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First Offers That Backfire

Experienced negotiators understand the “anchor” effect an opening offer can create to pull the other side’s perception of the offer’s value towards that initial number. But is it always a good idea to make the first offer? Two negotiations described by legendary sports agent Donald Dell in his book “Never Make the First Offer: (Except When You Should)” offer contradictory results:

Dell negotiated Michael Jordan’s contract with the Chicago Bulls in 1996. Anticipating that the Bulls’ managing partner would try to lowball him, Dell made the first move and requested $52 million. After some back and forth, the parties settled for $30 million. By making an aggressive first offer, Dell created the conditions for a favorable negotiation outcome. The following year the Bulls agreed to pay Jordan $33.14 million for the 1997-98 season, which is still the highest annual salary in NBA history.

However, when Dell represented former tennis champion Andy Roddick in an apparel deal with Lacoste, Lacoste made the first move, and it cost them. Their initial offer included money terms and a clause reducing the contract price by 75% if Roddick’s tennis ranking fell below fifteenth. Lacoste was not aware that this clause did not concern Roddick because he had already decided to retire from tennis if he was not ranked a top fifteen player. Dell used this information to negotiate a larger annual guarantee and an automatic contract extension. After extracting these terms, Dell “reluctantly agreed” to Lacoste’s clause. In this instance, by making the first offer, Lacoste revealed valuable information which Roddick used to his advantage.

Professor David D. Loschelder (Saarland University) and his colleagues conducted tests to discover why a first offer may backfire, instead of providing the first-mover anchor advantage. Their recent studies concluded that making the first offer in a distributive negotiation (such as a fight over money where any gain by one party represents a loss to the other), the classic first-mover advantage occurred and first offers predicted final prices.

However, moving first may backfire in multi-issue negotiations when the first offer reveals previously unknown information about a compatible issue. As in the Roddick/Lacoste example, an opening offer can lead to information imbalance, where recipients of first offers know more about the offerors’ preferences than vice versa. First offers for compatible issues may alert the offeree to the offeror’s identical preferences. As a result, they can leverage this information by feigning that the proposed offer is detrimental to them to extract concessions on another issue before finally “reluctantly agreeing” on the compatible issue.

In deciding whether to make the first offer or not, consider the type of information it reveals. A first offer is more likely to serve as a value claiming anchor if it does not reveal information on compatible preferences.