Negotiations: contract and reservation point

Business, Marketing

During the negotiation of Moms. com, I played the role of Kim Taylor, the buyer from WCHI. I read the information over a few times and then tried to determine mine and the seller's BATNA and reservation point. After reviewing the data, I determined that my BATNA would be to continue with an existing contract for more episodes of a current program, even though the ratings of the show were declining. The point where I would walk away with the negotiation would have been $8M for 7 runs per episode.

On the other side of the table, I determined my counterparty's BATNA was to complete the sale with the other competitor of WCHI and the seller's reservation point was probably $6M for 6 airings per episode. This meant that we had a positive bargaining zone of $2M, which is very good for both parties. Our negotiations concluded with the two parties coming to an agreement of $7M for the contract of Moms. com and 7 runs per episode over a five year period.

Our agreement was reached through what I consider a typical negotiated sale. The seller stated the asking price, which was high, well above my reservation point. The first asking price was $9M and 4 runs per episode. The seller stated the low number of runs per episode was intended to not dilute the show over the five year period. I then re-anchored the negotiation by explaining how the industry average was 6 runs per episode and how hard it would be to get advertisement contracts on so few runs per episode.

This tactic immediately brought our runs per episode up to the industry average of 6. I then tackled the price by explaining if the show's ratings drop into the 2-3 range, which is likely over a five year period, then I would be losing money. I still have not made an offer for the show at this point; I was attempting to work the seller down as low as I could before making an offer. After discussing the possibilities of the show, the seller made another offer, this time of $7M for 6 runs per episode.

I then explained how I didn’t want to spend that much for just the industry standard of runs per episode. We then agreed on $7M for 7 runs per episode. The information about the industry average and the show’s ratings really helped me lower the price of the contract. I was able to work him down to the estimated revenue I could generate from advertisements if the show dropped to a 2-3 rating.