



Haggling over prices? Just split the pie!

Reading time 6 minutes

Today it's from me, Andreas Putz, Senior Consultant at K&A BrandResearch. Reading BrainCandies is always a welcome variety in my daily project routine. They shed light on current topics in a focussed way - often from a new perspective. When the opportunity during Ralph's holiday arose to write one, I gladly accepted. Enjoy reading - and feel free to give me feedback!

My first BrainCandy is about negotiations. Spontaneously, negotiations are stress for me: What is my position, what are the relevant arguments, how does the 'opponent' react and how do I assert myself. In the end, the goal is usually to get the best for oneself. To achieve this, there are countless guides, psychological tricks and approaches.

Bary Nalebuff's 'Split the Pie' approach is different. Nalebuff is a professor of management business strategy and game theory at Yale, but above all a businessman and entrepreneur. A practitioner ([Barry Nalebuff](#)). In his book 'Split the Pie', he presents a model in which both parties act fairly and 'share the pie. For me, this is a conceptual revolution.

The concept itself is surprisingly simple - and very old. It was already used more than 2,000 years ago in the Babylonian Talmud. Basically, 2 options are compared:

The no-deal option and the profit that comes from the deal. Nalebuff calls this profit 'pie'. Both parties are equally important for this 'pie'.

Therefore, the pie is shared equally between the parties. If one party does not play, there is no pie.

Instead of tactics with anchor prices, jumping the numbers strategies or zero sum negotiations, a model that is fair and comprehensible for both sides is used. The size and power of the individual negotiating partners are irrelevant; the focus is on sharing the pie fairly.



Cooperation and fair action are inherent in human beings from birth and are central building blocks of human success. In his book 'Basically Good', [Rutger Bregman](#) shows that cooperation had a much stronger influence on human development than strength, intelligence or cunning.

In a negotiation, it is no longer about winning or losing, but about creating a pie as big as possible. The structured approach and fair division create added value for both parties. According to Nalebuff, the biggest challenge, is to explain the concept of 'Split the Pie' to the other side and convince them of it. The abstract concept of 'Win Win' becomes concrete through Nalebuff.



A prominent example of the use of the method is the sale of Nalebuff's start-up Honest-Tea to the multi-billion dollar corporation Coca-Cola. A David versus Goliath negotiation in which it is supposedly clear at first glance who defines the rules of the game in this negotiation.

One aspect of the complex and multi-stage negotiations was the supply of bottles by Coca-Cola. Due to volume advantages, Coca-Cola was able to offer Honest Tea cheaper bottles for bottling, which was expected to result in savings of \$20 million. Specifically, it was 8 cents per bottle over a 3-year period. Spontaneously, I would assume that Coca-Cola, as the larger (and therefore more important?) partner, would get the lion's share of this.

But first to the definition of the pie. Since the \$20 million savings were based on assumptions, this is not a suitable basis. The solution here is to split the cost per bottle. While Honest Tea currently pays 19 cents per bottle, Coca-Cola can supply them for 11 cents. The 'pie' is 8 cents per bottle, the fair price per bottle being 15 cents paid by Honest Tea to Coca-Cola. A profit of 4 cents per bottle for both sides - which Nalebuff was also able to convince Coca-Cola's negotiators of.

In a second, less complex case, it is not a goodwill negotiation. Nalebuff set up a new company. However, he forgot to register the website URL. A resourceful troll took advantage of this, registered the site to himself, and charged an arbitrary price of \$2,500. For Nalebuff and his business, however, the website had a much higher value, estimated at between \$5,000 and \$10,000. What is the pie?

Fortunately, there is a non-profit organisation that is specialized in such cases. For \$1,300, you could, in a standardised process, get 'your' website back. No matter what the troll demanded or what the ideal value was for the founder - the pie was \$1,300.

Splitting the pie of \$1,300 means a 'fair' price of \$650, which Nalebuff proposed to the troll. He countered the counter-proposal of \$1,100 with the argument that this would mean an unfair split of \$200 to \$1,100. After all, Nalebuff would not propose a price of \$200 in his favour. Splitting the \$1,300 equally is the fairest solution. And without a deal, the troll would get nothing and Nalebuff would pay the \$1,300 to the NGO. The troll quickly accepted the proposal.

Finally, an example straight from life: How do you share a pizza fairly? Alice and Bob get a slice of pizza for free if they share 12 pieces of pizza fairly. If there is no deal, Alice gets 4 pieces and Bob gets 2. From a 'perspective of power', Alice would get a total of 8 pieces and Bob 4. A perspective of equality could mean 6 pieces for everyone - but are these options fair?

The pie is defined by the 6 pieces that Alice and Bob receive in a fair division. The no-deal alternative with 4 pieces for Alice and 2 for Bob does not matter for the pie. These 6 pieces resulting from the deal are divided fairly, each receiving 3. In total, Alice receives 7 pieces (4 that she receives anyway + 3 as part of the pie) and Bob 5 (2 + 3).



For me personally, the approach in negotiations delivers three advantages:

- It is a model that focuses on the social power of fair sharing. People do not play and negotiate against each other, the aim is rather to make the pie that both parties share as big as possible.
- The negotiation is no longer about (power) positions to be defended, but about the pie itself - and how to make it bigger.
- Even if the approach is not accepted by the other side, it creates a mental advantage. The other side must first present a better model.

Maybe you feel like me after reading the first chapters of the book. Everything sounds very good and may be true for certain issues, but does it work in practice? In his book, Nalebuff covers many different examples of how to apply his method, from sharing a pizza to selling a house to negotiating with multiple parties. And I have to admit, in the end he convinced me. Even though it may not fit every situation, it helps you change your perspective. You focus on the essentials, the pie, and how you can make the negotiation more pleasant and above all fairer.

For all those who have made it this far, here's a reminder of the raffle. Just send a short answer with #want-my-pie, the draw will decide.

Book recommendation

By Ralph Ohnemus, Uwe H. Lebok, Florian Klaus:

Context marketing

The key to consumer behavior To [order](#)



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