
CAROLINA FISHING NEGOTIATION

Teaching Note

This presents as a simple distributive negotiation over a 300-acre parcel of lakeside land.¹ Indigogreen, a developer of “exurb” communities has already negotiated easements, timing, tax issues, etc. with a representative of the Karsen siblings who inherited the land.

There’s some sibling rivalry/resentment in the air, as large firm lawyer Pat Karsen had done those initial negotiations. With the agreement of the other siblings and Pat, Chris Karsen will be conducting these negotiations on price only.

There’s an enormous ZOPA on the numbers. Indigogreen has already made an offer (via email) of \$1.8 million - \$6,000 per acre. That is an anchor. Their total investment would be the land costs plus \$1 million; they project \$7 million in eventual revenues. A \$1.8 million price plus \$1 million would total costs of \$2.6 million. That’s a 60% profit margin on the \$7 million in revenues. Indigogreen’s instructions say they have a lot of wiggle room. The limit is that Indigogreen’s shareholders would want at least a 20-25% return on investment or a 20% profit share on \$7 million in revenues. Here’s the math: if Indigogreen were to pay as much as \$4.6 million for the land, plus \$1 million in other costs, that adds up to \$5.6 million and would leave \$1.4 million – a 20% profit on \$7 million. It’s also true that a 25% return on a \$5.6 million investment is achieved with \$7 million in revenues.

The Karsen instructions say they will emphatically reject the \$1.8 million offer and suggest they want at least \$3.6 million. It sounds like a rough doubling of the offer, with some notion that \$12,000 per acre is a going rate. This doesn’t consider the fact that their land is the only property of its kind in the area, giving it distinctive value. Indigogreen has spent a great deal of time on this deal and does not want to let it get away.

Interestingly, the Karsens are more optimistic about rising property values in the area in the short term than Indigogreen is. Chris Karsen might want to express that optimism.

The only way the Karsens will achieve close to the favorable end of the ZOPA for them (approx. \$4.6million), is if they can learn (or guess) something about the revenue value of this development for Indigogreen. The Karsens will be well served by anchoring high.

Of course, the problem with a simulation is that students have no real ability to research Indigogreen’s profit margins on other developments etc. One teaching point to make is how important this would be “in real life.” Karsen is wise to ask LOTS of questions about things such as rate of return, revenues etc. And Karsen should not set their aspiration based on rough doubling of whatever the first offer was.

¹ Confession: I wrote this for a negotiation workshop for a real exurbia development company. While it worked well, I don’t recall using it since then. But it wouldn’t be a big risk as a quick simple negotiation.