

# SPLIT THE PIE

A Radical New Way to Negotiate

BARRY NALEBUFF



HARPER  
BUSINESS

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FIRST EDITION

Library of Congress Cataloging-in-Publication Data.

Names: Nalebuff, Barry, 1958- author.

Title: Split the pie : a radical new way to negotiate / Barry Nalebuff.

Identifiers: LCCN 2021044351 (print) | LCCN 2021044352 (ebook) |

ISBN 9780063135482 (hardcover) | ISBN 9780063135499 (ebook)

Subjects: LCSH: Negotiation in business. | Negotiation. | Success in business.

Classification: LCC HD58.6 .N28 2022 (print) | LCC HD58.6 (ebook) |

DDC 658.4/052—dc23/eng/20211104

LC record available at <https://lcn.loc.gov/2021044351>

LC ebook record available at <https://lcn.loc.gov/2021044352>

22 23 24 25 26 LSC 10 9 8 7 6 5 4 3 2 1

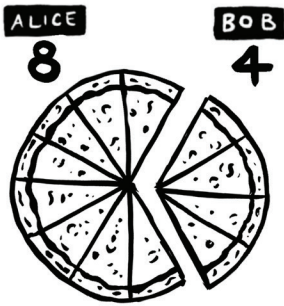
PART I



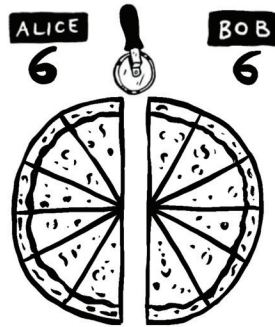
THE PIE

# A PIZZA

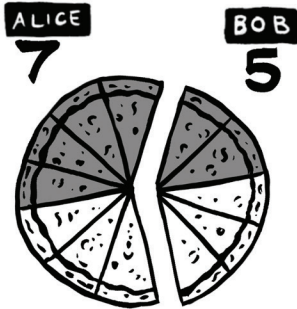
POWER PERSPECTIVE



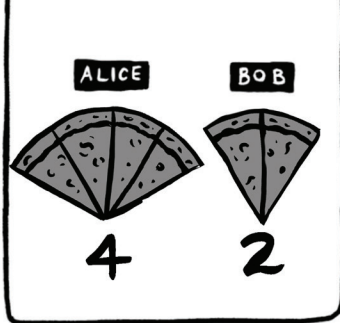
FAIRNESS PERSPECTIVE



SPLIT THE PIE



NO DEAL



## Chapter 3

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# THE PIE

### Just Interest

	AMOUNT INVESTED	INTEREST RATE	INTEREST
ANJU	\$5,000	1%	\$50
BHARAT	\$20,000	2%	\$400
ANJU & BHARAT	\$25,000	3%	\$750

	AMOUNT INVESTED	INTEREST RATE	INTEREST
ANJU	\$5,000	1%	\$50
BHARAT	\$20,000	2%	\$400
ANJU & BHARAT	\$25,000	2%	\$500

	AMOUNT INVESTED	INTEREST RATE	INTEREST
BHARAT & CHIRAGH	\$25,000	3%	\$750
PAYMENT TO CHIRAGH	\$5,000	3%	– \$150
MONEY TO BHARAT			\$600

## Chapter 4

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# TWO NEGOTIATION MYTHS

### A Bad BATNA

	HIGH-BATNA	LOW-BATNA
BUYER'S BATNA	\$10,000	\$9,000
SELLER'S BATNA	\$8,000	\$7,000
PIE	\$2,000	\$2,000
TRANSACTION PRICE	\$9,027	\$8,061
GAIN TO BUYER	\$973	\$939
GAIN TO SELLER	\$1,027	\$1,061
SPLIT OF PIE	49 : 51	47 : 53

$$\begin{aligned} \text{A's Total} &= \text{A's BATNA} + 50\% \text{ Pie} \\ &= \text{A's BATNA} + \frac{1}{2} [\text{Total Value} - (\text{A's BATNA} + \text{B's BATNA})] \\ &= \frac{1}{2} [\text{Total Value} + \text{A's BATNA} - \text{B's BATNA}] \end{aligned}$$

Similarly

$$\text{B's Total} = \frac{1}{2} [\text{Total Value} + \text{B's BATNA} - \text{A's BATNA}]$$

**Chapter 6**

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# A LEGAL PIE

**Damages**

	RESTITUTION	EXPECTATION	DISGORGEMENT
MONEY TO ALICE	\$0	$\$11,500 - \$9,000 = \$2,500$	$\$13,000 - \$9,000 = \$4,000$
MONEY TO BOB	$\$13,000 - \$0 = \$13,000$	$\$13,000 - \$2,500 = \$10,500$	$13,000 - \$4,000 = \$9,000$

	SPLIT THE PIE	GAIN FROM BREAKING CONTRACT
MONEY TO ALICE	$\$11,500 - \$9,000 + 50\% \times (\$13,000 - \$11,500) = \$2,500 + \$750 = \$3,250$	<b>\$750</b>
MONEY TO BOB	$\$13,000 - \$3,250 = \$9,750$	$\$9,750 - \$9,000 = \$750$

EXPECTED REVENUE GAIN	Six weeks of rent = \$1,800
EXPECTED PIE	$\$1,800 - \$300 = \$1,500$
PAYMENT TO LANDLORD	$50\% \text{ of } \$1,500 + \$300 = \$1,050$

## Chapter 7

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# DO YOU HAVE TO SPLIT THE PIE?

## CEMA

	NO CEMA	WITH CEMA
PURCHASE PRICE	\$1,300,000	\$1,300,000
BUYER'S MORTGAGE	\$1,000,000	\$400,000
SELLER'S MORTGAGE	\$600,000	\$600,000 taken over
TRANSACTION PRICE	\$1,300,000	\$700,000
MORTGAGE RECORDING TAX	\$19,250	\$7,200
SELLER TAX	\$5,200	\$2,800
TAX SAVING		\$24,450 – \$10,000 = <b>\$14,450</b>

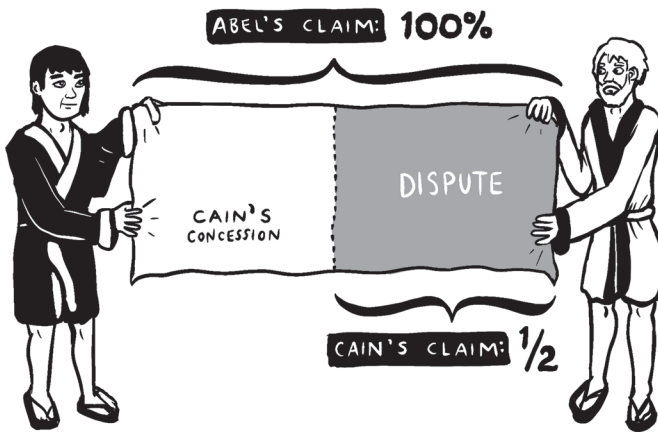


PART II

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SPLITTING  
THE COST

# A TALMUDIC SOLUTION





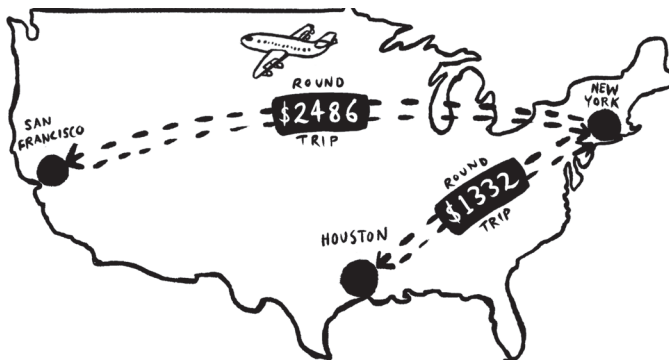
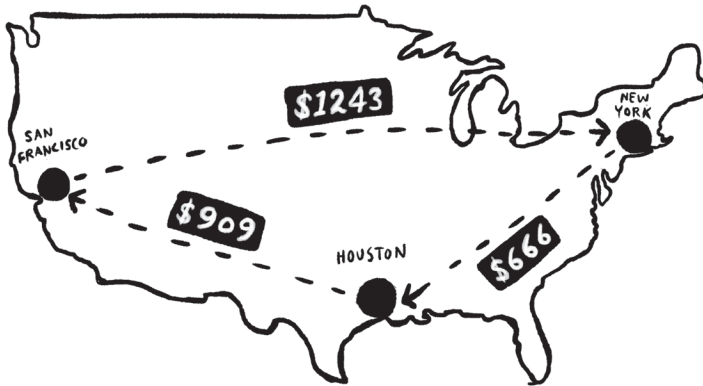
COST OF CLIPPERS	ABEL (\$200 BENEFIT)	CAIN (\$100 BENEFIT)
	Abel pays	Cain pays
\$50	\$25	\$25
\$150	\$100	\$50
\$250	\$175	\$75

CLIPPERS COST \$50	ABEL BENEFIT \$200	CAIN BENEFIT \$100	TOTAL
Combined Gain if Deal			$\$300 - \$50 = \$250$
Gains if No Deal	\$150	\$50	\$200
Pie			\$50

CLIPPERS COST \$150	ABEL BENEFIT \$200	CAIN BENEFIT \$100	TOTAL
Combined Gains if Deal			$\$300 - \$150 = \$150$
Gains if No Deal	\$50	\$0	\$50
Pie			\$100

# WHO PAYS?

## An Expense Report Dilemma

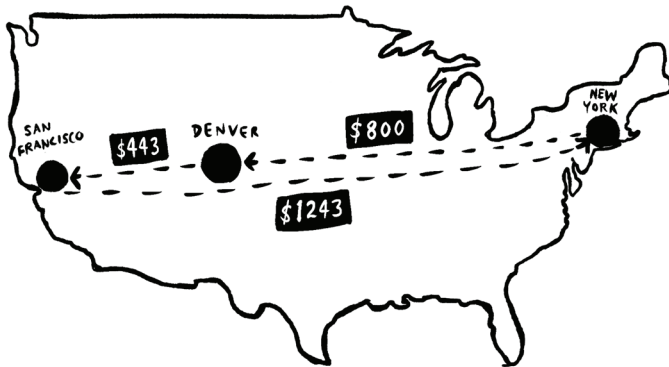
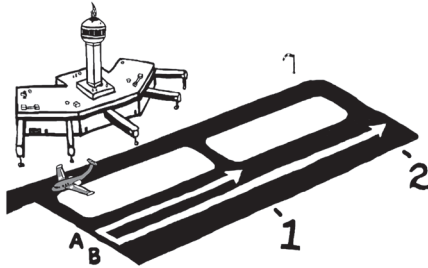


$$\begin{aligned} &\text{Cost of Round Trips} - \text{Cost of Triangle Route} \\ &= (\$2,486 + \$1,332) - \$2,818 = \$1,000 \end{aligned}$$

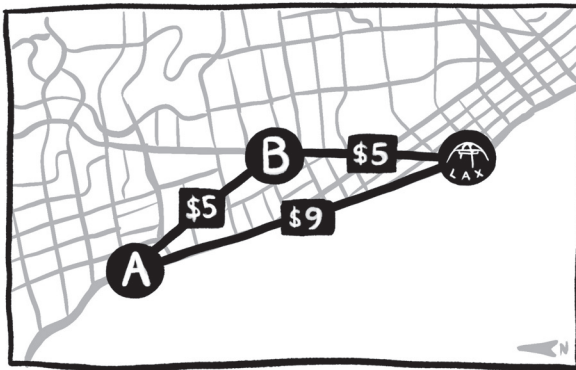
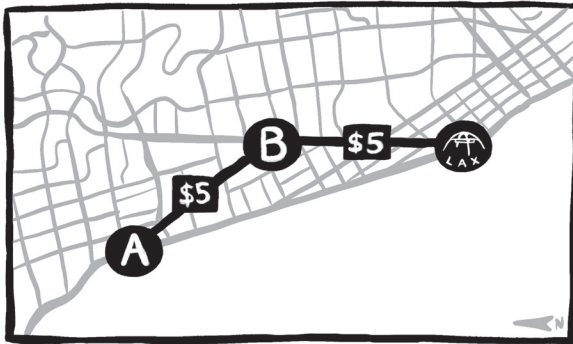
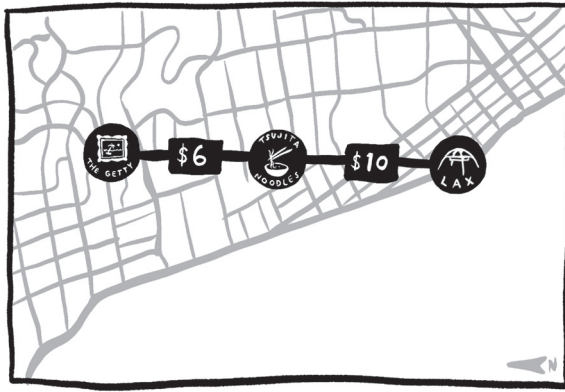
Houston pays  $\$1,332 - \$500 = \$832$

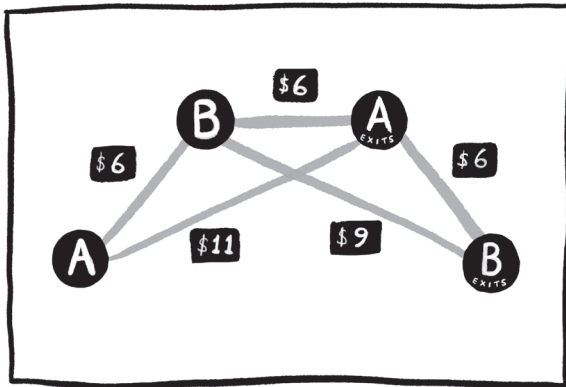
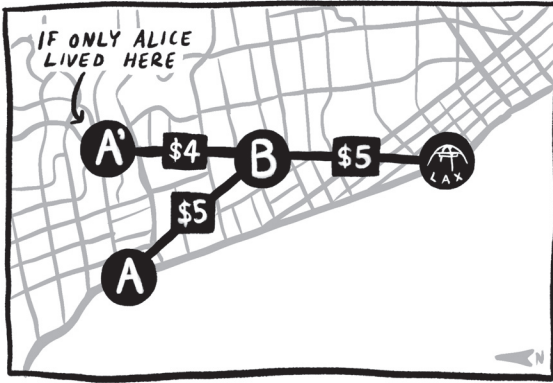
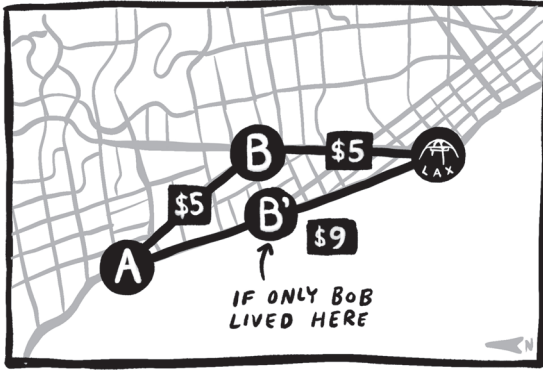
San Francisco pays  $\$2,486 - \$500 = \$1,986$

### Sharing a Runway



# Sharing a Ride





## Ionity

	BMW	KIA	TOTAL
WORK TOGETHER*	BMW Network value – (€1.4b – Kia payment)	€700m – Kia payment	BMW Network value – €700m
NO DEAL	BMW Network value – €1b	€0	BMW Network value – €1b
THE PIE			€300m

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\* When they work together, the total amount paid must add up to €1.4 billion. BMW pays the difference between Kia's payment and €1.4 billion.



PART III

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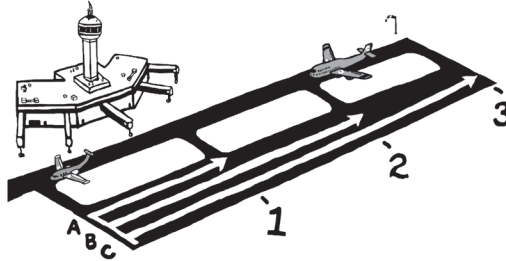
COMPLEX  
NEGOTIATIONS

Chapter 14

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# MULTI-PARTY NEGOTIATIONS

## The Runway Redux



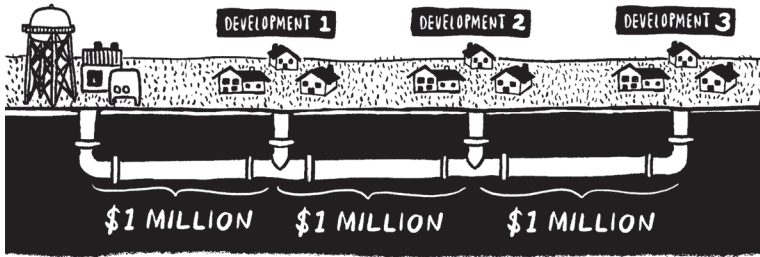
PARTY	HOW MUCH THEY PAY	TOTAL
A	50% of \$5m	\$2.50m
B	25% of \$5m + 50% of \$5m	\$3.75m
C	25% of \$5m + 50% of \$5m + 100% of \$5m	\$8.75m
<b>Combined</b>		<b>\$15.00m</b>

PARTY	HOW MUCH THEY PAY	TOTAL
A	\$2.5m – \$1.25m	\$1.25m
B	50% of \$10m	\$5.00m
C	\$2.5m + \$5m + \$5m – (\$1.25m + \$2.5m)	\$8.75m
<b>Combined</b>		<b>\$15.00m</b>

PARTY	HOW MUCH THEY PAY	TOTAL
A	\$2.5m – \$1.25m	\$1.25m
B	\$2.5m + \$5m – (\$1.25m + \$2.5m)	\$3.75m
C	50% of \$10m + \$5m	\$10.00m
<b>Combined</b>		<b>\$15.00m</b>

PARTY	BC VS. A	AC VS. B	AB VS. C	AVERAGE	EXPLAINING THE NUMBER
A	\$2.50m	\$1.25m	\$1.25m	\$1.67m	= 1/3 \$5m
B	\$3.75m	\$5.00m	\$3.75m	\$4.17m	= 1/3 \$5m + 1/2 \$5m
C	\$8.75m	\$8.75m	\$10.00m	\$9.17m	= 1/3 \$5m + 1/2 \$5m + \$5m

## Sharing a Pipeline



## Saving Bottle Costs Redux

C-P-H	8¢
C-H	8¢
P-H	4¢
C-P	0¢

As before, we are in scenario 2 and there are three possibilities in the event there is no three-way “agreement.”

- 2.1 Coke and Honest Tea get together with Pepsi excluded.
- 2.2 Pepsi and Honest Tea get together with Coke excluded.
- 2.3 Coke and Pepsi get together with Honest Tea excluded.

### Case 2.1

COKE	HONEST TEA	PEPSI
4¢	4¢	0¢

### Case 2.2

COKE	HONEST TEA	PEPSI
2¢	4¢	2¢

### Case 2.3

COKE	HONEST TEA	PEPSI
2¢	6¢	0¢

Under scenario 2, all three cases are equally likely. We take the average of the three cases:

COKE	HONEST TEA	PEPSI
8¢/3	14¢/3	2¢/3

PART IV

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HOW TO  
GROW  
THE PIE

## Chapter 16

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# GIVE THE OTHER SIDE WHAT THEY WANT

### Smart Trades

GAIN IN 2019 MODEL OVER 2020 MODEL

COLOR + MODEL YEAR	-\$1,500
INFOTAINMENT VALUE	\$295
INFOTAINMENT COST	-\$595
REDUCED DEALER COST	\$1,000
REDUCED DEALER PROFIT	\$2,500
NET GAIN	<b>\$1,700</b>

## Chapter 17

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# WHAT IF THE PARTIES SEE DIFFERENT PIES?

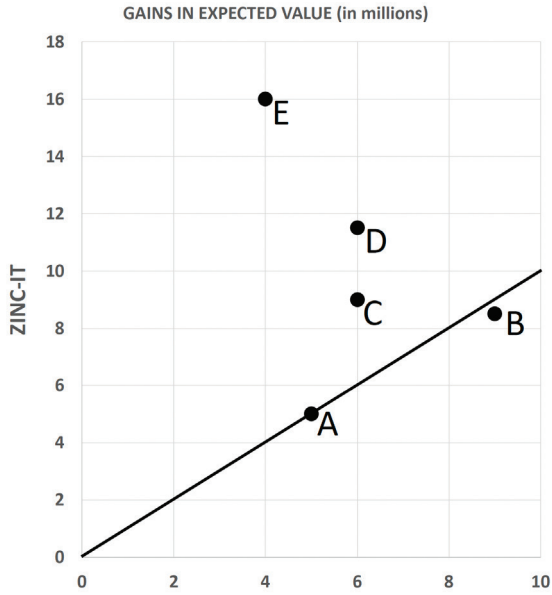
## Zinc-It

PACKAGE	UP-FRONT	BONUS (if FDA approval)	EXPECTED VALUES (see discussion below)
A	\$25m	\$0	\$25m : \$5m
B	\$20m	\$15m	\$29m : \$8.5m
C	\$20m	\$10m	\$26m : \$9m
D	\$17m	\$15m	\$26m : \$11.5m
E	\$12m	\$20m	\$24m : \$16m

PACKAGE	EXPECTED VALUES	THE PIE
A	\$25m + \$5m	\$30m - (\$20m + \$0) = \$10.0m
B	\$29m + \$8.5m	\$37.5m - (\$20m + \$0) = \$17.5m
C	\$26m + \$9m	\$35m - (\$20m + \$0) = \$15.0m
D	\$26m + \$11.5m	\$37.5m - (\$20m + \$0) = \$17.5m
E	\$24m + \$16m	\$40m - (\$20m + \$0) = \$20.0m



## Plot the Options



## Trade Beets for Broccoli

BONUS	GAIN TO HASAN	GAIN TO ZINC-IT
\$10m	– \$14m	\$29m
\$20m	– \$8m	\$28m
\$30m	– \$2m	\$27m
\$40m	\$4m	\$26m
\$50m	\$10m	\$25m
\$60m	\$16m	\$24m
<b>\$70m</b>	<b>\$22m</b>	<b>\$23m</b>
\$80m	\$28m	\$22m
\$90m	\$34m	\$21m
\$100m	\$40m	\$20m

## Chapter 18

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# MAKING THE OTHER SIDE'S CASE

PACKAGE	UP-FRONT	BONUS	EXPECTED GAINS	THE PIE
A	\$25m	\$0	\$5m + \$5m	\$10.0m
B	\$20m	\$15m	\$9m + \$8.5m	\$17.5m
C	\$20m	\$10m	\$6m + \$9m	\$15.0m
D	\$17m	\$15m	\$6m + \$11.5m	\$17.5m
E	\$12m	\$20m	\$4m + \$16m	\$20.0m

PART V

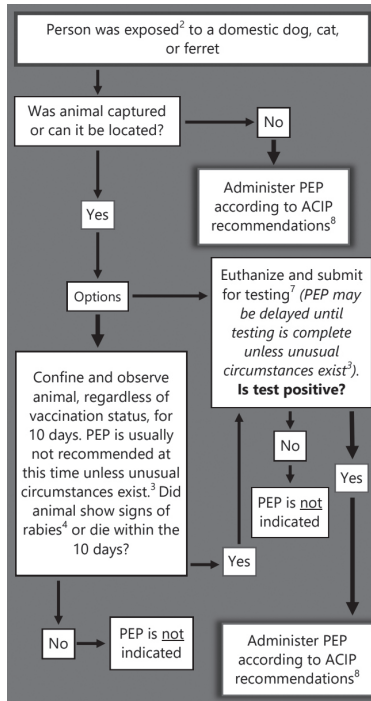
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NEGOTIATION  
MECHANICS

## Chapter 20



# PREPARING FOR A NEGOTIATION

## The Dog Bite



North Dakota Dept. of Health flowchart, <https://www.health.nd.gov/diseases-conditions/rabies/rabies-faqs>

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 <b>THEODORE ROOSEVELT</b>	 <b>HIRAM W. JOHNSON</b>
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<p><i>"For there is neither East nor West, Border nor Breed nor Birth, When two strong men stand face to face Though they come from the ends of the earth."</i> —Kipling.</p>	
<p><b>Theodore Roosevelt's Confession of Faith</b></p> <p>before the <b>Progressive National Convention</b></p> <p>August 6, 1912</p>	

## Chapter 22

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# OPENING MOVES

### Make Precise Bids

