

Negotiations - Pros and Cons of Making the First Offer

One of the most frequent questions people ask about negotiation tactics is ‘should you make the first offer or wait for the other party to put their offer on the table first?’

Conventional wisdom seems to suggest that it is better to wait for the opponent to make the first offer. The reason given for this is that at the start of negotiations discussions are often vague and an opening offer provides the opponent with valuable information too early in the negotiation process. The first offer gives the opponent an indication of where the lower end of the zone of potential agreement (‘zopa’) lies and clues about acceptable agreements. This may allow the opponent to work further downwards of the zopa to the detriment of the giver of the information. Moreover it is also possible that in response to the first offer the other side may offer misleading information in an attempt to get a bargaining advantage. It is therefore wiser to wait for the other side to speak first than make the mistake of a first offer.

Most academicians, researchers and scholars have now come to disagree with this conventional wisdom. They contend that research and statistical studies have established that the party who opens first gets a huge advantage during bargaining particularly when the party making the first offer comes well-versed and prepared to the negotiating table. In such a situation the first party making the opening offer is more likely to succeed in fulfilling its hopes and desires than the other who chose to delay making its offer and decided to suppress its emotions. The reason for this is two-fold: (i) the power of anchoring; and (ii) relationship enhancement.

Anchoring is the principle that the first time a number is thrown out during negotiation, the discussion will naturally revolve around that numerical value and all other financial possibilities will arise out of and/or in relation to the number. The numerical value attached to the offer tends to have a ‘magnetic effect’ as it pulls judgments of the parties throughout the rest of the negotiation to the first number; hence the numbers are known as ‘anchors’. Research into the effect of anchoring strongly suggests that a party’s response to an offer is highly influenced by any number that enters the negotiation process and the first number introduced in the process enjoys a powerful negotiation advantage.

Professor Adam D Galinsky, from the Kellogg Graduate School of Management, contends that anchors affect the judgment of even those who think they are immune to such influence. He basis this on research into the phenomenon of anchoring conducted by Greg Northcraft and Margaret Neale which involved price lists for properties provided by real estate agents; and on similar research by Thomas Mussweiler of the Institute of Psychology at the University of Wurzburg involving the value of used cars quoted by car mechanics in Germany. The reason that anchors affect peoples’ judgments is that during negotiations, each point under discussion has both positive and negative qualities, ie, qualities that suggest a higher price and qualities that suggest a lower price. High anchors selectively direct attention towards an item’s positive features whereas low anchors direct attention to its negative features. Hence in the above-mentioned studies, a high list price directed real estate agents’ attention to the house’s positive attributes (such as spacious rooms or a new roof) while pushing negative attributes (such as a small yard or an old furnace) to the back recesses of their minds. Similarly, a low anchor led car mechanics to focus on a car’s worn belts and ailing clutch plates rather than its low mileage and pristine interior. Professor Galinsky argues that more aggressive and extreme first offers lead to a better outcome for the person who made the offer as the numbers are anchored nearer to the seller’s number with the zopa. However, if the first offer is too aggressive and falls completely outside the opponents

zopa, the same may be perceived as an insult and scare and/or annoy the other side and perhaps even cause the other side to shut down negotiations and walk away.

Another advantage of making the first offer is gaining a relationship advantage. Research and studies have found that the first offer correlates to the party's confidence and sense of control at the negotiation table and enhances its relationship status. A numerical value as a first offer which is supported by a considered rationale justifying the offer as reasonable also enhances the stature of the party making the first offer. Once the first offer has been made, the party framing the justification and rationale for such offer is in a position to set a positive tone for discussion. Making the offer first also gives a positive impression to the other side that the party making the offer is interested in continuing its relationship beyond the current dispute/differences with the other side. On the other hand, the opponent receiving the first offer, particularly if the numerical value is at the lower end of its zopa, is forced to counter the offer with criticism and explain why the offer made is either wrong or unreasonable. Thus the opponents' frame of reference to object to the first offer is likely to be defensive and clothed in negative language during the course of negotiation.

Yet another advantage of making the first offer relates to the satisfaction with the outcome of the negotiation. According to research one of the best predictors of a successful negotiation is the number and size of concessions exchanged between the parties. Making a first offer, particularly if it is an aggressive and high offer, enables the maker to grant concessions and allow the opponent the opportunity to extract a perceived 'better deal'. An opponent who is satisfied that he has reached a duly bargained outcome will be more likely to respect the terms of the agreement leading up to a mutually beneficial outcome for both parties.

Of course, there is no hard and fast rule in negotiation. There can be situations in which it would not be advantageous to make a first offer. For instance, when there is inadequate information regarding the other party or it is apparent that the other side is better informed about the issues being negotiated and possesses superior market and industry information. It would be unwise to make the first offer in such cases as it would be difficult to explain the basis for the numerical value. Another instance, according to Professor Margaret Neale of Stanford Graduate School of Business, when it makes sense to wait for the other side to make an offer, is 'when you honestly believe that the other side dramatically values the object of the exchange at a much higher rate than you do'.

This does not mean that the party not making the first offer will always end up on the losing side. After all the opportunity to make an offer first is not available all the time. In such an event, a counter-offer should be based on the same information as one used to construct a first offer. Suffice, to say, counter-offers should also be framed to explore the other side's BATNA as well as gather more information about the issue and the market/industry. A positive attitude will always help make a more confident, effective and respected negotiation regardless of who makes the first offer.

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