**NEGOTIATING EXERCISE**

**Freebird.com**

You are a member of a sales team for Freebird.com, one of the most popular music website and app. Freebird.com has more users than Pandora or Spotify, largely because Freebird.com offers streaming music free and depends on advertising for its revenue.

You are about to enter into a negotiation with Allied Education for a large, year-long advertising deal. Freebird’s Sales Manager is Bill Graham, a 36-year-old who manages the sales team that calls on Allied Education. Bill has been with Freebird.com since it was founded 10 years ago, and no one knows more about Freebird.com than Bill. He understands the algorithm that selects music, the ad-serving platform, and the intricacies of pricing Freebird.com’s ad inventory, which is sold programmatically on a private exchange (prices are negotiated in person and then buys are placed programmatically).

Bill Graham is a goal-oriented achiever and very conscientious. He is a supportive sales manager who sees himself more as a facilitator than as a top-down boss. He’s outgoing, loves his salespeople, and enjoys socializing and having lots of friends. When he was a salesperson, he was successful primarily because he had strong relationships with his clients and agency buyers, who really liked his outgoing, friendly personality.

On Freebird’s negotiating team is: 1) Colin O’Leary, an Account Executive and former All-American football player who is a very competitive, aggressive, extroverted, tough, and has a dominating personality, although he’s learned to be a good pretty good listener. Other members of the team affectionately refer to Colin as “Rambo.” 2) Jewell Koda, a Customer Success Manager, who works tirelessly to super-serve her accounts with gentle patience. Other members on the team lovingly refer to Jewell as “Mother Jewell.” 3) William Jackson, a Strategy Analyst who is a numbers whiz and is highly organized, conscientious, orderly, and is quiet and somewhat introverted. Other team members call him “Spock.”

Freebird.com typically asks advertisers for the following terms: 1) That their own site logs determine the number of impressions served, 2) no page exclusivities, 3) no viewability guarantees (but will give 100% viewability guarantees for a 40% price premium), 4) net 30-days payment terms, and 5) a 30-day cancellation notice, first two weeks firm.

The research Freebird’s marketing team has done shows that Pandora is its main competitor for Allied’s non-Google and non-Facebook business. Pandora has approximately 76 million monthly users and charges$10 to $15 CPM for audio ads. Freebird has 90 million monthly users (about an 28.5% advantage over Pandora). Freebird usually charges CPM rates about 30% higher than Pandora’s for their audio ads, not only because Freebird has more users, but also because their research shows that Freebird offers more precise targeting than Pandora does because of Freebird’s deal with many third-party data providers and because Freebird’s listeners are more engaged with the music on their service than the typical Pandora listeners are. Spotify is not a competitor because Nathan Stern, the CEO of Allied, has made it public that he “hates Spotify.” Buying ads on subscription service such as Apple Music, Amazon Music, or Tidal is not an option.

**Allied Education**

Allied Education has made marketing alliances with two small, fully accredited Midwestern colleges/universities. The college offers a variety of undergraduate degrees online, including Computer Sciences, Data Analysis, and Business Administration. The university offers online graduate degrees in Business Administration, Management, Finance, and Computer Science. The colleges/universities design the curriculum, supply and teach the courses online, and award the degrees. Allied Education markets the courses, signs up students, handles the billing, and takes 50% of the cost of tuition.

Allied Education has a yearly marketing budget of $3.5 million, 100% of which they have invested in Google and Facebook and The New York Times online, but they are looking for other viable advertising channels.

Nathan Stern, 67, who is the founder and CEO of Allied Education, has worked very hard to get where he is. He is known to be very thorough and to be a perfectionist. He is also the final decision maker and a notorious bottom feeder—price buyer—who has earned and is proud of his reputation as a fiercely competitive, tough, ruthless negotiator. He is also known to be quarrelsome and very headstrong. No one who works for him dares to disagree with him.

Nathan is enamored of high-quality products and he craves to have a reputation as a quality, high-brow educator, which he boasts about every opportunity he gets, and he gets a lot of opportunities because he is a big joiner and has a reputation of being quite extroverted and a gluttonous social climber and press hound.

In the two preliminary meetings you have had with Allied Education’s VP of Marketing, you have done a thorough discovery of Allied Education’s marketing goals and challenges. You know that Allied Education’s biggest challenges are: 1) To persuade its target audience (men 18-34) that an online undergraduate or graduate degree will increase their earning potential significantly and 2) that the Allied colleges’ online courses will prepare students for a career more effectively than the University of Phoenix’s and other college’s online courses will. An online degree (graduate or undergraduate) costs a student approximately $50,000. Allied is would like to keep its cost to acquire a student at $500 or less.

You also know that Nathan has demanded the following terms from other publishers: 1) That his ad server’s (DoubleClick) impressions be used for verification of impressions delivered, 2) that Allied Education has page exclusivity, 3) that Allied Education’s banner impressions are 100% viewable with no premium paid (but he might accept a 10% premium if pushed), 4) 120-day payment terms and 5) one-week cancellation notice before and after the schedule starts.

In the two meetings your team has had with Allied’s VP of Marketing, you have done a thorough discovery of Allied’s marketing problems, but your team is worried about Nathan Stern’s negotiating reputation, because Bill Graham’s negotiating style is cooperative, and you know you are in for a rough time. However, Allied’s VP of Marketing, has indicated that Nathan is interested in learning more about how Freebird.com could lower Allied’s cost-per-student-acquisition, which Allied has estimated has been over $600 on The New York Time’swebsite and app. The VP of Marketing was impressed with the presentation you gave him on the second call and has asked you to come back with a "specific, low-CPM proposal for Nathan."

You also know that Allied's biggest competitor and largest supplier of online, degree-granting courses, the University of Phoenix, is investing $4.5 million in online advertising and is evaluating an offer from your sales team for a yearly investment of $450,000 (10% of its online budget). You are aware that Nathan Stern is very competitive and craves to be bigger than the University of Phoenix (he thinks Allied is a lot better, too—he's a very boastful person).

Your team is planning a strategy to negotiate with Nathan Stern. Bill Graham has suggested that he thinks that Freebird.com should open the negotiation (set the anchor) with an ask for 20% of Allied’s $3.5 million budget, target 15% of the budget and walk away from an offer that is lower than 10% of the budget. Colin O’Leary thinks Bill is not being aggressive enough and wants the opening proposal to be for 33% of Allied’s budget and to set the walk-away at 15%. William Jackson thinks Bill and Colin are being too aggressive and that the anchor should be for 15% of the budget and walk-away should be 5% of the budget. Bill Graham’s response to William Jackson was, “We need to get a large enough order so Allied will be assured of getting results.” Colin O’Leary’s response was, “We should concede on terms—all of them if we have to in order to get at least 15% ($525,000) of Allied’s budget. To concede on terms, though, we have to get more than we will probably get from the University of Phoenix.”

**ASSIGNMENT**

1. Fill out a Negotiating and Closing Planner based on decisions you make below.
2. Decide if Bill Graham is best person to negotiate with Nathan Stern. If not Bill, then who?
3. Outline three proposals for Allied based on these variables: 1) Your preference is to sell Allied audio ads because Allied will get better results from audio ads than from banners, 2) your three offers should be based on a percentage of Allied’s budget (e.g. 33%, 25%, 20%, 15%, 10%, or 5%), should be based on CPMs arranged in such a way that encourages Allied to invest more with each larger share of budget (e.g. $13.50 CPM for 15% of the budget, $10 CPM for 20%, and $7 for 33%), and the ordering strategy for the proposals should either be door-in-the-face or foot-in-the-door.
4. Decide on concessions on you are willing to make on terms and conditions and list them for each percent of budget you are shooting for.