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Opening Offers

Vol. 2

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In this issue we tackle an ongoing concern for negotiators: the opening offer. Who should make the first move? Next, we turn our attention to negotiation expert Danny Ertel who argues in a provocative *Harvard Business Review* article that negotiators concerned only with making a deal can be detrimental to the long-term success of a new partnership because of the strategies they use. Enjoy.

-Ira and Sandy Asherman

RESEARCH

Who Should Open?

Negotiators have long wrestled with the question of openings. For many years conventional thinking said that it was better for the other side to make the first move. Negotiators who went first, the argument went, inevitably revealed something about their thinking—valuable information that one could use to make a smart counter offer.

Think again. Northwestern University assistant professor Adam Galinsky argues in *Should You Make the First Offer, Negotiation*, September 2004, that you gain a powerful psychological advantage when you make the first move. “Specifically, when a seller makes the first offer, the final settlement price tends to be higher than when the buyer makes the first offer,” writes Galinsky.

Why? Because of something called “anchors” or how the mind digests information. Experts put it this way, “When considering a decision, the mind gives disproportionate weight

to the first information it receives,” write authors John S. Hammond, Ralph L. Keeney and Howard Raiffa in *The Hidden Traps in Decision Making, Harvard Business Review*, Sept-Oct. 1998. “Initial impressions, estimates, or data anchor subsequent thoughts and judgments,” they explain.

Galinsky’s second area of concern is our fear of being too aggressive. “Many negotiators fear that an aggressive first offer will scare or annoy the other side,” Galinsky writes. “However, research shows that this fear is typically exaggerated. In fact, most negotiators make first offers that are not aggressive enough.” In other words, our fear of being too aggressive is overblown and as a result we are usually too timid.

How can you make the first offer?

Okay, so maybe you will make the first move, you tell yourself. But how do you ensure that you are not going overboard?

continued

Who Should Open? (continued)

We suggest the following strategies:

- Be comfortable with your opening.
- Be able to support your offer with, as Galinsky suggests, similar agreements in the field, or experts who have advised you, or other data that supports your point of view.
- Indicate you are open to changing your mind if they have relevant data.

What if the other party opens first?

If you find yourself in a situation where the other party has made the first move and you don't want to fall prey to their anchor,

there are several things you can do:

- Try to understand the impact their opening is having on you. Be aware of the anchor.
- Be clear about your objectives.
- Introduce a counter offer. Base it on information or data that supports your point of view.
- Do not demean the other person.

Sources

Adam Galinsky, *Should You Make the First Offer* (Negotiation, Harvard Business School, September 2004).
David Lax, James Sebenius, *Anchoring Expectations* (Harvard Business Review, September, 2004).
John S. Hammond, Ralph L. Keeney and Howard Raiffa, *The Hidden Traps in Decision Making* (Harvard Business Review, Sept-Oct. 1998).

EYE ON

Deal Makers

Article Summary

Negotiators focused solely on closing a deal are headed for trouble, says veteran consultant, Danny Ertel in *Getting Past No: Negotiating as if Implementation Mattered*, *Harvard Business Review*, November 2004, who takes to task what he calls the "deal-minded" negotiator. Ertel argues that the strategies and behaviors of the deal maker tend to erode trust. Deal-minded negotiators are well equipped to close a deal, says Ertel, but won't create deals that succeed in real life.

Ertel wants company executives to ditch the deal-maker mind-set, and adopt in its place, the "implementation-minded" mind set. Implementation-minded negotiators look carefully at how the terms of a contract will affect each party in practice.

Ertel compares the behaviors of deal makers and implementation-minded negotiators in their use of surprise, information sharing, closing techniques, realistic commitments, and decision-making and stakeholder participation.

He says that negotiating for implementation means, "starting with the end in mind, encouraging partners to prepare, treating alignment as a shared responsibility, sending one message, and managing negotiation like a business process."

Commentary

We think the implementation mind set is of particular importance when negotiating with vendors, investigators, and contract research organizations. Too often we are concerned with getting the best deal whose value is measured by the price we negotiate.

Commentary (continued)

This is much too narrow a perspective that severely limits the quality of the deal. Under these circumstances, parties involved tend to make numerous change orders, and blame one another when something goes wrong instead of developing realistic solutions to the problems that exist.

Next Steps:

To assess where you are on the deal/implementation continuum we suggest you do the following on a regular basis:

- Survey a sample of your contractors to gain an understanding of how you are currently seen.
- Develop a list of action items to address any areas of concern.
- Meet with your stakeholders to secure their commitment if changes need to be made.
- Develop appropriate metrics to assess how you are doing.

Notes

Danny Ertel is founder and owner of the Boston-based consulting company, Vantage Partners.

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210 W. 19th Street, New York, NY 10011
Tel. 212-243-0782 Fax 212-243-1375
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Website: <http://www.asherman.com>
E-mail: sandy@asherman.com
ira@asherman.com