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# When to Make the First Offer in Negotiations

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**Common wisdom for negotiations says it's better to wait for your opponent to make the first offer. In fact, you may win by making the first offer yourself. From *Negotiation*.**

by Adam D. Galinsky

Whether negotiators are bidding on a firm, seeking agreement on a compensation package, or bargaining over a used car, someone has to make the first offer. Should it be you, or should you wait to hear what others have to say? How will the first offer influence the negotiation process and any final agreement?

The question of whether to make the opening move plagues negotiators. Uncertainty compounds the issue. If you lack reliable information about your opponent's true bargaining position, you'll be unsure about what offer she will find acceptable and whether she'll walk away from the bargaining table. Furthermore, it's possible that your opponent will offer up misleading information in an attempt to get a bargaining advantage.

Because of the inherent ambiguity of most negotiations, some experts suggest that you should wait for the other side to speak first. By receiving the opening offer, the argument goes, you'll gain valuable information about your opponent's bargaining position and clues about acceptable agreements. This advice makes intuitive sense, but it fails to account for the powerful effect that first offers have on the way people think about the negotiation process. Substantial psychological research suggests that, more often than not, negotiators who make first offers come out ahead. In this article, I explain when and how first offers affect final outcomes and advise you on how to make and receive opening offers.

## The dramatic effect of anchors

Research into human judgment has found that how we perceive a particular offer's value is highly influenced by any relevant number that enters the negotiation environment. Because they pull judgments toward themselves, these numerical values are known as *anchors*. In situations of great ambiguity and uncertainty, first offers have a strong *anchoring effect*—they exert a strong pull throughout the rest of the negotiation. Even when people

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know that a particular anchor should not influence their judgments, they are often incapable of resisting its influence. As a result, they insufficiently adjust their valuations away from the anchor.

We might expect experts to be immune to the anchoring effect. Real estate agents, for example, should be able to resist the anchoring effects of a property's list price because of their presumed skill at estimating property values. Testing this theory, researchers Greg Northcraft and Margaret Neale had real estate agents inspect a house and estimate its appraisal value and its purchase price. Northcraft and Neale manipulated the house's list price, providing high and low anchors. All of the agents' estimates were influenced by the list price, yet they denied factoring the list price into their decisions, instead citing features of the property that would justify their estimates.

In another study, Thomas Mussweiler of the Institute of Psychology at the University of Würzburg, in Würzburg, Germany, and his colleagues had customers approach German mechanics—individuals expected to be knowledgeable about the true value of cars—with a used car that needed numerous repairs. After offering their own opinion of the car's value, the customers asked the mechanics for an estimate. Half the mechanics were given a low anchor; the customer stated, "I think that the car should sell for about DM 2,800." The other half were given a high anchor: "I think that the car should sell for about DM 5,000." The mechanics estimated the car to be worth DM 1,000 more when they were given the high-anchor value!

As this research makes clear, anchors affect the judgment of even those who think they are immune to such influence. But why?

The answer lies in the fact that every item under negotiation (whether it's a company or a car) has both positive and negative qualities—qualities that suggest a higher price and qualities that suggest a lower price. High anchors selectively direct our attention toward an item's positive attributes; low anchors direct our attention to its flaws. Hence, a high list price directed real estate agents' attention to the house's positive features (such as spacious rooms or a new roof) while pushing negative features (such as a small yard or an old furnace) to the back recesses of their minds. Similarly, a low anchor led mechanics to focus on a car's worn belts and ailing clutch rather than its low mileage and pristine interior.

### **When you should make the first offer**

Anchoring research helps clarify the question of whether to make the first offer in a negotiation: by making the first offer, you will anchor the negotiation in your favor. In fact, Mussweiler and I have shown that making the first offer affords a bargaining advantage. In our studies, we found that the final outcome of a negotiation is affected by whether the buyer or the seller makes the first offer. Specifically, when a seller makes the first offer, the final settlement price tends to be higher than when the buyer makes the first offer.

**Most negotiators make first offers that are not aggressive enough.**

My own research also shows that the probability of making a first offer is related to one's confidence and sense of control at the bargaining table. Those who lack power, either due to a negotiation's structure or a lack of available alternatives, are less inclined to make a first offer. Power and confidence result in better outcomes *because* they lead negotiators to make the first offer. In addition, the *amount* of the first offer affects the outcome, with more aggressive or extreme first offers leading to a better outcome for the person who made the offer. Initial offers better predict final settlement prices than subsequent concessionary behaviors do.

There is one situation in which making the first offer is not to your advantage: when the other side has much more information than you do about the item to be negotiated or about the relevant market or industry. For example, recruiters and employers typically have more information than job candidates do; likewise, buyers and sellers represented by a real estate agent often are privy to more information than unrepresented buyers and sellers are. This doesn't mean you should sit back and let the other side make the first offer. Rather, this is your opportunity to level the playing field by gathering more information about the item, the industry, or your opponent's alternatives to the negotiation. The well-prepared negotiator will feel confident about making the first offer and anchoring the negotiation in his favor.

## **Don't be afraid to be aggressive**

How extreme should your first offer be? My own research suggests that first offers should be quite aggressive but not absurdly so. Many negotiators fear that an aggressive first offer will scare or annoy the other side and perhaps even cause him to walk away in disgust. However, research shows that this fear is typically exaggerated. In fact, most negotiators make first offers that are not aggressive enough.

An aggressive first offer can work in your favor for several reasons. Take the perspective of the seller: more extreme first offers lead to higher final settlements. For example, higher listing prices lead to higher final sale prices in real estate transactions because, as we've seen, high-anchor offers lead buyers to focus on a negotiated item's positive attributes. In addition, an aggressive first offer allows you to offer concessions and still reach an agreement that's much better than your alternatives.

In contrast, a nonaggressive first offer leaves you with two unappealing options: Make small concessions or stand by your demands. One of the best predictors of negotiator satisfaction with an outcome is the number and size of the concessions extracted from an opponent. By making an aggressive first offer and giving your opponent the opportunity to "extract" concessions from you, you'll not only get a better outcome, but you'll also increase the other side's satisfaction.

Of course, it's important that your opening offer isn't absurdly aggressive. The first offer provides preliminary insight into the bargaining zone and range of possible agreements. An absurd offer can lead the receiver to believe that no agreement exists that will be acceptable to you both and therefore can cause her to walk away from the negotiation.

## Focus on your target price

When constructing an aggressive (but not absurdly aggressive) first offer, there are generally two values on which you should focus. First, consider your alternatives to agreement and create a *reservation price*—a specific value at which you'd prefer to walk away rather than reach a deal. Now you'll be prepared to accept any agreement that exceeds your reservation price and reject any value that falls below it. Second, determine your ideal outcome, or *target price*—the agreements or values that would fulfill all of your negotiation hopes and desires.

Knowledge of your reservation price is crucial, but it's your target price that you should pay attention to when constructing a first offer. Mussweiler, my colleague Victoria Husted Medvec, and I have found that negotiators who focus on their target prices make more aggressive first offers and ultimately reach more profitable agreements than those who do not.

**You may not always have the opportunity to make the first offer.** How can you ensure that your first offer is not so aggressive that it drives your opponent away? By focusing on your *opponent's* alternatives to agreement and trying to determine his reservation price (while also being cognizant of market trends). Researchers John Oesch and Glenn Whyte found that the best first offers are those that fall outside the bargaining zone—beyond your opponent's reservation price—but not so far outside as to be discounted or ignored by the recipient of the first offer.

A caveat: Negotiators who focus too much on their ideal outcomes sometimes curse themselves by rejecting profitable agreements that surpass their alternatives. The lesson? Focus on your target price and make an aggressive first offer, but be willing to concede so you avoid rejecting favorable agreements. In doing so, you'll still get a profitable deal, and the other side will be pleased with the outcome.

## Protect yourself against a first offer

You may not always have the opportunity to make the first offer. How can you protect yourself from the anchoring effects of someone else's offer? Many of the strategies outlined above can keep you from being anchored by your opponent's first offer when making your counteroffer. Specifically, your counteroffer should be based upon the same information you would use to construct a first offer: your ideal outcome and your opponent's alternatives and probable reservation price. You might also try combining an aggressive counteroffer with a joke that will not only lighten the mood but discount the other side's anchor. Whether you're making the first offer or the first counteroffer, an awareness of your aspirations and the other side's limits can guide you toward a profitable outcome.

What should you do if your opponent's first offer is close to your ideal—accept the offer and quickly finish off the negotiation, or raise your expectations and keep bargaining? My own research shows that if you immediately accept your opponent's first offer, she will likely be filled with regret. Despite not having had to make any concessions, your opponent will likely be beset with "if only" thoughts ranging from "I should have made a

more extreme first offer" to "Maybe the item I purchased is suspect."  
Remember that you want to reach an agreement that's profitable to you and that satisfies the other side. A satisfied opponent will be more likely to live up to the terms of the agreement and less likely to seek future concessions or revenge. So what should you do when you like your opponent's first offer? Demand concessions! You'll not only achieve a more advantageous outcome for yourself, but you'll also increase your opponent's satisfaction. [WK](#)

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