

Negotiations for Start-ups

Conclusion

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What is negotiation?

Bargaining process between 2 or more parties

Each party has

- different viewpoint

- different objectives

- a matter of concern

So, they seek mutually satisfactory agreement

Kinds of negotiations

Simultaneous

Japanese style

Holistic → whole package

More information needed

Sequential

American style

Problem solving

Short-term view

Why negotiate?

Improve current offer (issue)

Price

Delivery

Currency

Warranty

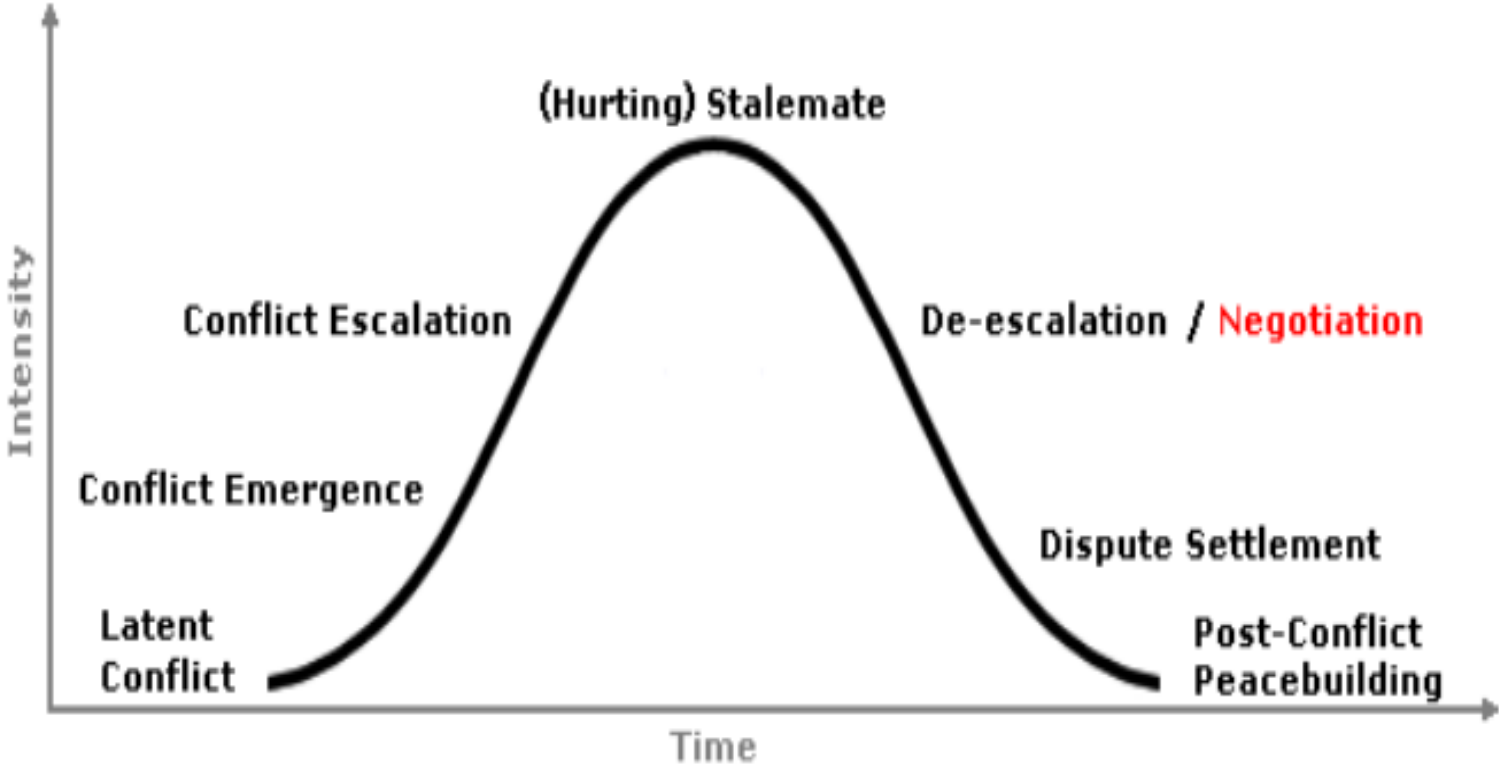
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Bring clarity

Improve relations

Conflict resolution and build peace

Conflict life cycle



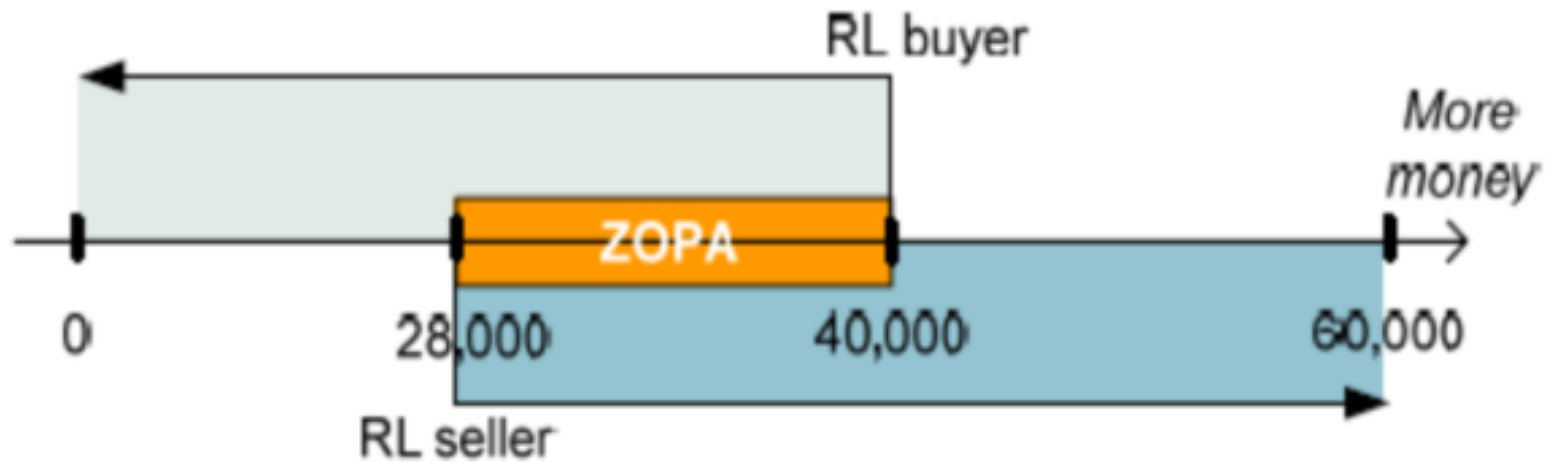
When to negotiate?



How to negotiate?



Making a deal (One Issue)



ZOPA = Zone Of Possible Agreement

RL= Reservation Level (Min for seller; Max for buyer)

Aspiration Level = Opposite of RL

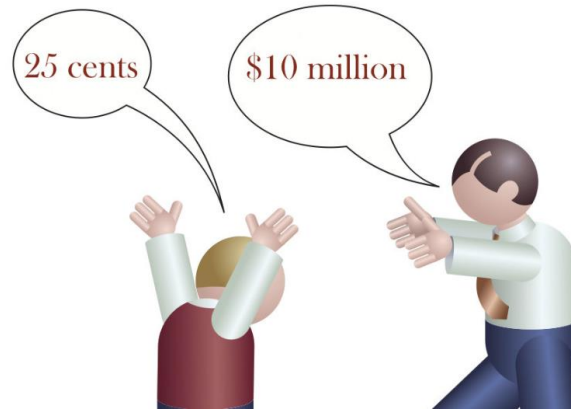
Making a deal



ZOPA = Bargaining Range

If outside range → Walk away from the deal

Anchoring



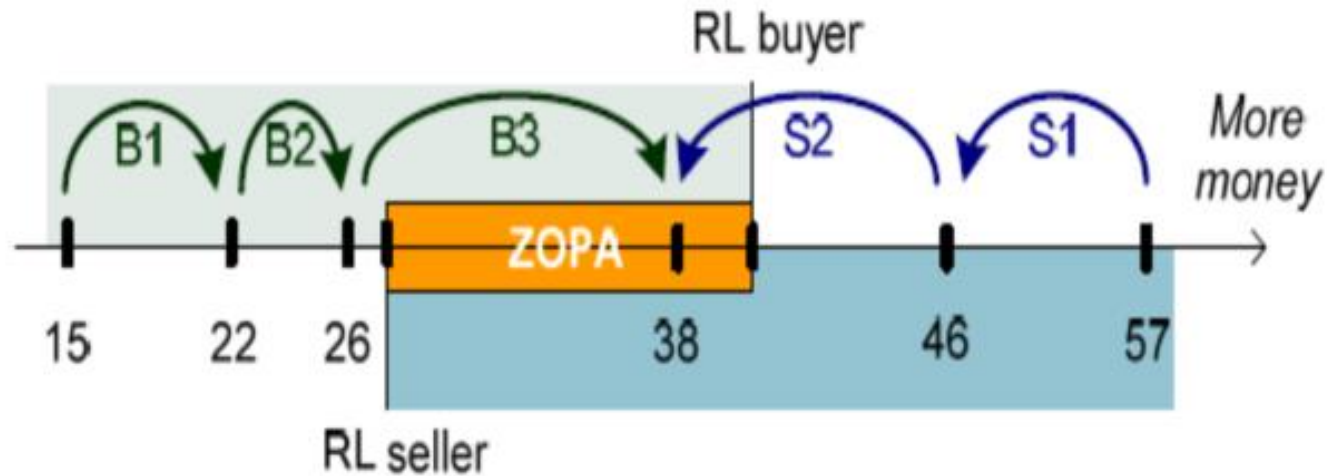
First offer → to begin negotiation

Anchor can influence negotiation

Your objective is to adjust RL to land in ZOPA

You may ask: basis for the offer, parameters used, assumptions made

Concession

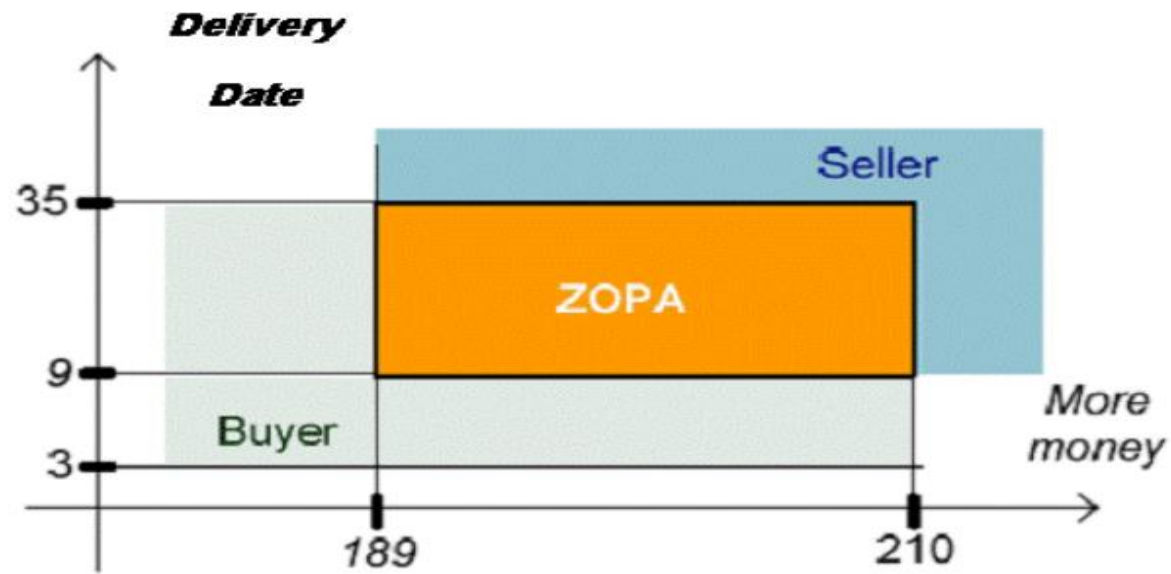


Avoid → zero sum negotiation

Be reasonable → otherwise you lose trust

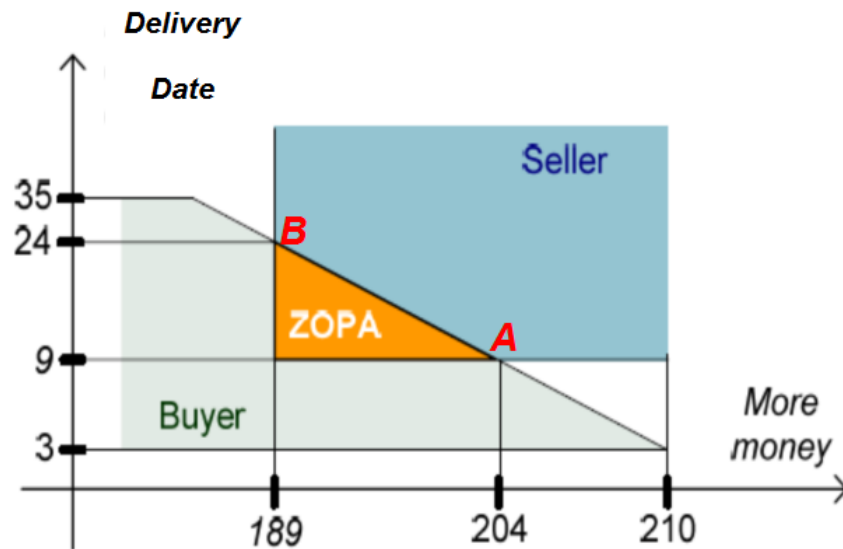
Maximize → probability of obtaining maximum advantage

Making a Deal (2 Issues)



2 issues: Price and delivery date

Making a deal (Complex in technical products)



Complex issue → 1 day delay costs \$10
Linear programming = Maximize objective function

Before and while making a Deal



Best Alternative to Negotiated Agreement
If the deal fails, what next best alternative you have
Select your BATNA
Anticipate other party's BATNA, though difficult
BATNA can be non-quantifiable

Other points

Your goal: Negotiate win-win situation, Create value, Reach an agreement

Be creative to create value and BATNA for both parties

Assume products are perishable

Understand logic of the argument/psychology of other party

Observe negotiation style: aggressive/calm

Break away for private conversation

Do not agree to a bad deal

Case study: Role play (US-Japanese)

Sat & Co, NY, USA (Estd. 1931)

Specialist in Industrial Boilers

Price = US\$ 2m

Delivery = 6 months

Penalty = US\$10,000/month

Cancellation = 10% of contract price

Warranty = Parts and labor for a year

Terms of payment = COD (Cash on delivery)

Other

Guess the Entrepreneur



**Mark Zuckerberg,
Facebook**

Start Up Cost



One of the most intimidating aspects of starting your own business in any industry

Microsoft's Small Business Center recommends saving enough to cover your initial expenses plus six months worth of operating expenses

Interviews: Start Up Costs



Matthew Porter, Contegix: Initially none, because still working full time. Then when money was needed for expansion, they sold an interest to a minority shareholder company

Csaba Zajdó, WebShop-Experts: Almost nothing, but foundation costs. Needed only a computer and knowledge (rather business skills than technical!)

Akom Thongloy, Extreme Solution: Initially none. Reinvested profits to expand the company.

Location, Location, Location

West and Bamford studied two recent literature reviews to identify the characteristics present in communities that foster entrepreneurial growth

What factors created the Silicon Valley?

- Universities
- Government
- Business
- Human Resources
- Social/Financial Structure
- Community Resources
- Infrastructure



Interviews: Location



	Matthew Porter, St. Louis, MO	Csaba Zajdó, Debrecen, Hungary	Akom Thongloy, Bangkok, Thailand
Pros	Moderate wages; Low cost of living; Family environment	Cheap labor force; Huge opportunities; Globalized market	Center of Business; Close to customers
Cons	Conservative money	Highly competitive because of low start up costs	Highly competitive

Perfect Timing

MobileStar's portable data network failure

Interviews:

Matthew Porter, Contegix – fate led to good timing

Csaba Zajdó, WebShop-Experts – Cool e-commerce, everyone is in the hype of internet

Akom Thongloy, Extreme Solution – Initial customers encourage to start own company



Now is the time!

Sales figures for tech leaders, like Microsoft
and Intel are up

Stock prices are up

Venture capital investment increase 8% in 2004, and
similarly in 2005 and 2006

Amazing stories like that of Google show that
companies are making a come back from the dot-com
burst



Acting as CEO

According to Mark Henricks in Entrepreneur Magazine, it may be best to demote yourself and place someone with experience in your company's top position



Role of Entrepreneurial CEO

VC's Perspective on the Roles of the Entrepreneurial CEO

<i>"Coaching" Activities</i>	<i>Importance to Firm Success</i> (7 = most important)	<i>Failure in Activities Leading to Dismissal</i> (Percentage Rating)
Setting Strategic Direction and Taking Action		
• Making strategic decisions	6.6	16%
• Strategic planning	6.4	10%
• Dealing with crisis	6.4	7%
• Allocating resources	6.2	12%
• Managing growth	6.0	8%
Building and Motivating the Organization		
• Staffing firm	6.5	9%
• Motivating employees	6.4	12%
Board of Directors		
• Working with the board	6.2	14%

The remaining 12% is devoted to “Playing” activities including negotiating, technical grasp of firm, monitoring employees, and contacting suppliers, customers and other related parties.

Interviews: Acting as CEO



Matthew Porter, Contegix: “I don’t have an MBA, but I know when to shut up and listen to what customers want and balance that with our core competencies.”

Csaba Zajdó, WebShop-Experts:

“Marketing and management - that's the two main parts where I concentrate my efforts.”

Akom Thongloy, Extreme Solution: “Empowering employees is the way to keep them with the company”

Importance of Education

1. Dropouts: \$131.36 Billion

- *Bill Gates Microsoft 56 Billion
- *Paul Allen Microsoft 18 Billion
- *Larry Ellison Oracle 21.5 Billion
- *Steve Jobs Apple 20 Billion
- *Michael Dell Dell 15.8 Billion
- *Mark Zuckerberg Facebook 1 Billion (2006 rejected buyout offer)
- *Kevin Rose Digg 60 Million+ (Business Week August, 2006)

2. Stanford University: \$38.9 Billion

- *Larry Page Google 16.6 Billion
- *Sergey Brin Google 16.6 Billion
- *David Filo Yahoo \$3 Billion
- *Jerry Yang Yahoo 2.2 Billion
- *Reid Hoffman LinkedIn 500 Million (Digg, Technorati, Facebook; original PayPal board member)

3. Tufts University: \$10.2 Billion

4. Princeton University: \$3.6 Billion

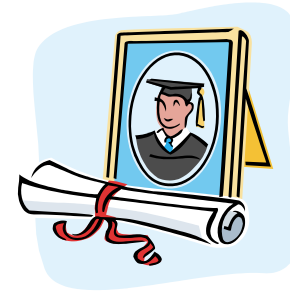
5. University of Illinois at Urbana-Champaign: \$600 Million

6. Indiana University of Pennsylvania: \$500 Million

7. Claremont Colleges: \$30 Million



Interviews: Education



Matthew Porter, Contegix: BS, Computer Science

Education was crucial. Not because of textbook knowledge, but learning how to think (develop professionalism and views).

Csaba Zajdó, WebShop-Experts: MSc in Business Administration and ongoing MSc studies in Programming-Mathematics

Learned the basics of most of the important fields

Akom Thongloy, Extreme Solution: BE, Electronics

Important to get degree, because it gave him credibility in the eyes of his customers.

Do You Feel “Cool”?

David Margulius of *InfoWorld* said in a recent article that “Entrepreneurship has become cool again, if not obligatory for IT.”

Interviews:

Matt Porter, Contegix

- No need for “Rockstar CEOs”
- Tells people, “I work for Contegix”, not “I own it!”

Csaba Zajdó, WebShop-Experts

- It is rather “uncool” in Hungary
- Usual for everyone, who can make a website to make his own company, and start earning "big money"

Akom Thongloy, Extreme Solution

- Feeling more proud than cool



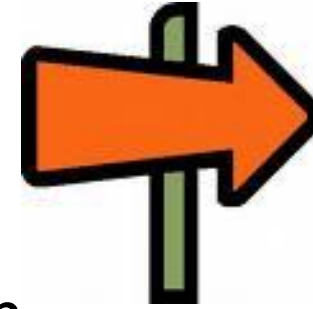
Guess the Entrepreneur



Larry Ellison,

Oracle

Objectives



- ✓ Understand the evolving definition of an entrepreneur
 - ✓ Learn about the characteristics and demographics of entrepreneurs
 - ✓ Meet real entrepreneurs from around the globe
 - ✓ Examine the large amount of research that has been conducted on entrepreneurs and compare it to the entrepreneurs we interviewed
- Find out if you have what it takes

Marriott School Entrepreneurial Test

Audience results?

If you scored +35 or more, you have everything going for you. You ought to achieve spectacular entrepreneurial success (barring acts of God or other variables beyond your control).

If you scored +15 to +34, your background, skills and talents give you excellent chances for success in your own business. You should go far.

If you scored 0 to +15, you have a head start of ability and/or experience in running a business and ought to be successful in opening an enterprise of your own if you apply yourself and learn the necessary skills to make it happen.

If you scores 0 to -15, you might be able to make a go of it if you ventured on your own, but you would have to work extra hard to compensate for a lack of built-in advantages and skills that give others a leg up in beginning their own business.

If you scored -15 to -43, your talents probably lie elsewhere. You ought to consider whether building your own business is what you really want to do, because you may find yourself swimming against the tide if you make the attempt. Another work arrangement—working for a company or for someone else, or developing a career in a profession or an area of technical expertise—may be far more congenial to you and allow you to enjoy a lifestyle appropriate to your abilities and interests.

Myers Briggs Type Indicator

Examines preferred styles of perception and judgment

Entrepreneurs are more intuitive, thinking and perceptive

Managers are more sensing, feeling, and judging

<http://www.funeducation.com/products/testmaster/>



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