

The Mountain Bike: Buyer's Information

In this exercise, you will be negotiating the purchase of a second-hand mountain bike. This sheet sets the stage for you and contains essential background information, just as if you were buying the bike through a classified ad in the paper. DO NOT show this information to anyone who is playing the part of the seller. Doing so would put you at a disadvantage.

Last week you had a terrible accident on your bicycle. It was a good thing you were wearing your helmet; you got by with just a few scrapes, torn pants, and a sore shoulder. But your bike fared worse. In fact, it didn't survive. The mechanic at the bike shop said that repairing the collapsed front wheel and bent front fork would cost more than the bike is worth.

Your bicycle is important to you. It is your primary means of transportation to and from school. Since the accident, your mother has been driving you to school in the mornings, and you have been walking home in the afternoon. But the walk is long, and the drive to school is very much out of your mother's way. In fact, taking you to school has been making her late for work all week long. Because of this, she insists on replacing your bicycle as soon as possible, but the replacement will have to be a second-hand bike.

You and your mom have looked at a few bicycle shops for a used bike, and a couple of bikes have been advertised in the classified ads in the paper. One of these would be satisfactory. It fits you and seems to work OK. The price is \$185.00. The only problem is that you hate the color: plain old brown. No character at all. However, your mother plans to buy the bike for you this weekend unless a better deal turns up. When you protested, she encouraged you to keep looking. She even said that if you find a bike you like for less than \$185.00, you can keep the difference. (For example, if you find a bike for \$125.00, she will pay the \$125.00 and you get to keep \$60.00.) But the pressure is on! Today is Friday, and she intends to purchase the brown bike tomorrow afternoon.

On the way out of the school building this afternoon, you saw a hand-written sign that announced "Bicycle For Sale." The sign described just the sort of bike you need. You scribbled

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down the phone number, hurried home, and called the seller. Then you were off to look at the bike at the seller's home, just a few blocks from your own.

As you walked up to the house, you saw the bike's owner (whom you recognized from school) looking at an old, well-used mountain bike. After a quick chat about the bike, you went for a ride. Even though it looked beat-up, the bike worked really well. In fact, it was much better in some ways than the other bikes you had looked at. But all those nicks and scratches! How could it possibly be only two years old as the seller claimed? The seller said that the damage to the paint came from riding on a lot of mountain trails and that the bike is in perfect mechanical condition! An outrageous claim, you thought, given the appearance of the bike, but you had to admit that you could find nothing wrong; the shifters worked perfectly, the brakes were great, the wheels were in fine shape. Everything worked just as if the bike were brand new.

After thinking about it, you have decided that you would rather have this bike than the plain old brown one. At least it has a lot of character. You're sure your mother will agree to go with this one; it is just the sort of bike you have been looking for, and better in some ways than the other bikes you have seen. But you are a little concerned about the fact that it looks so beat up. And a big question is the price.

Negotiation

See if you can negotiate a deal with the seller. Keep in mind that if you can buy the bike for less than \$185.00, you get to keep the difference. Also, don't forget that your mother will not, under any circumstances, pay more than \$185.00.

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The Mountain Bike: Seller's Information

In this exercise, you will be negotiating the sale of a second-hand mountain bike. This sheet sets the stage for you and contains essential background information, just as if you were selling the bike through a classified ad in the paper. **DO NOT** show this information to anyone who is playing the part of the buyer. Doing so would put you at a disadvantage in the negotiation.

Your old bike. You feel sad that you have to sell it, but your Dad has told you that it has to go. You have only had it for two years, and it has been a worthy steed. You've been on lots of trails with your Dad and your friends. All those nicks and scratches in the paint remind you of the great times you have had.

Your Dad bought this bike two years ago. He showed you how to take care of it and keep everything in adjustment, and he even paid to have it tuned up last year and again two months ago. It rides great, and even the bike shop mechanic said that it is in tip-top shape. He also commented that you must really enjoy it, because it appears to be so beat up after only two years!

But the bike has to go. Your family is getting ready to move to a big city. You will be living in a cramped apartment with no room to store the bicycle, and anyway there really would be no place to ride it. What's worse is that you won't even get the money from selling the bike. Your Dad has said that any money the family gets from selling the bike and other nonessentials before moving will be used to pay for moving expenses. (This is not altogether unfair; after all, he did buy the bike in the first place and has paid for its maintenance.)

Your next-door neighbor has offered \$140.00 for the bike. The only problem is that you really do not want to sell to your neighbor, a person with whom you have gotten along at all. But time is getting short. Today is Friday, your dad is renting the U-Haul truck on Monday, and he is eager to sell the bike this weekend. In fact, he has said that unless you come up with another buyer who can pay more than \$140.00, he is selling the bike to your neighbor tomorrow! He did say, though, that if you could sell the bike for more than \$140.00, you get to keep the difference.

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(For example, if you find someone willing to pay \$220.00 for it, he would keep \$140.00, and you would get \$80.00.)

In a last-ditch effort to avoid selling to your neighbor, you posted a “Bicycle For Sale” sign at school today. Fortunately, someone called right away as soon as you got home. You have shown the bike, and the person seems interested but a little concerned about all the scratches. You recognize this person from school, and would like to negotiate a deal.

Negotiation

See if you can negotiate a deal with the buyer. Keep in mind that if you can sell the bike for more than \$140.00, you get to keep the difference. Also, don’t forget that your father will not sell the bike for less than \$140.00 under any circumstances.

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Teaching Note: The Mountain Bike

Logistics

Divide the class into buyers and sellers. You can have either one- or two-person teams (e.g., two students represent one seller). Hand out the students' "parts," and give them time to read (5-10 minutes). After they have read their parts, put them into their pairs (or groups of four) and let them try to negotiate a deal.

Give the students 15-20 minutes to negotiate. After that time, have each group tell the class about their agreement and describe how their negotiations went. You can direct the discussion around the following terms and concepts:

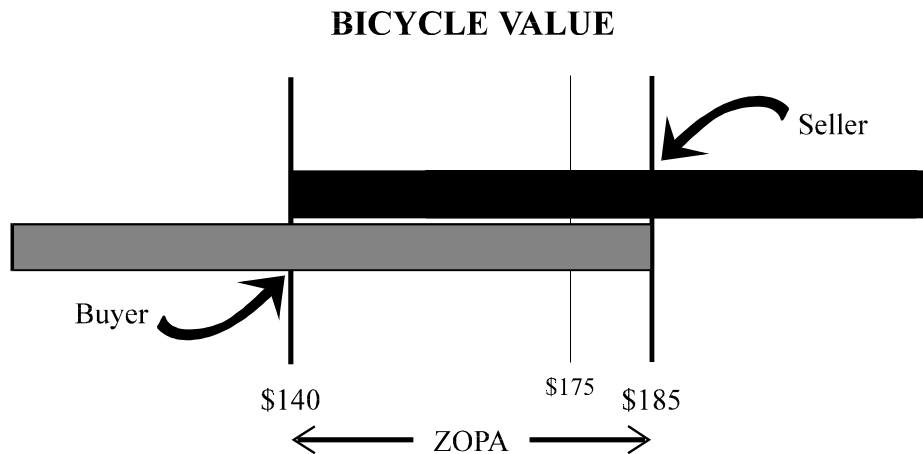
1. *Best alternative to a negotiated agreement (BATNA)*. This is the best you could do if you fail to reach an agreement. For the buyer, it is to buy the plain old brown bike, which would take the entire \$185.00 with nothing left over. For the seller, it is to sell to the neighbor for \$140, all of which would go to the seller's father, with no excess for the seller.

2. *Reservation price (RP)*. For the seller, this is the least acceptable price (\$140.00). For the buyer, it is the most he or she would pay (\$185.00).

3. *Zone of potential agreement (ZOPA)*. The range between the buyer's and seller's RPs, assuming the buyer's is higher than the seller's. Note that if the seller's RP (minimum acceptable price) is higher than the buyer's RP (most he or she will pay), there is no ZOPA. Also, just the fact that there *is* a ZOPA does not mean that the buyer and seller will necessarily agree; a hard-nosed seller who wants to get as much money as possible may be unable to reach an agreement with a similarly hard-nosed buyer.

4. *Surplus*. The difference between the buyer's and seller's RPs, assuming the ZOPA exists. In this case it is $\$185 - \$140 = \$45$. This amount is implicitly split up between the buyer and the seller, and the split depends on the negotiated price. For example, if the agreed-upon price is \$175, the seller gets $\$175 - \$140 = \$35$, while the buyer gets $\$185 - \$175 = \$10$. The following graph shows feasible agreements and how the students would share the surplus:

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5. *Coming to an agreement is better than not.* Note that if there is no agreement, neither buyer nor seller gets anything. However, if they agree on a price between \$140 and \$185, then at least one of them is better off, and maybe both.

6. *Negotiation "dance."* The series of offers and counteroffers the buyers and sellers sometimes make in the process of looking for a mutually agreeable price. If one party refuses to budge from an initial offer, the dance can be very one-sided.

Vocabulary: negotiation, BATNA, reservation price, ZOPA, surplus

Note: This task also works well with items other than a bike, so long as they are desired by students and sufficiently costly that the buyer/seller price disparity makes a difference. Possible examples include a stereo system, first car, or rollerblades.

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