



NEGOTIATING LIFE

Batten down the anchors: Responding to another negotiator's first offer



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Abstract Drawing from a wealth of negotiation research, my previous installment of *Negotiating Life* advised negotiators to make the first offer if they can. But sometimes they can't. Sometimes, despite a negotiator's best efforts, the other side moves first. In this article, I provide a framework for responding to another negotiator's first offer, suggesting that the appropriate response varies markedly depending on the quality of the offer. This provides a more comprehensive strategy for making and managing early offers in a negotiation.

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1. The flip side of anchoring

Imagine you are the purchasing manager for a Fortune 100 company. You are responsible for procuring all of the company's critical supplies. The contract with your biggest supplier is up for renewal, and you have just picked up the phone to initiate the negotiation. Everything starts amicably. You and the supplier catch up on your kids, golf games, and mutual health. But before you can even utter the word "contract," the supplier gets down to business and immediately offers the relevant supplies for a price of \$532 per pound.

Now, I have not given any information that would indicate whether \$532 per pound is a good or bad price in this situation. However, if you read my

previous article in *Business Horizons* (Gunia, 2017), you know that this situation is not good at all. My previous piece summarized near-mountains of research suggesting that the person who moves first in a negotiation—that is, whoever makes the first offer—often achieves a better outcome than the person who moves second (e.g., Benton, Kelley, & Liebling, 1972; Chertkoff & Conley, 1967; Galinsky & Mussweiler, 2001; Gunia, Swaab, Sivanathan, & Galinsky, 2013; Liebert, Smith, Hill, & Keifer, 1968; Yukl, 1974). Since the supplier moved first, this negotiation is off to a supremely bad start.

I previously advised you not to let this happen and I stick by that guidance. But what if it does happen? What if, despite your best efforts, your wily counterpart (who also happens to read *Business Horizons*) slips in an offer before you have the chance? My previous piece said nothing about how to respond. Hence the need for another article that tackles this thorny question. How do you think you

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should respond to the \$532 bombshell? How would you respond in the real world? I'd invite you to consider those questions before proceeding.

Considering those questions, you probably realized that it depends in large part on what exactly you think of \$532 per pound, right? Is \$532 a bad price—way too high? Oftentimes, a first offer from the other side will be on the high end, but not always. Perhaps \$532, though not your dream price, is still reasonable, all things considered. Or did your dreams just come true? Did the supplier somehow offer a price that was below your expectations, prompting you to squirm in your chair with excitement? Since your reaction depends on what exactly you were expecting (Galinsky, Mussweiler, & Medvec, 2002), surprisingly positive offers can appear more often than you would think. In sum, your response to the supplier's first offer should probably depend on your own reactions to the content of the offer. Let's consider each type of offer in turn and discuss how to respond to bad, mediocre, and surprisingly good offers from the other side.

1.1. Bad offer

When the other side beats you to an offer, they will often put out a number that you don't much like. Given the immutable laws of economics, it would not at all surprise you if the supplier requested a higher price than you prefer—\$532 compared to the \$132 you were planning to offer, for example. Put differently, there is a good chance the \$532 offer will not put a thoroughgoing smile on your face. So, the question is how to respond. Please take off your purchasing hat for a moment and imagine yourself in a negotiation class. Then, please imagine me asking that very question—namely: “How should you respond to a bad offer from the other side?” I invite you to consider that question before proceeding.

I have asked that question dozens of times in various negotiation classes. Two answers always emerge as the most common: (1) Ask the other side to explain their offer, and (2) ask the other side to make another offer. Following the first option in the purchasing example, you might say: “Hey, can you tell me a bit more about where that offer is coming from? How did you get to \$532?” Following the second option, you might say: “Hey, that sounds a little high to me. Do you think we could bring it down a bit?” What do you think of those two options, based on the far-and-away most popular responses from my negotiation classes?

What I think—and what I immediately say in class—is that there is something supremely wrong with both options. I wrote previously that the fundamental problem with not making the first offer is

that the other side's offer anchors you (Tversky & Kahneman, 1974). In other words, his/her offer drops a disadvantageous numerical anchor in your own mental sand, and—given the immutable laws of psychology—you can't help but focus your attention on it and base your counteroffers on it.

So what happens to the anchor if you ask your negotiating partner to explain it or try again? In both cases, you give him/her a golden opportunity to sink the anchor ever deeper in your sand. If you ask for an explanation, what will the response be? Assuming he/she is halfway prepared and benefits from half a brain, you will get an explanation—one that inevitably justifies the initial offer, making it ever harder for you to resist its intoxicating appeal. If you ask for another offer, what will he/she do? Try again. And you get an amazing deal—today only, clearance price—of \$531. Is your negotiating partner really going to revise the offer substantially just because you asked? Assuming ample preparation and grey matter, probably not. So both of these strategies have a serious problem: they actually exacerbate the anchoring power of the other side's first offer. That being the case, what do you think you should actually do?

Well, you need to find a way to pick up their anchor before it settles in your own sand, then toss it back into their sand without causing the whole ship to sink (i.e., the whole negotiation to tank). In other words, you need to make an immediate and aggressive counteroffer without ruining the prospect of an eventual deal. But wait. If you were offered \$532, why can't you just counter with \$132, end of story? You can, but a flat-out counter-anchoring is likely to leave everyone feeling stunned and combative—not the way you want any negotiation to begin. You need to counter-anchor gracefully. The burning question is: “How?”

In reply, I recommend preceding your counter-anchor with two different statements: one that changes the direction of the conversation and one that creates an opening for the other side to save face. A good way to change the conversation's direction is to comment on the negotiation process (Brett, Shapiro, & Lytle, 1998)—for example, by saying: “I can see this is gonna be a long negotiation!” Though less studied, I have often found that a lame joke serves the same purpose: “It sure is warm in here!” or “Somebody's been reading *The Art of the Deal!*” The goal here is not to win any comedy awards; it is to dissipate the power of the initial anchor and create space for you to plant your own. Whether you start with a process comment or joke, I would suggest finishing with a statement that allows the other side to back down without losing face (Ting-Toomey & Kurogi, 1998). This could be

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