

## ENTERPRISE

# On making the first offer



### Negotiation strategies

■ Raphael E. Lapin

A strategic question that is often asked when it comes to negotiation is: should you make the first offer or wait for the other party to put their offer on the table first?

I have heard different opinions from various negotiation theorists. There are those who suggest that it is better to wait for the other party to put forward their offer first. This, they argue, will give you a sense of where the lower end of their zone of possible agreement may lie and from which you can then work upwards.

These theorists also suggest that the “appropriate” response to their offer should be an obvious and highly exaggerated flinch thereby clearly indicating how “crazy” they are for even considering such an offer. The hope is that the all-powerful flinch will immediately shift them away from their initial position and closer to where you want to them to be.

This approach is one that is based on tricks and tactics as opposed to an authentic one, and therefore one that I do not advocate. My reasoning is that an approach that is based on tricks and tactics will inevitably erode trust and damage the relationship. This may be acceptable in simple one-off negotiations such as those between a fishmonger and a housewife where trust and relationship is not an issue. However, in more sophisticated business or diplomatic negotiations this can be costly.

Then there are other theorists who suggest that making the first offer gives you an advantage in the negotiations. They argue that by making the first offer you are able to “anchor” their perception of reality thereby establishing a lower frame of reference for them.

As an example, if you are buying a home and you open with an extremely low offer, this, the theory goes, will influence their perception of how high they can go. They will be anchored in your low offer range and will therefore be less likely to put out an extremely high offer for fear of it being unrealistic. This anchoring supposedly, will limit the extent of the other side’s demand.

**‘If the other side presents its offer first, more effective than the flinch tactic is to ask them to justify their effort.’**

Although, in theory this might ring true, we have however done various “experiments” in our negotiation clinics and workshops and have found that no matter what anchoring techniques we used, it did not influence or limit the other side’s position any more than without these techniques. The results convinced us that in the real world this does not typically work.

So if allowing the other side to make the first offer in conjunction with the “flinch” is trick and tactic based, and anchoring the other party by making the first offer doesn’t work, then what is the best strategy?

We have found that making the first offer will be effective in anchoring the other side’s frame of reference, but with a crucial caveat. That is that when you propose the first offer it is not merely arbitrary, but one that you support with a compelling justification that the

offer is reasonable. The offer should be the best possible that you can justify. This justification should be based on some objective standard which is independent of either side’s self-interest. In our earlier example about buying a home, you might justify your offer by saying:

“In deciding what we should offer, we took a look at some neighboring sales and based on three sales of homes similar to this one in the past three months, the average came to \$1.2 million.” Because you have now justified your offer quite compellingly as being reasonable, it is far more likely that their frame of reference and their perception of how high they can go will be altered and limited. You have also tacitly “put the ball in their court” to justify any offer that they may put forth too. Another benefit of a good justification is that you have neutralized the “flinch” tactic because although they can flinch at an arbitrary number, they can’t flinch at a compelling justification without explaining why the justification is not valid.

Similarly, if you are in a situation where they have presented their offer first, more effective than the “flinch” tactic, is to ask them to justify their offer. You might say:

“Please help me understand on what basis you find that offer to be a fair one?” and wait patiently for their response.

Using justification is one more technique that you can add to your negotiation repertoire. It will help to make you a more confident, effective and respected negotiator.

**RAPHAEL LAPIN** is a Harvard-trained negotiation specialist. He is principal and founder of Conflict Management, Inc, a corporate negotiation consulting and training group based in San Jose, serving clients across the globe. Reach him through the firm’s Web site at [www.conflict-management.net](http://www.conflict-management.net)