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Having too many options can make you a worse negotiator

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Having Too Many Options Can Make You a Worse Negotiator

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The conventional wisdom about negotiating — whether for a job salary or the price of a house — is that you're better positioned to get what you want when you have more offers to leverage. For example, the more job offers an MBA graduate has, the better positioned they are to get a good deal with a recruiter. If you're considering multiple options, your counterpart may feel pressured to make a better offer to keep you at the negotiation table.

As our research shows, however, having alternative offers does not always help you. In a series of experiments, we found that walking into a negotiation with multiple offers, rather than a single one, can bias your decisions and lead you to make a lower first offer, hurting your ability to negotiate for the outcome you want. We conducted five studies, involving 1,527 MBA students, undergraduates, and online participants, all with different levels of negotiating experience, in a variety of negotiation settings. Our paper was recently published in Organizational Behavior and Human Decision Processes. http://doi.org/10.1016/j.obhdp.2016.09.001

In our experiments, our first goal was to see whether having multiple offers biased negotiators more than a single offer. To test this, we compared the performance of negotiators who had one offer with those who had multiple offers. For instance, in an online study we asked 300 people to negotiate the selling price of a coffee machine with a potential buyer. We told one group that they already had an offer for the machine (either $80 or $90), and we told another group that they had two offers for the machine ($80 and $90). We recorded the initial price that people quoted to the potential buyer.

Those who had a single offer of $90 made more-ambitious offers (on average, they asked for $158) than those who had a single offer of $80 (on average, they asked for $142). Surprisingly, those who were told they had both offers ($80 and $90) made the lowest offers of all (on average, they asked for $105).

Our second goal was to explore this effect of having multiple alternatives. We suspected that the presence of additional offers shaped people's idea of what an "appropriate" first offer would look like: A negotiator who has one offer of $90 might see this value as "moderate" and choose to start selling at a relatively high value — say, $160. In contrast, a negotiator who has two alternatives, $80 and $90, would see $90 as the high value, leading them to ask for a less ambitious price — say, $100.

The idea that people rely too heavily on the first piece of information they encounter, like a numerical value, is a human tendency discovered by Nobel laureate Daniel Kahneman. He found that when people are exposed to an initial piece of information, their subsequent judgments are biased toward that information. This tendency has been illustrated in work by behavioral economist Dan Ariely, who has found that numerical reference points, even arbitrary ones, serve as anchors that influence people's perceptions about what constitutes a fair price.

To test the idea that having multiple options changes negotiators' perceptions of what an appropriate offer looks like, we instructed 302 online participants to negotiate the sales price of a CD. We randomly gave negotiators one or multiple offers. In addition, we told one group of negotiators to choose from a set of first-offer amounts ($7, $8, $9, $10, $11, and so on). We gave a second group of negotiators the same options, but also gave them information about how extreme each offer would be perceived (for example, $7 was a low offer, $9 was a moderate offer, and $11 was a high offer). We found that negotiators with multiple offers asked for $1 less when they were given only dollar amounts, but not when they had more context about the offers. This confirmed our thinking that negotiators with multiple offers have a different understanding of what an appropriate offer is and, as a result, make lower offers than a negotiator with a single alternative.

In another study, conducted in our behavioral laboratory, we tested whether having multiple alternatives would negatively affect the quality of negotiators' final deals. This time, we gave around 75 participants a Starbucks mug and instructed them to sell it to another participant, who played the role of the buyer. We randomly divided participants into two groups. In one, we told people they already had one offer for the mug (€4.75); in the other, we said they had multiple offers (€4.75, €4.25, €3.75, and €2.25). Thus, their best alternative was identical in both conditions. As in the previous study, those who had multiple offers asked for less money than those who had a single offer, but here we also found that having multiple offers led to receiving less money for the mug. Negotiators with multiple offers sold their mugs for 25% less (€4.60, on average) than those who had a single alternative (€6.20, on average).

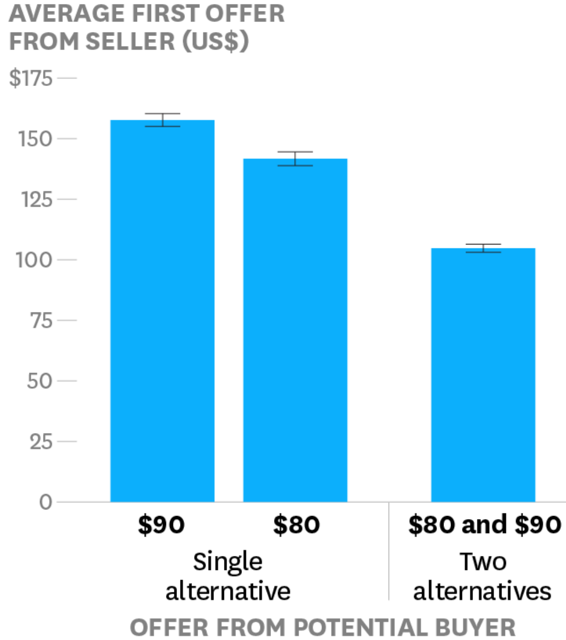
What's the best approach for negotiators who have multiple offers? The current thinking among negotiation scholars is that negotiators should simply focus on their best offer and ignore less attractive ones. In another study, we tested whether this strategy works — and found that even when participants were explicitly instructed to focus on their most attractive offer and disregard lower ones, those who had multiple alternatives did worse than those who had a single one. The biasing effect of multiple alternatives appears to be very robust and hard to ignore.

Another way to minimize the negative effects of multiple alternatives would be to gauge what an appropriate offer is before identifying alternatives. Specifically, negotiators should gather market data (from salary reports, for example) and research their opponent (what is the person's maximum willingness to pay?) to get an understanding of what an ambitious offer looks like. By doing this, negotiators can determine a first offer, and then identify viable alternatives. The sequential approach can keep the negotiator from being anchored by the value of alternatives when making a first offer.

Although our studies suggest that having more alternatives can lead to worse outcomes, negotiators should not refrain from generating outside options. After all, our earlier research showed that having a strong alternative, an offer above the market price, has considerable benefits: It provides negotiators with a subjective feeling of power, which allows them to negotiate with confidence and peace of mind that they will end up with a great deal, no matter what. In addition, strong alternatives serve as high anchors that cause negotiators to make more-ambitious offers. Unfortunately, because strong alternatives are hard to obtain, negotiators often end up with less-attractive alternatives, so they should understand how these may influence their negotiating performance.

Negotiators Ask for a Lower Price When They Have Multiple Other Offers

An experiment found that people trying to sell a coffee machine asked for a lower price when they received two alternative offers instead of one.



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