Email Negotiation Exercise: The Price of eBooks

General instructions for the CEO of Gala-Crispin

Gala-Crispin is one of the largest producers of electronics and technology services in the world. Its current revenue is in the hundreds of billions and it has over 150,000 employees. It's known for its innovations and marketplace trendsetting. In exactly one week, Gala-Crispin will be releasing its newest product, a much-awaited tablet computer. This tablet is special because it allows users to access a greater quantity of media than ever before. For this reason, the tablet is being called the "best device for reading eBooks on the planet." All major book publishers in the country have agreed to license their eBooks to Gala-Crispin's online store, with one exception.

Founded in 1989, Hillcrest Chronicle is one of the largest and most well-respected book publishers in the world. Hillcrest Chronicle, which earned almost 2 billion in revenue last year, is owned by the parent company Coverage Corp. Coverage Corp has a multitude of assets in books, videos, and newspapers that they are always looking to expand. Together, Coverage Corp and Hillcrest Chronicle own 35% of the eBook market. To date, Hillcrest Chronicle is the only major publisher that hasn't licensed their eBooks to Gala-Crispin.

Confidential information for the CEO of Gala-Crispin

You are the CEO of electronics and technology services company Gala-Crispin. Your company is about to launch its newest tablet, which will give users access to more media than ever before. The tablet will be the fastest and best device on the market for consumers who would like to load and read several eBooks on their device at a time. For your new tablet to be successful, it's essential that tablet users will be able to purchase all their books directly from Gala-Crispin's online store. As a result, you've needed to secure licensing deals with each of the major publishing companies to be able to sell their books through your store. Thus far, all the major publishing companies have agreed to license their eBooks to your online store with one exception. Hillcrest Chronicle, which owns 35% of the eBook market, hasn't agreed to license their eBooks to Gala-Crispin's online store.

You'd like to reach a deal with Hillcrest Chronicle, but to do so, there are several points you'll have to agree on. The first—and most important—factor is new release eBook pricing. For eBooks, it is normal that distributors set a fixed "new release" price during a set length time period for all new releases. You recently completed a deal with another large publisher to set the price for eBooks during their new release period at $12.99 per book, which you feel is the optimal number. While some of your competitors sell new release eBooks online for as little as $9.99, you believe this isn't a sustainable model, since it results in too small a profit for the distributors. Additionally, setting too low a price makes eBooks seem less valuable, which ends up being worse for the distributors, publishers, and authors. You could set the price for new release eBooks even higher, say at $16.99, but you feel that $12.99 strikes the right balance between signaling value to the customer and making enough profit margin to justify the costs on Gala-Crispin's end.

A new release price of $12.99 would enable you to easily set a 30% commission on each sale for Gala-Crispin. This price point will allow the publishers to maintain the same compensation they got before

(even with Gala-Crispin taking 30%) and pay their authors just as much as they had previously. In other words, the only ones bearing the cost in this case would be the customers (who have already proven they're willing to pay that much for eBooks). Your highest priority in any deal you reach is that the new release price per eBook should be as close to $12.99 as possible, but no lower than $9.99.
In order to maximize profit, your two most important concerns are the new release price (as close to $12.99 as possible) and commission (as close to 30% as possible, but could go as low as 10%), as most books are sold during the new release period.

However, your own data shows that Gala-Crispin customers, in particular, are especially concerned with what is "new," so you have some more flexibility on how long the new release window is. After a new release window passes, the publisher can set the price of the book to whatever they like. You would ideally like a new release window of 12 months but could drop it as low as 6 months without Gala-Crispin seeing a major drop in profit.

Because you expect to sell more than a million of your tablets in just the first few weeks of sale, this deal would be hugely beneficial to Hillcrest Chronicle. Your biggest competitors took over 18 months to sell the same number of their tablets, for example. If Hillcrest Chronicle doesn't agree to a deal, they're going to lose out on participating in what is likely to become the main access point for purchasing eBooks. Another benefit for Hillcrest Chronicle to agree to license their eBooks is that Gala-Crispin handles all parts of the transaction—carrying the online books, handling payments, and delivering books to the customers' devices. Customers have proven they appreciate this seamless transaction model, as they have downloaded over 12 billion products from Gala-Crispin's online store to date.

Nearly all of the major publishing companies have recognized the benefit of partnering with Gala-Crispin and have already signed up to sell their eBooks through Gala-Crispin's store. Even so, getting Hillcrest Chronicle on board will be a huge addition to the catalog. Additionally, you see room for further partnership opportunities with Coverage Corp, Hillcrest Chronicle's parent company, if this deal works out. Coverage Corp produces videos and newspapers that could also be added onto the Gala-Crispin online store, which would offer customers even more options. And, of course, Gala-Cripsin will profit from any additional content that users purchase and download. This would meet your goal of expanding Gala-Crispin's online store to include media beyond just eBooks. You would like Coverage Corp to agree to include their additional content in your store (with the specifics, including commission, to be determined at a later date).

You're facing a challenge because, despite numerous attempts on your part, Hillcrest Chronicle's representatives have been dragging their feet with responding to your queries, ignoring key parts of your messages, and generally making it difficult for you to get in touch. Because of their reluctance to make a deal, and because time is of the essence, you are going to engage directly with Hillcrest Chronicle's parent company, Coverage Corp.

While a partnership with Coverage Corp and Hillcrest Chronicle would be beneficial under the right circumstances, you see the burden of reaching a deal being in Coverage Corp's hands. After all, your company is about to become the biggest eBook distributor in the world, with or without Hillcrest Chronicle's participation. You feel confident that you'll be able to convince Coverage Corp's CEO to meet your terms if they want a partnership.

Your company's new tablet is launching in exactly six days. Because the launch date was already announced and millions of dollars have been spent promoting the tablet, the launch date cannot be pushed back. It's essential to get Hillcrest Chronicle to agree to the deal before your tablet is released. That way, you'll be able to add their books to your online catalog and have them available for purchase by the time customers can purchase your tablet.

Ultimately, it's your responsibility to get Coverage Corp's CEO to agree on the following issues:

- [*Most important*] New release eBook pricing (ideal of $12.99 for new releases)
- New release window length (ideal of 12 months)
- [*Most important*] Commission (ideal of 30%)
- Agreement to the inclusion of other media (e.g., video and newspapers)

Given that both you and Coverage Corp's CEO are busy, located in different time zones, and have limited scheduling overlap, it's essential that all communication be conducted **only via email**. Whether or not you reach a deal, all communication must be completed via email by the deadline your activity organizer has provided.

Email Negotiation Exercise: The Price of eBooks

General instructions for the CEO of Coverage Corp

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Confidential information for the CEO of Coverage Corp

You are the CEO of Coverage Corp, the company that owns—among other assets—the extremely profitable Hillcrest Chronicle book publisher. Your colleagues at Hillcrest Chronicle have alerted you to the fact that the CEO of Gala-Crispin has expressed interest in purchasing the rights to list eBooks published by Hillcrest Chronicle on its online store. You're intrigued, as a partnership under the right circumstances could be extremely profitable.

Gala-Crispin has over 120 million customers, and if even a fraction of those customers begins buying Hillcrest Chronicle books, it would mean a significant increase in Hillcrest Chronicle's revenue and Coverage Corp's stock prices. While you are open to a deal with Gala-Crispin, your priority is maintaining a reputation for producing the highest-quality content and safeguarding the publishing process over the long run. It's clear that Gala-Crispin is focused on short-term profits, and thus might want to set artificially high prices for eBooks that won't be sustainable long-term. In contrast, you're more concerned with the longevity of the eBook market as a whole. Thus, you're less focused on short-term profit and more concerned with pricing appropriately to sustain the publishing industry in a society that is increasingly being hurt by pirated book copies and a highly saturated market. Consequently, maintaining control over quality and process is paramount.

After speaking with the executives at Hillcrest Chronicle, you've learned that the Gala-Crispin representatives are slow to respond to your queries, ignore key parts of your messages, and generally make it difficult to get in touch. As far as first impressions go, you aren't pleased. Given you lead the Coverage Corp, the parent company of Hillcrest Chronicle, you have decided to step in to help seal the deal.

Interpersonal issues aside, there are several points you'll have to agree on. One of these factors is eBook new release pricing. For eBooks, it is normal that distributors set a fixed "new release" price during a set new release period. Hillcrest Chronicle already sells its new release books through Gala-Crispin's largest competitor for a new release price of $9.99. Hillcrest Chronicle knows that Gala-Crispin wants to set a higher fixed price for new releases, and they're concerned that if new release eBooks are priced significantly more than $9.99, it could weaken demand for eBooks. This weakened demand could result in either lost customers (e.g., due to illegal book pirating or other forms of non-Hillcrest-owned entertainment) or customers opting for print book versions that are less profitable.

Your preference is to keep the new release price as close to $9.99 as possible to avoid creating issues with demand, but you see this issue as much less important for your profit margins than having flexibility to alter the price as quickly as possible through reducing the length of the "new release" window, during which the eBook price is fixed. Because customers are willing to pay more for some eBooks than others (e.g., books by best-sellers as opposed to debut authors), Hillcrest Chronicle needs the freedom to set the consumer prices for each new release to maximize profit. Flexibility to set prices for individual new release titles is your highest priority and an essential part of the deal. You'd ideally like to get the new release window—during which the eBook price is fixed—to as close 6 month as possible, but would be willing to settle for up to 12 months.

Similarly, given that profit is a concern, the level of commission is a very important issue for you. You believe 10% would be fair, but you have flexibility to offer up to 30%.

While Gala-Crispin hasn't mentioned any interest in distributing other media besides eBooks, you think it is important to convince Gala-Crispin to list other media produced by Coverage Corp, as well. In particular, your videos and newspapers, which make up a sizeable portion of Coverage Corp's revenue, would benefit from being listed in Gala-Crispin's online store in addition to Hillcrest Chronicle's eBooks. For now, it's only important to get their commitment to include the other media, and the details on that (e.g., commissions on other media) can be determined at another date.

While a partnership with Gala-Crispin would be beneficial under the right circumstances, you see the burden of reaching a deal on Gala-Crispin. After all, your company owns 35% of the eBook market and other media sources that Gala-Crispin's customers will be hungry for. You feel confident you'll be able to convince Gala-Crispin's CEO to meet your terms if they want a partnership.

Ultimately, it's your responsibility to get Gala-Crispin's CEO to agree on the following issues:

- New release eBook pricing (ideal $9.99 for new releases)
- [*Most important*] New release window length (ideal of 6 months)
- [*Most important*] Commission (ideal of 10%)
- Inclusion of other media (e.g., video and newspapers)

Gala-Crispin has publicly announced the launch of their new tablet in six days. Therefore, a deal must be reached before then. Given that both you and Gala-Crispin's CEO are busy, located in different time zones, and have limited scheduling overlap, it's essential that all communication be conducted **only via email**. Whether or not you reach a deal, all communication must be completed via email by the deadline your activity organizer has provided.

Teaching Guide

There is not a full agreement in this exercise unless the Gala-Crispin CEO and Coverage Corp CEO representatives can agree on the following:

1. New release pricing
2. New release window length
3. Commission
4. Addition of other media

The integrative (i.e., expanding the pie) issues in this exercise are a) new release pricing amount, and b) new release window length due to differing strength of preferences. Gala-Crispin's highest priority is to reach a new release price per eBook that is as close to $12.99 as possible. Coverage Corp's highest priority is to minimize the new release window length so they can flexibly price eBooks as quickly as possible. Therefore, the optimal resolution benefiting both Gala-Crispin and Coverage Corp is a "trade-off" which entails Gala-Crispin achieving their desired new release pricing of $12.99 while Coverage Corp secures the shortened release window of 6 months (rather than the two sides splitting the difference on both issues, where each gives up something on an issue they care deeply about, only to improve their position on a less vital issue).

The distributive issue is commission, which has an overlapping range (10%-30%) and both sides care about equally.

Finally, the compatible issue is other media distribution in addition to eBooks (e.g., videos and newspapers). This is a win-win for both sides.

Issue	Gala-Crispin's Target	Coverage Corp's Target	Issue Type	Explanation
New release pricing	$12.99 for new releases	$9.99 for new releases	Integrative	Gala-Crispin values more
New release window length	12 months	6 months	Integrative	Coverage Corp values more
Commission	30%	10%	Distributive	Equal, but opposing interests
Other media	Video and newspapers	Video and newspapers	Compatible	Win-win

Background of the exercise

This exercise is loosely based on the email negotiation between Apple's Steve Jobs and News Corp—which owns the publisher HarperCollins—executive James Murdoch in 2010, right before the launch of the iPad. The email exchange between Jobs and Murdoch can be read here: https://qz.com/87184/the-steve-jobs-emails-that-show-how-to-win-a-hard-nosed-negotiation (*archived link if the previous one is inactive*). This negotiation, along with other related virtual negotiation and conflict strategies, is also discussed in Chapter 7 of the book *PING* (by Andrew Brodsky).

Debrief

At the end of the exercise, it can be useful for students to print out their email chain with all of their and their partner's communication for them to analyze. This will help students to more objectively consider their and their partner's communication. Another approach for this activity is to have students each review a *different* pair's communication, as this allows for both a more "objective" approach and an opportunity for students to provide their peers with feedback.

Discussion Questions

- Which strategies did you find especially (un)helpful given the situation described in this specific negotiation?
- What challenges arose from solely communicating via email?
- What opportunities arose from solely communicating via email?
- How might this negotiation have gone differently if it were had in person or via telephone?
- If you were to engage in this negotiation again, how would you handle it differently?
- What lessons can you take away from this negotiation exercise that could apply to your virtual communication more broadly?

Further Reading

To learn more about communication best practices, strategies for specific business scenarios, and the research behind these tools, get your copy of *PING*. Written by Professor Andrew Brodsky, this book provides a definitive guide to navigating the complexities of workplace interactions in a technology-centered world. Available wherever books are sold.

The full teaching guide for the *PING* Book is also located at https://pinggroup.org/for-researchers-educators/.