AOL. Here Microsoft used their power tactics to build a stronger case for them. They utilized their efforts on rational persuasion tactic to build an opinion from AOL that they were in a win-win situation with Microsoft's deal.

Management Of Resulting Scenario

Although Microsoft and AOL were competitors the offer on the table could not be refused as it favored both. AOL could benefit from an extensive addition to their target market, through effective marketing and would also reduce marketing cost. Microsoft on the other hand could develop their market image and potential through this lucrative deal. Therefore, both companies negotiated to achieve maximum gain as an outcome in their desired areas.

Further, according to Kim et al (2005) typology of power bases, Microsoft is utilizing a combination of reward power (promising greater market share to AOL) and expert power (bundling AOL products with the Windows system) to make a deal with AOL. In the short term, Microsoft did compromise on a bit of its market share which went to AOL but in the longer run it was a win-win situation for both, as Microsoft gained a huge share of the browser market. The potential power in this negotiation situation had been realized in the form of long term benefits for AOL as well as Microsoft. Also, the entrepreneurial characteristics exhibited by Microsoft in the negotiation process indicated the ability to create scenarios in a particular direction to affect the decision making powers of opposite party during negotiation process.

Conclusion

Conclusively, this case study is a classic example of negotiation theories of power and influence tactics put into action. Power as defined by various models is categorized into; potential, perceived tactics and realized power all of which have been seen to come into play here. The case explains how the attitude towards negotiation, keeping in view both parties' interests, can favor a deal that would otherwise not be possible. Negotiation skills appraise the value of a party's BA or BATNA which are important determinants of the deal success. It is observed that Microsoft utilized a combination of power tactics to mold AOL's response in its favor. On the other hand, the weaknesses of AOL to understand Microsoft actual BATNA turned in the favour of Microsoft.