

You first

Never make an opening offer unless you're well prepared for the consequences

Question:

Some say you should initiate making the opening offer, while others say that you should wait until the other party presents their offer. What is the best rule of thumb?

Answer:

The golden rule when deciding who and when should make the initial offer is very simple: Never make an opening offer unless you are well prepared for the potential consequences that follow.

In fact, we recommend not making the initial offer. The exception to this may include when you are the buyer posting a "selling price" to establish a starting point in a negotiation. That might include a car dealer listing the sticker price for a car, home owners selling their house, or a retailer selling wares that appear to be non-negotiable. In those cases, the objective is to set the buyer's expectation regarding the item's value.

Before deciding to present your offer to the other party, begin by answering the following questions:

- **What does the other side need and want?**
- **What are they trying to accomplish?**
- **What is their perception of value? (It might be significantly different than what you think it is.)**
- **What do you need to know about the other party's position**

prior to assessing/presenting your position?

When preparing your offer, consider what will be perceived as reasonable by the other party; it doesn't mean you necessarily agree. Your opening offer forms an expectation about what the other party thinks is possible to achieve from this negotiation. Depending on their perspective, the other party will either: continue the discussion, become hostile, or begin seeking other options. If you blow the opening offer, it is difficult, if not impossible, to recover.

We recommend gathering important information regarding the other party's perception of value prior to presenting an offer. Otherwise, you will be, in essence, negotiating blind. To illustrate, let's assume a seller is offering an antique chair for \$750 — the company's cost plus mark-up. Alone, it's a nice piece of furniture. But to a collector who has seven chairs and the matching table, this eighth chair will significantly increase the resell value of the set. The risk of not buying the chair at a reasonable cost may be more painful than paying a little bit more.

It's best to begin all negotiations with a conservative position. Make concessions slowly. And make each concession progressively smaller so there is the perception that you are approaching your bottom line. Never make a concession in response to intense pressure imposed by the other party. Emotional concessions will haunt you while rational ones will give you strategic advantage.

Be sure to refrain from making "off the record" statements like, "We'll need to secure approval for that, but I don't see any reason why it would be an issue." If you find for any reason you need to change your original position and it is not in the other party's favor, your credibility will be negated and your actions will be interpreted

as manipulative.

When negotiating, every word and statement you communicate to the other party makes an impact. Therefore, it's in your best interest to negotiate with deliberate intention, rather than by default. Never leave any statement open to interpretation. There are no informal offers or any casual conversations in a negotiation.

For example, when you say to the other party, "You can plan the investment to be between \$20,000 and \$30,000 dollars," expect the other party to only remember the \$20,000 figure. If your final number comes in any higher than \$20,000, be prepared to be put under the headlamp. You will need to justify the difference to their satisfaction. That creates a defensive situation that could have been avoided if you waited to present your offer when all the information was on the table.

Listed below are four common strategies you may want to review when planning your position/offer:

1. Lowballing: This is when you make a ridiculously low initial offer. The intent is to deflate the other party's expectations about what is reasonable. The benefit of taking this approach is if the other party is still interested in negotiating with you, they must take responsibility in justifying why your offer is unreasonable and redefine a more acceptable target.

If you decide to lowball the other party, you must be prepared for your position to be perceived as hostile. An example may be if the seller is asking \$175,000 and you offer \$135,000, the seller may either take a firm (almost non-negotiable) position of \$173,000 or refuse to negotiate. Either way, the reaction is counter-productive to securing a mutually agreeable solution.

2. Negotiating against your target: In this scenario, your opening offer is lower than your targeted position, which is the price you are willing to pay. So

if the seller is asking \$175,000 and your target is \$155,000, you might begin the negotiation with an opening offer of \$148,500.



This lowers the other party's expectations. And while this may work in your favor for a short period of time, you risk the other party feeling as if they are expected to make the majority of the concessions for your benefit. Because of this one-sidedness, you risk having them walk away and let the negotiation fail.

Furthermore, after an agreement is reached, buyer's remorse may settle in. If the other party feels that "they didn't get their fair share," they may demonstrate some uncooperative or belligerent behavior down the road.

3. Middle-ground offer: In this scenario, the buyer makes an offer where the target price is equidistant between the asking price and the initial offer. If the seller's price is \$175,000 and your target price is \$165,000, your initial offer would be \$155,000.

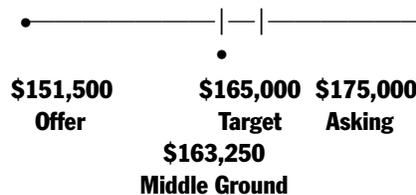


In this scenario, the seller feels an equal degree of concession making taking place between the parties. As a result, they are more inclined to want to find a mutually acceptable agreement.

4. Off-center offer: This approach is similar to the middle ground scenario with the exception being the opening offer is not exactly half way in between; rather it's slightly lower than

the half-way point.

In the scenario where the seller's starting point is \$175,000, instead of your initial offer starting at \$155,000 as in the middle ground scenario, you might offer \$151,500.



This creating a lower "center of gravity." Instead of your middle ground being \$165,000, it's now \$163,250. This strategy can be effective when dealing with a negotiator who must win. You can effectively "give up" an additional \$1,750 without compromising your target position and both parties walk away feeling good.

Effective negotiating requires patience and a deliberate approach. While it is not easy to restrain from saying what you are thinking, thinking before speaking will save you a great deal of energy, time and valuable resources down the road.



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