NEGOTIATION IN AGRICULTURE

Bargaining for a Better Market Outcome

John and Jane sit down at the table after supper and discuss tomorrow's meeting with the buyer. They've got a good set of calves, and they want to get a good price for them. John and Jane have been selling to the same buyer for nearly ten years and feel they have a good relationship with him.

Jane has been checking with their neighbors about the prices they have been getting, and she wonders if they could be doing better than they have been.

Both John and Jane like ranching and working with the cattle, but when it comes to marketing, they are not comfortable with haggling over price. They worry if they don't sell their calves to this buyer, they will have a hard time finding another buyer quickly, which will increase their feed and labor costs for their weaned calves.

John likes to let the buyer make the first move on price, and he figures there is not much room to improve this price with the buyer. However, he always makes sure that they are not giving up too much sale weight on pencil shrink (an estimate of livestock weight lost during handling, weighing and transportation).

Bargaining Position

John and Jane are like many other producers who are uncomfortable with bargaining over price and worry about losing their buyer. Research at the University of Wyoming asked producers in a series of focus groups about their experiences and concerns related to selling products privately to buyers (Bastian et al., 2018a). Many producers indicated they felt like they had to take what the buyer offered, and they

NIA-20210719.01
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preferred to let the buyer make the first move during price negotiation. Producers also expressed concern over losing the relationship with their buyer.

Research indicates several things impact sellers when bargaining for price:

1. **Advance production risk** – Once sellers commit dollars to producing their goods, i.e., incur production costs in advance of the sale, sellers are more willing to take a concession in sale price just to make sure they cover all or some of their costs to reduce potential losses; and,
2. **Risk of not finding a buyer** – The fewer opportunities sellers have to meet with willing buyers, the more likely sellers are to make concessions when bargaining over price because they are worried about finding another willing buyer (Menkhaus et al., 2007).
3. **Other factors** – When sellers are concerned over negotiation failure, are risk averse, afraid of loss, or let the buyer make the first move, they bargain for lower prices and get lower earnings from their sales (Bastian, 2019; Jones Ritten et al., 2020).

Bargaining for a Higher Price

John and Jane seem to be experiencing a number of factors that may be affecting their ability to bargain for higher prices. First, they are concerned about not making a deal with their buyer and are worried about finding another buyer and incurring more costs if they have a failed negotiation. Moreover, they are letting the buyer make the first move in the price negotiation. All of this puts the buyer in a better bargaining position and puts John and Jane in a position where they are less likely to push the price negotiation in their favor. If John and Jane are also risk averse, they could further be unwilling to bargain for higher prices.

What can John and Jane do to improve their bargaining position and sales price?

1. John and Jane need to **form a reservation price**. A reservation price is a price at which if a buyer bids below, John and Jane would prefer to walk away from the deal rather than accept the bid (Galinsky, 2004).
2. Related to forming a reservation price, John and Jane need to make sure they have a **backup plan** in case the deal with the current buyer falls through. This backup is called a "best alternative to a negotiated agreement" or BATNA. (Hewlett and Fuller, 2020; Fuller and Hewlett, 2020) John and Jane could search for what other buyers might offer and/or figure out what taking their cattle to the nearest auction would likely yield. By knowing these alternatives they have a BATNA that can help them set a reservation price level, and reduce their concern if they cannot come to an agreement with their current buyer.

Research at the University of Wyoming indicated that during bargaining sessions, sellers did significantly

better when they had a BATNA in place (Bastian et al., 2018b). Knowledge of the BATNA and reservation price level made sellers less likely to make large concessions in price because they had reduced their fear of negotiation failure (Bastian et al., 2018b; Galinsky, 2004).

3. John and Jane need to **set a target price** before sitting down with the buyer. A target price is the price John and Jane think is ideal for their calves given current market conditions (Galinsky, 2004).

4. John and Jane need to **arm themselves with good market information** that helps them set reasonable reservation and target price levels. This information starts with knowing their **breakeven cost of production** for the calves. By knowing this, John and Jane can gauge how profitable an agreed upon price will be. Second, they need to **gather information from different sources**, such as the radio, their neighbors, or even other buyers, to get a range of cattle prices that cattle like theirs are selling for.

5. Armed with the above information, John and Jane need to **decide on a first offer price** and then start the negotiation with that price. The first offer price should be higher than their target price, but not so absurdly high it drives the buyer away from the negotiation (Galinsky, 2004). Research indicates that negotiators who focus on their target prices tend to make more aggressive first offers and reach more profitable agreements (Galinsky, 2004). By John and Jane making a good first offer, they are more likely to move the negotiation in their favor.

6. John and Jane need to **focus on their target price** during bargaining and be willing to concede from their first offer, to avoid rejecting favorable agreements (Galinsky, 2004). When bargaining, by allowing room between the first offer and target price, they can come down from the offer price, which makes the buyer feel he or she has made progress during the negotiation.

7. John and Jane need to **protect themselves against a first offer**. If the buyer does make the first offer, John and Jane need to be prepared to make a counteroffer that is based on their first offer strategy, target price, reservation price, and BATNA. They might consider saying a joke or something to lighten the mood when they make their counteroffer (Galinsky, 2004). This counteroffer strategy can reduce the anchoring effect a buyer may have by making the first offer.

8. John and Jane must **be willing to make more than one counteroffer** during the negotiation. John and Jane need to make several offers or counteroffers during the bargaining to make sure they have done their best to move the price in their favor (Galinsky, 2004).

What Happens Next?

In doing these things during the negotiation with the buyer, John and Jane are much more likely to have a better market outcome compared to what they have been doing. By having a BATNA and a reservation price in place, the fear of needing to accept what the buyer bids, no matter how low, is reduced.

Given this fear is reduced, John and Jane are less likely to make big concessions in bargaining for price just to make sure they sell to the buyer. If John and Jane are more aggressive with their first offer and active in bargaining for price, then they are more likely to get a better price for their calves.

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Acknowledgements: *Research conducted by the authors, funded by the Lowham Research Fund and the USDA Agricultural Marketing Service, has informed this publication.*

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