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3-D Negotiation

Playing the Whole Game

by David A. Lax and James K. Sebenius

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What stands between you and the yes you want? In our analysis of hundreds of negotiations, we've uncovered barriers in three complementary dimensions: The first is tactics; the second is deal design; and the third is setup. Each dimension is crucial, but many negotiators and much of the negotiation literature fixate on only the first two.

For instance, most negotiation books focus on how executives can master tactics—interactions at the bargaining table. The common barriers to yes in this dimension include a lack of trust between parties, poor communication, and negotiators' "hardball" attitudes. So the books offer useful tips on reading body language, adapting your style to the bargaining situation, listening actively, framing your case persuasively, deciding on offers and counteroffers, managing deadlines, countering dirty tricks, avoiding cross-cultural gaffes, and so on.

The second dimension, that of deal design—or negotiators' ability to draw up a deal at the table that creates lasting value—also receives attention. When a deal does not offer enough value to all sides, or when its structure won't allow for success, effective 2-D negotiators work to diagnose underlying sources of economic and noneconomic value and then craft agreements that can unlock that value for the parties. Does some sort of trade between sides make sense and, if so, on what terms? Should it be a staged agreement, perhaps with contingencies and risk-sharing provisions? A deal with a more creative concept and structure? One that meets ego needs as well as economic ones?

Beyond the interpersonal and deal design challenges executives face in 1-D and 2-D negotiations lie the 3-D obstacles—flaws in the negotiating setup itself. Common problems in this often-neglected third dimension include negotiating with the wrong parties or about the wrong set of issues, involving parties in the wrong sequence or at the wrong time, as well as incompatible or unattractive no-deal options. 3-D negotiators, however, reshape the scope and sequence of the game itself to achieve the desired outcome. Acting entrepreneurially, away from the table, they ensure that the right parties are approached in the right order to deal with the right issues, by the right means, at the right time, under the right set of expectations, and facing the right no-deal options.

Former U.S. trade representative Charlene Barshefsky, who has negotiated with hundreds of companies, governments, and nongovernmental organizations to spearhead deals on goods, services, and intellectual property, characterizes successful 3-D negotiations this way: "Tactics at the table are only the cleanup work. Many people mistake tactics for the underlying substance and the relentless efforts away from the table that are needed to set up the most promising possible situation once you face your counterpart. When you know what you need and you have put a broader strategy in place, then negotiating tactics will flow."[1]

3-D Negotiation in Practice

Even managers who possess superior interpersonal skills in negotiations can fail when the barriers to agreement fall in the 3-D realm. During the 1960s, Kennecott Copper's long-term, low-royalty contract governing its huge El Teniente mine in Chile was at high risk of renegotiation; the political situation in Chile had changed drastically since the contract was originally drawn up, rendering the terms of the deal unstable. Chile had what appeared to be a very attractive walkaway option—or in negotiation lingo, a BATNA (best alternative to negotiated agreement). By unilateral action, the Chilean government could radically change the financial terms of the deal or even expropriate the mine. Kennecott's BATNA appeared poor: Submit to new terms or be expropriated.

Imagine that Kennecott had adopted a 1-D strategy focusing primarily on interpersonal actions at the bargaining table. Using that approach, Kennecott's management team would assess the personalities of the ministers with whom it would be negotiating. It would try to be culturally sensitive, and it might choose elegant restaurants in which to meet. Indeed, Kennecott's team did take such sensible actions. But that approach wasn't promising enough given the threatening realities of the situation. Chile's officials seemed to hold all the cards: They didn't need Kennecott to run the mine; the country had its own experienced managers and engineers. And Kennecott's hands seemed tied: It couldn't move the copper mine, nor did it have a lock on downstream processing or marketing of the valuable metal, nor any realistic prospect, as in a previous era, of calling in the U.S. fleet.

Fortunately for Kennecott, its negotiators adopted a 3-D strategy and set up the impending talks most favorably. The team took six steps and changed the playing field altogether. First, somewhat to the government's surprise, Kennecott offered to sell a majority equity interest in the mine to Chile. Second, to sweeten that offer, the company proposed using the proceeds from the sale of equity, along with money from an Export-Import Bank loan, to finance a large expansion of the mine. Third, it induced the Chilean government to guarantee this loan and make the guarantee subject to New York state law. Fourth, Kennecott insured as much as possible of its assets under a U.S. guarantee against expropriation. Fifth, it arranged for the expanded mine's output to be sold under long-term contracts with North American and European customers. And sixth, the collection rights to these contracts were sold to a consortium of European, U.S., and Japanese financial institutions.

These actions fundamentally changed the negotiations. A larger mine, with Chile as the majority owner, meant a larger and more valuable pie for the host country: The proposal would result in more revenue for Chile and would address the country's interest in maintaining at least nominal sovereignty over its own natural resources.

Moreover, a broad array of customers, governments, and creditors now shared Kennecott's concerns about future political changes in Chile and were highly skeptical of Chile's capacity to run the mine efficiently over time. Instead of facing the original negotiation with Kennecott alone, Chile now effectively faced a multiparty negotiation with players who would have future dealings with that country—not only in the mining sector but also in the financial, industrial, legal, and public sectors. Chile's original BATNA—to unceremoniously eject Kennecott—was now far less attractive than it had been at the outset, since hurting Kennecott put a wider set of Chile's present and future interests at risk.

And finally, the guarantees, insurance, and other contracts improved Kennecott's BATNA.

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If an agreement were not reached and Chile acted to expropriate the operation, Kennecott would have a host of parties on its side. Though the mine was ultimately nationalized some years later, Chile's worsened alternatives gave Kennecott a better operating position and additional years of cash flow compared with similar companies that did not take such actions.

This case underscores our central message: Don't just skillfully play the negotiating game you are handed; change its underlying design for the better. It is unlikely that 1-D tactical or interpersonal brilliance at the table—whether in the form of steely gazes, culturally sensitive remarks, or careful and considered listening to all parties—could have saved Kennecott from its fundamentally adverse bargaining position. Yet the 3-D moves the company made away from the table changed the negotiation's setup (the parties involved, the interests they saw at stake, their BATNAs) and ultimately created more value for all involved—much of which Kennecott claimed for itself.

How 3-D Moves Work

Successful 3-D negotiators induce target players to say yes by improving the proposed deal, enhancing their own BATNAs, and worsening those of the other parties. 3-D players intend such moves mainly to *claim* value for themselves but also to *create* value for all sides.

Claiming Value. 3-D negotiators rely on several common practices in order to claim value, including soliciting outside offers or bringing new players into the game, sometimes to create a formal or informal auction. After negotiating a string of alliances and acquisitions that vaulted Millennium Pharmaceuticals from a small start-up in 1993 to a multibillion-dollar company less than a decade later, then–chief business officer Steve Holtzman explained the rationale for adding parties to the negotiations: "Whenever we feel there's a possibility of a deal with someone, we immediately call six other people. It drives you nuts, trying to juggle them all. But number one, it will change the perception on the other side of the table. And number two, it will change your self-perception. If you believe that there are other people who are interested, your bluff is no longer a bluff; it's real. It will come across with a whole other level of conviction." (For more on Millennium, see "Strategic Deal-making at Millennium Pharmaceuticals," HBS case no. 9-800-032.)

While negotiators should generally try to improve their BATNAs, they should also be aware that some of the moves they make might inadvertently worsen their walkaway options. For instance, several years ago, we

The Three Dimensions of Negotiation

Our research shows that negotiations succeed or fail based on the attention executives pay to three common dimensions of deal making.

	Focus	Common Barriers	Approach
1-D	Tactics (people and processes)	Interpersonal issues, poor communication, "hardball" attitudes	Act "at the table" to improve interpersonal processes and tactics
2-D	Deal design (value and substance)	Lack of feasible or desirable agreements	Go "back to the drawing board" to design deals that unlock value that lasts
3-D	Setup (scope and sequence)	Parties, issues, BATNAs, and other elements don't support a viable process or valuable agreement	Make moves "away from the table" to create a more favorable scope and sequence

worked with a U.S. manufacturing firm on its joint-venture negotiations in Mexico. The company had already researched possible cultural barriers and ranked its three potential partners according to the competencies it found most desirable in those companies. After approaching the negotiations in a culturally sensitive spirit, and in what had seemed a very logical sequence, the U.S. team had nevertheless come to an impasse with the most attractive partner. The team abandoned those talks and was now deep into the process with the second most desirable candidate—and again, things were going badly. Imagine subsequent negotiations with the third, barely acceptable, partner if the second set of talks had also foundered—in an industry where all would quickly know the results of earlier negotiations.

As each set of negotiations failed, the U.S. firm's BATNA—a deal with another Mexican company or no joint venture at all—became progressively worse. Fortunately, the U.S. company opened exploratory discussions with the third firm in parallel with the second. This helped the U.S. company to discover which potential partner actually made the most business sense, to avoid closing options prematurely, and to take advantage of the competition between the Mexican companies. The U.S. business should have arranged the process so that the prospect of a deal with the most desirable Mexican partner would function as its BATNA in talks with the second most desirable partner, and so on. In short, doing so would have created the equivalent of a simultaneous four-party negotiation (structured as one U.S. firm negotiating in parallel with each of the three Mexican firms) rather than three sequential two-party negotiations. This more promising 3-D setup would have greatly enhanced whatever 1-D cultural insight and tactical ingenuity the U.S. firm could muster.

In addition to strengthening their own position, 3-D negotiators who add parties and issues to a deal can weaken the other side's BATNA. For instance, when Edgar Bronfman, former CEO of Seagram's and head of the World Jewish Congress, first approached Swiss banks asking them to compensate Holocaust survivors whose families' assets had been unjustly held since World War II, he felt stonewalled. Swiss banking executives saw no reason to be forthcoming with Bronfman; they believed they were on strong legal ground because the restitution issue had been settled years ago. But after eight months of lobbying by Bronfman, the World Jewish Congress, and others, the negotiations were dramatically expanded—to the detriment of the Swiss. The bankers faced a de facto coalition of interests that credibly threatened the lucrative Swiss share of the public finance business in states such as California and New York. They faced the divestiture by huge U.S. pension funds of stock in Swiss banks as well as in all Swiss-based companies; a delay in the merger between Swiss Bank and UBS over the "character fitness" license vital to doing business in New York; expensive and intrusive lawsuits brought by some of the most formidable U.S. class-action attorneys; and the wider displeasure of the U.S. government, which had become active in brokering a settlement.

Given the bleak BATNA the Swiss bankers faced, it's hardly surprising that the parties reached an agreement, including a commitment from the Swiss bankers to pay $1.25 billion to survivors. It was, however, an almost unimaginable outcome at the beginning of the small, initially private game in which the Swiss seemed to hold all the cards.

Another way for negotiators to claim value is to shift the issues under discussion and the interests at stake. Consider how Microsoft won the browser war negotiations. In 1996, AOL was in dire need of a cutting-edge Internet browser, and both Netscape and Microsoft were competing for the deal. The technically superior, market-dominant Netscape Navigator vied with the buggier Internet Explorer, which was then struggling for a market foothold but was considered by Bill Gates to be a strategic priority. A confident, even arrogant, Netscape pushed for a technically based "browser-for-dollars" deal. In the book *aol.com,* Jean Villanueva, a senior AOL executive, observed, "The deal was Netscape's to lose. They were dominant. We needed to get what the market wanted. Most important, we saw ourselves as smaller companies fighting the same foe—Microsoft."

But when all was said and done, it was Microsoft that had etched a deal with AOL. The software giant would provide Explorer to AOL for free and had promised a series of technical adaptations in the future. Microsoft had also agreed that AOL client software would be bun-

Microsoft shifted the negotiations from Netscape's technical browser-for-dollars deal toward wider business issues on which it held a decisive edge.

dled with the new Windows operating system.

Microsoft—a direct competitor to AOL—would place the AOL icon on the Windows desktop right next to the icon for its own online service, the Microsoft Network (MSN). AOL's position on "the most valuable desktop real estate in the world" would permit it to reach an additional 50 million people per year at effectively no cost, compared with its $40 to $80 per-customer acquisition cost incurred by "carpet bombing" the country with AOL disks. In effect, Bill Gates sacrificed the medium-term position of MSN to his larger goal of winning the browser war.

How did 3-D moves swing the negotiations in Microsoft's favor? Microsoft's Web browser was technically inferior to Netscape's, so the chances of Microsoft winning on those grounds were poor, regardless of its negotiating skills and tactics at the table. Instead, Microsoft shifted the negotiations from Netscape's technical browser-for-dollars deal toward wider business issues on which it held a decisive edge. Rather than focus on selling to the technologists, Microsoft concentrated on selling to AOL's businesspeople. As AOL's lead negotiator and head of business development, David Colburn, stated in his deposition to the Supreme Court in 1998, "The willingness of Microsoft to bundle AOL in some form with the Windows operating system was a critically important competitive factor that was impossible for Netscape to match." Instead of trying to skillfully play a poor hand when dealing with party X on issues A and B, Microsoft changed the game toward a more compatible counterpart Y, emphasizing issues C, D, and E, on which it was strong.

These examples of 3-D value-claiming moves conflict with the standard 1-D interpersonal approach to negotiation. Actions taken away from the table—sharply altering parties and issues, restructuring and resequencing the process, changing BATNAs—are not primarily about 1-D interpersonal skills but rather about enhancing the underlying setup of the negotiation itself.

Creating Value. By adding complementary parties or issues to the negotiating process, 3-D negotiators can not only claim value for themselves but also create more value for all parties involved. In *Co-opetition,* their influential book on business strategy, Adam Brandenburger and Barry Nalebuff explored the concept of the *value net,* or the collection of players whose potential combination and agreement can create value. 3-D negotiators often facilitate in the development of such value nets. They scan beyond their specific transactions for compatible players with complementary capabilities or valuations, and they craft agreements that profitably incorporate these players.

The world of foreign affairs offers many examples in which potentially valuable bilateral deals can be impossible unless a third party with complementary interests is included. In a 1985 issue of *Negotiation Journal,* University of Toronto professor and international negotiation specialist Janice G. Stein wrote the following about the importance of Henry Kissinger's 3-D role in a crucial Middle East negotiation: "The circular structure of payment was essential to promoting agreement among the parties. Egypt improved the image of the United States in the Arab world, especially among the oil-producing states; the United States gave Israel large amounts of military and financial aid; and Israel supplied Egypt with territory. Indeed, a bilateral exchange between Egypt and Israel would not have succeeded since each did not want what the other could supply."

In an example from the business world, the owners of a niche packaging company with an innovative technology and a novel product were deep in price negotiations to sell the company to one of three potential buyers, all of them larger packaging operations. Instead of mainly working with its bankers to make the case for a higher valuation and to refine its at-the-table tactics with each packaging industry player, the niche player took a 3-D approach. Its broader analysis suggested that one of its major customers, a large consumer goods firm, might particularly value having exclusive access to the niche player's technologies and packaging products, so it brought the consumer goods firm into the deal. The move uncovered a completely new source of potential value—and a much higher potential selling price. It also increased the pressure on the larger packaging companies: They would face more competition and might not be able offer the same kind of exclusive, customized packaging service to their customers.

The potential elements of a value net are not always obvious at the start of a negotia-

Mapping Backward to Yes

What does a sophisticated 3-D strategy look like? Consider the experience of Henry Iverson and his partners, who acquired Concord Pulp and Paper (CPP) for $8.5 million in a highly leveraged transaction. (All company names and details have been disguised.) After the basic deal was done, they needed additional financing to make profitable improvements at CPP. Federal Street Bank (FSB) turned them down flat, even after they had used such 1-D tactics as persuasive appeals and elegant lunches. It was time to move into the 3-D realm.

But first, some background. To acquire CPP from its creditors, Iverson and his partners had put up $700,000 in equity and obtained $7.8 million in financing from FSB, consisting of a $1.3 million short-term loan against receivables and a $6.5 million loan against assets. Soon after, the opportunity arose for CPP to add a recovery boiler, which would increase plant capacity by 100 tons a day, improve overall quality and margins, and boost yearly net cash flow by $4.1 million. The boiler would cut CPP's emissions in its host town of Concord by 95%. Over a two-year construction period, the boiler project would cost $9 million, $6 million of which would go to Bathurst and Felson Engineering (BFE) and the rest to smaller contractors.

The FSB loan officer who delivered the bad news cited the bank's policies: "We will loan against 50% of unencumbered inventory and 80% of receivables. CPP has neither, and its capital structure is already 93% leveraged." When Iverson pressed, he was told that if he had more equity, FSB might consider a short-term construction loan—but only if a credible third party would provide guaranteed takeout financing after two years. So Iverson used 3-D negotiating tactics to scan widely and map backward from his current predicament to establish the prior agreements (with as-yet uninvolved parties) that would maximize the chances of an ultimate yes from the bank.

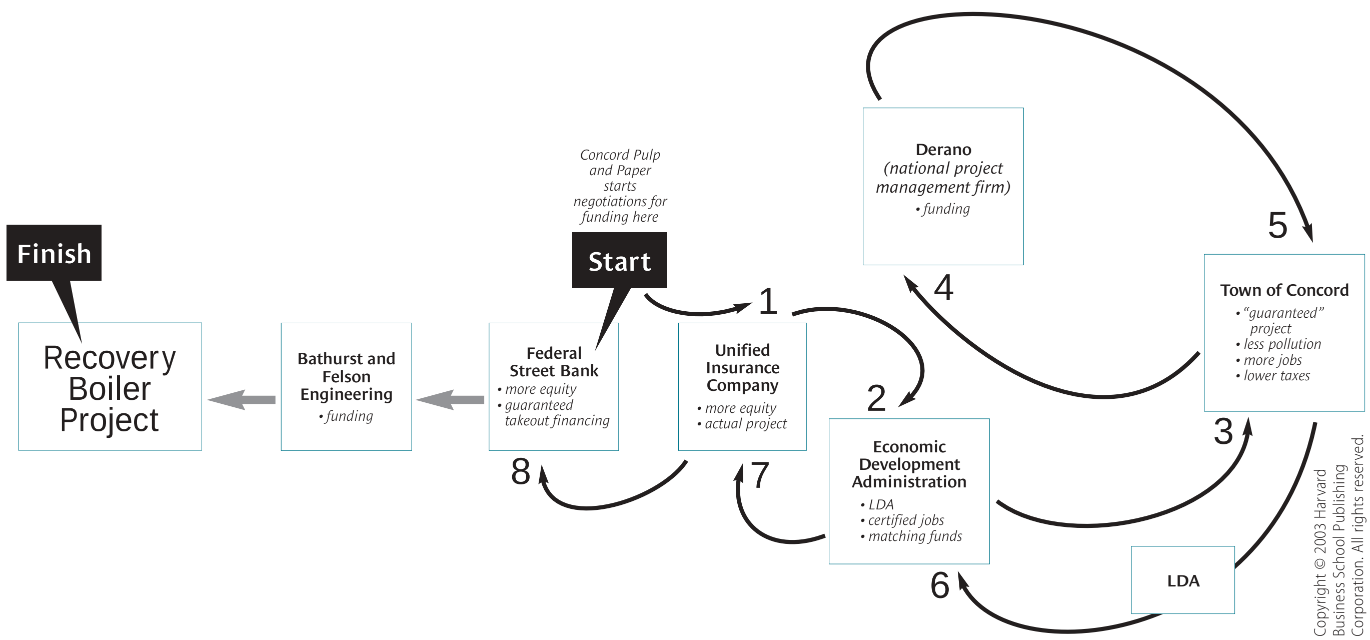
1. Involve UIC. Iverson approached two insurance companies for takeout financing. Unified Insurance Company (UIC) had the most attractive fee structure; Worldwide Insurance had higher fees and was uninterested. Both flatly stated, "CPP is too leveraged." Moreover, UIC would only lend against the cash flow of fully completed projects. Iverson coaxed a deal letter from UIC: For a commitment fee plus a share of increased profits from the boiler, Unified agreed to lend, conditional on the successful completion of the project—and more equity in CPP's capital structure.

2. Involve the EDA. Iverson's attempts to raise more equity from investors failed, so he dug further and learned that the U.S. Economic Development Administration (EDA) could make junior (subordinated) loans to firms for certified job-creating projects; the overall loan limit was equal to the number of jobs times $50,000. Since the recovery boiler project would generate at least 30 new full-time jobs, this implied a junior loan of up to $1.5 million. However, the EDA loan had to be 50% matched by a Local Development Administration (LDA), which did not exist in Concord.

At this point, Iverson took stock of the barriers: the engineer wouldn't proceed without money and, in any case, wouldn't guarantee more than the boiler itself—the only thing BFE would build. The rest of the required system would be complex. Local and regional contractors were in no position to guarantee the overall project. FSB wouldn't do a construction loan without guaranteed takeout financing and more equity. UIC wouldn't do permanent takeout financing without a successful project and more equity. The EDA wouldn't lend without matching funds from the LDA and a guarantee of a successful, certified, job-creating project. And there was no LDA to certify the jobs or provide matching funds.

3. Involve the Town of Concord. Undaunted, Iverson approached the Concord Town Council and proposed that it form an LDA, which could raise matching funds, to facilitate the recovery boiler project. He argued that construction and operation of the project would create new jobs and dramatically cut CPP's odors and pollution levels. And it would add at least $180,000 a year in property taxes if the new boiler were built. The council received these arguments favorably but, before committing, wanted assurances that the project would actually work.

4. Involve Derano. In great need of some plausible guarantee of project success, Iverson approached Derano, a large, national (bondable) engineering, design, and project management firm. Derano expressed serious doubts about managing an already-designed project with BFE and local contractors in place. But by offering to pay above the normal fee, Iverson got Derano to manage the overall project and to give a nonrecourse performance "guarantee"—all conditional on CPP's raising project financing.



5. Go back to Concord with Derano deal. Carrying Derano's letter that gave the provisional guarantee, Iverson revisited Concord's Town Council, which agreed to create an LDA. The LDA would be instructed to issue bonds for $500,000, backed by tax revenue increases and presold to wealthy citizens, local and regional contractors, and other area businesses. As a government entity, the LDA would also formally certify the expected successful job-creation impact of the recovery-boiler project.

6. Go back to the EDA with the Derano letter and the LDA commitments. Iverson approached the EDA, arm-in-arm with the Concord LDA, which brought matching fund commitments and its formal job certification (along with Derano's guarantee) of the boiler project. With this backing, EDA committed to a $1 million junior (subordinated) loan (plus the $500,000 matching loan from Concord's LDA)—all conditional on Iverson's obtaining construction and long-term financing.

7. Go back to UIC to modify its "more equity" provision. Iverson successfully negotiated with Unified Insurance to modify the "more equity" term of its commitment letter to include junior debt, since the EDA–LDA subordinated debt met UIC's real interest in a greater financial cushion for the UIC loan.

8. Go back to FSB with Derano, LDA and EDA commitments, and UIC modification. Returning to the bank, Iverson argued that EDA–LDA loans would provide the functional equivalent of FSB's requirement for more equity. In making the case to the risk-averse loan officer, he tactfully noted that UIC, a "notoriously demanding creditor," was willing to treat it as such to financially cushion UIC's permanent financing. Surely that would be adequate to protect FSB's brief two-year exposure. With this condition met—and given Derano's performance "guarantee" and the LDA's certification—the bank agreed that UIC's commitment letter met its interest in guaranteed takeout financing. FSB's new construction-loan commitment unlocked the EDA–LDA money, which started funds flowing to Derano and BFE. And the project was launched.

tion. For example, a U.S.–European conservation group wished to preserve the maximum amount of rain-forest habitat in a South American country. From membership contributions and foundation support, the conservation group had U.S. dollars it could use (after converting the dollars to local currency at the official exchange rate) to buy development rights. The owner of the land and the conservation group negotiated hard and tentatively agreed on an amount of rain forest to be protected and a price per hectare based on local currency. But 3-D thinking ultimately improved the deal for all sides.

The host country was indebted in dollar-denominated bonds, which were trading at a 45% discount to their face value (given their perceived default risk). The country had to use scarce dollar-export earnings, needed for many pressing domestic purposes, to keep its debt-service obligations current; of course, interest payments were determined by the face value of the debt, not the bond discount. These facts suggested that more value could have been created by adding two other sets of players to the initial negotiation between the landowner and the conservation group.

In this green variant of a debt-for-equity swap, the conservation group bought country debt from foreign holders at the prevailing 45% discount. It then brought this debt to the country's Central Bank and negotiated its redemption for local currency at a premium between the discounted value of the debt and its full-dollar face value (up to an 82% premium over the discounted value). The conservation group then used this greater quantity of local currency from the Central Bank to buy more development rights from the landowner at a somewhat higher unit price.

This expanded four-party negotiation—sequentially involving the conservation group, international bondholders, the Central Bank, and the landowner—benefited everyone more than the best result possible in the initial negotiation between just the landowner and the conservation group. The bank was able to retire debt and cancel dollar-interest obligations, which were very costly to the country, using cheaper (to it) local currency without exporting more or diverting scarce export earnings. The conservation group was able to save more rain forest at the same dollar cost, and the landowner got a higher price in a currency it was better positioned to use.

To find complementary parties and issues, as the conservation group did, you should ask questions that focus on relative valuation. What uninvolved parties might highly value elements of the present negotiation? What outside issues might be highly valued if they were incorporated into the process? Are there any parties outside the immediate negotiations that can bear part of the risk of the deal more cheaply than the current players?

On the other hand, it is sometimes necessary to shrink—or at least stage—the set of involved issues, interests, and parties in order to create value. For example, rather than enter into a full multiparty process at the outset, an industry association that wants to negotiate a certain set of standards may benefit from first seeking agreement between a few dominant players, which would then serve as the basis for a later deal among the wider group. Or, negotiations to forge a multi-issue strategic alliance between two firms may be dramatically simplified by one side which instead proposes an outright acquisition.

Certainly, the form chosen for a transaction can dramatically affect the complexity of negotiations and the value to be had. The planned merger of equals by Bell Atlantic and Nynex would have required separate negotiations with regulatory authorities in each of the 13 states served by the companies. To avoid having to undergo politically charged negotiations at 13 different tables, the parties changed the game by creating a functionally equivalent structure in which Bell Atlantic was the nominal acquirer.

Indeed, it can be necessary to change the process, rather than the substance, of a negotiation. For example, two partners seeking to terminate their relationship may have difficulty determining exactly who gets what. But they may instead be able to agree to a special mechanism like the "Texas shoot-out," in which one side names a price at which it would be either a buyer (of the other's shares) or a seller (of its own shares) and the other side must respond. Often, changing the form of a negotiation by bringing in a skilled third-party mediator creates value. For example, two intensive mediation efforts by outside parties helped to finally thaw the frozen negotiations between Microsoft and the Justice Department. Many fundamentally different variants of mediation, arbitration, and other special mechanisms exist, but all are options to change the game itself rather than efforts to negotiate more effectively by purely interpersonal means.

Implementing a 3-D Negotiation Strategy

Sophisticated negotiators act in all three dimensions to create and claim value. While 3-D negotiators should play the existing game well, as tacticians and deal designers, they should also act as entrepreneurs, seeking to create a more favorable target game. They can do so by scanning widely to identify possible elements of a more favorable setup; "mapping backward" from the most promising structure for the deal to the current setup; and managing and framing the flow of information to improve their odds of getting to yes.

While 3-D negotiators should play the existing game well, as tacticians and deal designers, they should also act as entrepreneurs.

Scan widely. To act outside the box, one must first look outside the box. By searching beyond the immediate deal on the table for elements of a potential value net, 3-D negotiators can retrain their focus on complementary capabilities and valuations that other players might add. Useful game-changing questions include: Who outside the existing deal might most value an aspect of it? Who might minimize the costs of production, distribution, risk bearing, and so on? Who might supply a piece missing from the current process? Which issues promise mutual advantage? What devices might bring such potential value-creating parties and issues into the deal? And at what point does complexity or conflict of interest between parties call for shrinking the scope of the negotiation? Scanning beyond the current game to claim value normally focuses on a parallel set of questions: Are there additional bidders or parties who could favorably alter BATNAs in other ways? Can certain issues be linked for leverage?

Such scanning should result in a map of all the actual and potential parties (including other interested groups within an organization, if necessary). You need to assess their actual and potential interests and BATNAs, as well as the difficulty and cost of gaining agreement with each party and the value of having its support. Your map should also identify the crucial relationships among the parties: who influences whom, who tends to defer to whom, who owes what to whom, who would find it costly to oppose an emerging agreement with key parties on board, and so on.

The founders of new ventures almost always need to scan widely in order to construct the most promising sequence of deals that lead to a self-sustaining company. Consider the situation WebTV Networks founder Steve Perlman faced in the early and mid-1990s. He had obtained seed funding, developed the technology to bring the Web to ordinary television sets, created a prototype, and hired his core team. Running desperately low on cash, Perlman scanned widely and discovered an array of potential negotiating partners—ISPs, VCs, angel investors, industrial partners, consumer-electronics businesses, content providers, manufacturers, wholesale and retail distribution channels, foreign partners, and the like. He needed to engage in 3-D analysis to determine the right subset of potential partners to create the most promising deals to build his company.

Map backward and sequence. It is helpful to think of the logic of backward mapping as being similar to the logic of project management. In deciding how to undertake a complex project, you start with the end point and work back to the present to develop a time line and critical path. In negotiation, however, the completed "project" should be a set of value-creating, sustainable agreements among a supportive coalition of parties.

For instance, when Perlman's WebTV was almost out of money, it might have seemed obvious that he should approach venture capital firms first. However, because VCs were deeply skeptical of consumer-electronics deals at that time, Perlman mapped backward from his VC target. He reasoned that a VC would find WebTV more appealing if a prominent consumer-electronics company were already on board, so Perlman embarked on a sequential strategy. After his first choice, Sony, turned him down, Perlman kept reasoning backward from his target. Finally, he was able to get Phillips on board. He then used Phillips to reopen and forge a complementary deal with Sony. Next he negotiated new venture money—at a far higher valuation—since both Sony and Phillips had signed on. With new money in the tank, it was fairly straightforward to thread a path of supporting agreements through manufacturers, wholesale and retail distribution channels, content providers, ISPs, and alliance partners abroad.

As the WebTV case suggests, a common problem for a would-be coalition builder is that approaching the most difficult—and perhaps most critical—party offers slim chances for a deal, either at all or on desirable terms. To improve the odds of getting to yes, figure out which partners you would ideally like to have on board when you initiate negotiations with the target party. As the answer to this question becomes clear, you have identified the penultimate stage. Continue mapping backward until you have found the most promising sequence of discussions.

Consider the successful sequencing tactics of Bill Daley, President Clinton's strategist for securing congressional approval of the North American Free Trade Agreement, as reported in a 1993 *New Yorker* article: "News might arrive that a representative who had been leaning toward yes had come out as a no. 'Weenie,' [Daley would] say. When he heard the bad news, he did not take it personally....He'd take more calls. 'Can we find the guy who can deliver the guy? We have to call the guy who calls the guy who calls the guy.'"

A 3-D player's ability to determine whether a related negotiation happens before or after his own—as well as whether the results become public—can greatly influence the outcome.

Beyond pure sequencing, the 3-D negotiator can use the scope of the negotiation—how elements are added, subtracted, combined, or separated—to influence the chances of bringing each party on board. Issues can be added to make a deal more attractive (as Microsoft did with AOL) or a BATNA less attractive (as happened to the Swiss banks). And by not bringing on board a party to whom others have antipathy, negotiators can increase the probability of their success. That's what James Baker did when building the first Gulf War coalition; by omitting Israel from explicit membership in the group, he was able to attract moderate Arab states.

Manage the information flow. Some negotiations are best approached by gathering all affected parties together, fully sharing information, and brainstorming a solution to the shared problem. Frequently, however, vital 3-D questions involve deciding which stages of the process should be public or private as well as how information from one stage should spill over to or be framed at other stages.

A wry story illustrates the potential of such choices to set up a linked series of negotiations. A prominent diplomat once decided to help a charming and capable young man of very modest background from Eastern Europe. Approaching the chairman of the state bank, the statesman indicated that "a gifted and ambitious young man, soon to be the son-in-law of Baron Rothschild," was seeking a fast-track position in banking. Shortly thereafter, in a separate conversation with the baron, whom he knew to be searching for a suitable match for his daughter, the statesman enthusiastically described a "handsome, very capable young man who was making a stellar ascent at the state bank." When later introduced to the young swain, the dutiful daughter found him charming, with enviable talents and prospects, and acceptable to her father. When she said yes, the three-way deal allegedly went through—to everyone's ultimate satisfaction.

Setting aside the dubious factual base and ethics of this negotiation, notice how the diplomat's 3-D actions set up the most promising game for his purposes. By separating and sequencing the stages of the process, as well as opportunistically framing his message at each juncture, the statesman created a situation that fostered an otherwise most unlikely outcome. Of course, had the banker, the baron, the daughter, and the young man been initially thrown together in a face-to-face meeting, it is doubtful that even the statesman's suave 1-D approach could have closed the deal.

Analogously, potential investors should be wary of the common tactic of separating deals to close both: for instance, getting investor A to commit funds based on the commitment of "savvy investor" B, when B has indeed committed, but only on the informal (and wrong) understanding that "reputable investor" A has unconditionally agreed to do so.

Negotiations to assemble land for a real estate project offer another good example of the importance of staging the release of information. Early knowledge of a developer's plans can be quite valuable to landowners in the target area. Since landowners may use this knowledge to extract maximum price concessions in later stages of assembly, the need for secrecy and separation of the individual negotiations is usually obvious. Indeed, the choice of which parcel to buy first, second, and so on, may depend on the relative odds that a given purchase will leak the developer's intentions as well as whether the parcels already obtained would permit some version of the project to go ahead, or whether they would be useless without a later acquisition.

Indeed, a 3-D player's ability to determine whether a related negotiation happens before or after his own—as well as whether the results become public—can greatly influence the outcome. For example, according to a 1985 article in *International Studies Quarterly,* while the United States was in separate talks with Japan, Hong Kong, and Korea over textile trade agreements, a Korean negotiator told the U.S. representatives, "We'll ask Hong Kong to go first, then see what they get." The Koreans apparently regarded Hong Kong officials as highly skilled negotiators, with better language skills for dealing with the Americans. An observer reports that, "After waiting for Hong Kong and Japan to go first, Seoul asked for the features they had secured and then also held out for a bit more." In essence, the order chosen by the Americans (as encouraged by the Koreans) revealed information about the U.S. approach that was of great value to the Koreans. One wonders whether the Americans should have rethought the sequence and started with Seoul.

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That negotiators should be good listeners, persuaders, and tacticians is a given. But beyond perfecting these 1-D skills, negotiators should also be innovative 2-D deal designers who have mastered the principles for crafting value-creating agreements. And the third, often-missing dimension—actions taken to change the scope and sequence of the game itself—can be crucial to a negotiation that would otherwise be completely out of tactical reach.

Negotiators must take care to keep sophisticated 3-D moves from blurring into the unethical and manipulative. Yet without 3-D actions, coalitions vital to many worthy initiatives could never have been built.

To create and claim value for the long term, great negotiators should be at home in all three dimensions. To do anything less is to risk playing a one- or two-dimensional strategy in a three-dimensional world.

1. A complete set of sources for this article can be found at www.people.hbs.edu/jsebenius/hbr/3-DNegotiation.pdf.

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Further Reading

3-D Negotiation is also part of the *Harvard Business Review* OnPoint collection **Masterful Negotiating**, Product no. 5410, which includes these additional articles:

Six Habits of Merely Effective Negotiators
James K. Sebenius
Harvard Business Review
March 2002
Product no. 9411

Negotiating the Spirit of the Deal
Ron S. Fortgang, David A. Lax, and James K. Sebenius
Harvard Business Review
February 2003
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