

## NANO TOOLS FOR LEADERS®

### NEGOTIATION ADVANTAGE: MAKE THE FIRST MOVE

**Nano Tools for Leaders®** are fast, effective leadership tools that you can learn and start using in less than 15 minutes — with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

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#### THE GOAL:

Capture powerful negotiation advantages by knowing whether to make the first offer.

#### NANO TOOL:

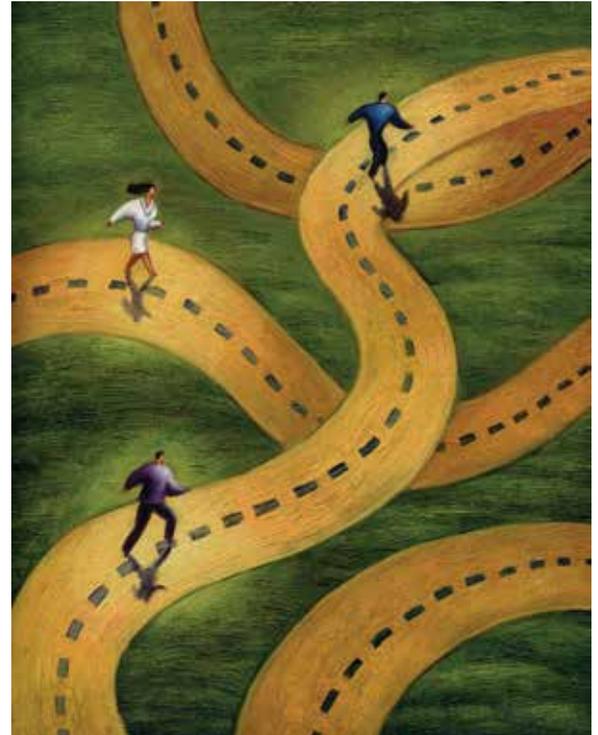
Most people believe that you gain a strong advantage in negotiations by letting the other party put an offer on the table first. By waiting for an offer, you receive valuable information about the other side's bargaining position. But the overwhelming evidence actually favors the opposite strategy: there is usually much more to gain by making the first move yourself.

Here are three reasons why. First, the initial offer is a better predictor of the final price than any other offer. It acts as an “anchor” that creates a strong pull throughout the negotiation, influencing your counterpart's judgment even if he or she tries to discount it. Second, by making the first move you set the tone, establishing yourself as confident and well-prepared — giving you a strong bargaining position. And third, by making a first offer that's favorable to you, you give yourself room for flexibility to make strategic concessions and still retain an advantage. Your counterpart is also likely to be more satisfied with the outcome because you've made concessions.

People who habitually wait to make the first offer miss out on these advantages. Of course, there are three circumstances in which it's risky to make the first move: (1) if your counterpart is more knowledgeable about the issues being negotiated; (2) if you can't estimate your counterpart's alternatives or bottom line; or (3) if your long-term relationship with your counterpart is important. Still, research shows that on average, if you're a seller, every \$1.00 higher in the first offer translates to a final sales price that's \$0.50 higher. The same pattern holds true if you're a buyer: every \$1.00 lower in the first offer translates to a final purchase price that's \$0.50 lower.

#### HOW COMPANIES USE IT:

- Reality TV show *Million Dollar Listing Los Angeles* provides weekly examples of the power of the anchoring effect in real estate. When meeting with the seller, the real estate agent begins not by revealing the final negotiated price, but the first offer, which is always lower than what the seller finds acceptable. The price serves as an anchor when the final offer is disclosed, making that price — and the agent's negotiating skills — far more appealing than they would be if revealed initially.



- IBM, a world leader in patent generation, maximizes the return on the investment required to generate that intellectual property through licensing and other joint development activity. Although no two negotiations are the same, the licensing process starts with a thorough analysis of the value of the intellectual property to be licensed (IBM's view of value). An opening offer is generated based on that analysis and presented to the potential licensee as a starting point for the negotiation.

## ACTION STEPS:

1. **Prepare** — Know your own bottom line, which sets the standard for what you will consider and what you will walk away from. Gather as much information as possible about your counterpart's position and the value of the issues being negotiated. Set your target: what is your goal in an ideal, but still realistic, world?
2. **Determine a first offer** that's close to your target, but still reasonable. Develop strong supporting arguments to justify the offer, and consider some concessions that, if made, keep the outcome well above your bottom line. The higher you can go while still offering sound reasoning, the better your final outcome is likely to be.
3. **Don't rush the first stage** of negotiating, in which you exchange information. Ask questions that can help you add to the knowledge you gathered during your preparations. Explore shared interests, and evaluate the importance of an agreement to your counterpart.
4. **Make your offer** and explain why it's reasonable. If it's **rejected**, don't make concessions immediately. By asking for clarification, you can continue the conversation while maintaining that your offer is justified and worthy of consideration. Try to determine which part(s) of the offer is unacceptable so, if and when appropriate, you can make an advantageous but targeted counteroffer. If your first offer is **accepted**, or the counteroffer is close to your target, research shows that your counterpart will be more satisfied with the final outcome if you ask for concessions. Their satisfaction is particularly relevant if your relationship, and not just the negotiation, is important.

## SHARE YOUR BEST PRACTICES:

Do you have a best practice for negotiations? If so, please share it on our blog at Wharton's Center for Leadership and Change Management. <http://whartonleadership.wordpress.com/>

## ADDITIONAL RESOURCES:

- "Should You Make the First Offer?" Adam D. Galinsky, *Negotiation*, July 2004: 3-5. Summarizes the evidence on the anchoring effect, and the advantages of making the first offer.
- *Bargaining for Advantage: Negotiation Strategies for Reasonable People*. G. Richard Shell (Penguin Books, 2006). Provides a systematic, research-based approach and includes a "Negotiation I.Q." test that reveals unique strengths and weaknesses.
- "The Effective Negotiator — Part I: The Behaviour of Successful Negotiators," Neil Rackham and John Carlisle, *Journal of European Industrial Training*, Vol. 2, No. 6, pp. 6–11. Also, "The Effective Negotiator — Part 2: Planning for Negotiations," Vol. 2, No. 7, pp. 2–5. Reveals research findings regarding preparation and communication strategies of successful negotiators.

- “Aspirations, Anchoring, and Negotiation Result,” Charles B. Craver, *The Negotiator Magazine*, October 2005. Argues for the establishment of high but rationally defensible goals and for capturing the advantages of anchoring.
- Adam Grant teaches in Wharton’s [Executive Negotiation Workshop](#), [Advanced Management Program](#), [Executive Development Program](#), and [Making Strategy Work: Leading Effective Execution](#). He also serves as faculty director of and teaches in [Leading Organizational Change](#).

## **ABOUT NANO TOOLS:**

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, Director of Innovative Learning Solutions at Wharton Executive Education. It is jointly sponsored by Wharton Executive Education and Wharton’s Center for Leadership and Change Management, Wharton Professor of Management Michael Useem, Director. Nano Tools Academic Director, Professor Adam Grant.