



COLORFUL COOKING NEGOTIATION

Teaching Note

This is one of three negotiation simulations I created long ago for negotiation workshop for a company that developed “exurbian” communities, as described in the text. I’ve changed the name of the company to Indigogreen and updated some of the numbers.

To the incurious and uninclined to seek or exchange information, this simulation presents as a distributive problem – how much Indigogreen will pay Randy Cooke (really the Cooke Family Trust) for 5 acres of land adjacent to the Indigogreen development project. The ZOPA should be enormous. One benefit of the set up for Indigogreen is that it requires the negotiator to do some arithmetic to arrive at a maximum reservation price – beyond which the project would not break even. My math suggests this is approximately \$4 million. It also contains numbers that would generate “objective criteria” for a much lower price. For example, the one acre lots range in price from \$160,000 to \$240,000 each. Theoretically, this information would be publicly available. Even if Randy Cooke doesn’t know these numbers now, they would be able to check in a registry of deeds for parcels already sold, if not in Indigogreen’s marketing materials. Using that per acre price range, 5 acres would be worth \$800,000 to \$1.2 million.

Of course, the particular 5 acres suited to an entrance would be worth far more than that to Indigogreen. Randy Cooke’s information (based on local press coverage) notes the recent landslide and Indigogreen’s need for an entrance. Given what Cooke knows, if Indigogreen tries to bluff by saying they don’t really need the land, their credibility will be greatly diminished. Cooke’s minimum price is not set out in their confidentials. The siblings want “as much as possible.” One sister would sell for “whatever you can get” because of recent financial pressures. Randy’s confidentials do includes some numbers that might be useful for setting his personal reservation price. His dream house would cost \$900,000 to build and he has a city condo worth \$600,000 – a difference of \$300,000. Theoretically, his 25% share of a \$1.2 million sale price would yield him \$300,000.

I would argue that negotiators who simply agree on a price between \$1.2million and \$4.0 million have not done well; they have failed to discover each other’s interests, and ways to generate far more gain for both.

The Cooke siblings do not wish all of the land to be sold, but really, they may be amenable to reserving only a small portion for their future homes “between the lake and the mountains.” The more of their 120 acres they release, the more potential profits for Indigogreen. If they retain 20 acres, 100 would be left for Indigogreen to develop and sell. Based on the topography, it’s estimated that would permit 50 additional home sites, at an average of \$200,000 each - \$10,000 million in potential revenue for Indigogreen.



And of course, a sweetener might be for Indigogreen to have the model home builder work with the Cooke family members to build their dream homes now or in the future, at a discount or without charge, depending up on the land price.

One of the siblings is very concerned about developers who then sell excess land to logging companies, etc. That's not Indigogreen's plan. They could surely agree to a covenant not to do so, or to have unused land revert back to the Cookes – or some other creative interest-based solution.

The most important lesson is that failure to learn the other side's interests, concerns, and priorities, and to exchange some of your own information (not the bottom line) will result in sub-optimal deals for both sides.

As a practical matter, Randy Cooke would have to check back with the Cooke siblings to see how much (or how little) land they would want to retain, whether they want those dream houses now or later, whether they would work with the model home builder or prefer another, etc. And Indigogreen's manager would have to check with the company to see if there's a limit on the number of parcels they believe they could sell (without diminishing the value of the project to buyers), whether they would be willing to forego a right to sell unused land to loggers, and so on.