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Citation

TEY, Kian Siong; SCHAERER, Michael; MADAN, Nikhil; and SWAAB, Roderick. What's the best way to give ground in a negotiation?. (2021). *Harvard Business Review*.

Available at: https://ink.library.smu.edu.sg/lkcsb_research/6821

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What's the best way to give ground in a negotiation?

by Kian Siong Tey, Michael Schaerer, Nikhil Madan, and Roderick Swaab

Published in Harvard Business Review, October 20, 2021

<https://hbr.org/2021/10/whats-the-best-way-to-give-ground-in-a-negotiation>

Summary

How much should you change your offer at each round of a negotiation? The stakes can be high: Give away too much and you devalue your offer; give away too little and you risk getting stuck in an impasse. The authors' recent research shows that a rare approach to concessions — reducing the amount by which you reduce your offer each round — can yield the most value because it sends a clear signal about your final offer.

In zero-sum negotiations — such as bargaining over the price of a product, haggling over rent, or negotiating the price of antique — a key challenge is figuring out just how much to change your offer at each round of the negotiation. Give away too much and you devalue your offer; give away too little and you risk getting stuck in an impasse. The situation is complicated by the many meanings that the amounts of these concessions can signal: That a negotiator wants to settle quickly, or that they lack ambition, or maybe that they want to encourage reciprocity.

Our recent research set out to understand how negotiators respond to these signals and thus to find the most beneficial approach for offering concessions.

Typically, negotiators offer concessions by reducing their price the exact same amount across rounds — \$50 each time, say. But 6% of the experienced negotiators in our survey took an alternative approach of tapering their concessions — in other words, making concessions smaller each round: \$100 the first round, then \$60, then \$30, and so on. Ultimately our research showed that this exact approach can help negotiators extract more value.

Tapering Concessions Works

To determine the benefits of tapering concessions, we conducted a study in which we told participants — MBA students of diverse nationalities — that they were looking to rent a one-bedroom apartment in the city center and that the monthly rent for similar apartments in nearby suburban areas lay between \$700-\$1,000. We asked them to negotiate the rent of a suitable apartment that was advertised by a landlord at \$1,500.

We simulated the landlord with a bot that made either constant or decreasing concessions over three rounds of negotiation. Half of the students received counteroffers that were \$100 cheaper every time (\$1,400, \$1,300, \$1,200). The other half received counteroffers in a tapering pattern (\$1,300, \$1,225 and \$1,200). The negotiation ended automatically when participants accepted or made an offer higher than the landlord's counteroffer.

In each case the landlord's last offer was \$1,200, but we found that the average last offer of participants who received constant concessions was lower than that of the participants who had been offered tapered concessions — \$879 versus \$811. The implication is that by decreasing the size of concessions negotiators offer, they can obtain more attractive deals because their counterparts are willing to pay more.

Single Concessions, Not So Much

To determine whether tapering multiple concessions is more effective than making just one concession, we conducted another study in which we asked executive MBA students, also of diverse nationalities, to negotiate over email the signing bonus of an otherwise agreed-upon job offer. Participants either took the role of the recruiter or the candidate and negotiated with each other to find an agreement. All recruiters were instructed to make the same first offer of \$20,000. For half the pairs, recruiters were instructed to increase that offer by \$2,000, then \$750, and then \$250, resulting in a final offer of \$23,000. In the other half, recruiters made just one concession, immediately increasing the offer to \$23,000.

Here again, we found a sizable difference in the counterparts' average final offers. Candidates who had received tapering concessions proposed to settle at \$23,650 on average, while candidates who had received no such cues were a lot more ambitious with a final counteroffer of \$28,161. In other words, recruiters who tapered their concessions on average ended up spending about \$4,500 less to hire the candidate than did recruiters who made a single concession.

How Big Should the Difference Be?

We then conducted a third study to get a more precise sense of the most effective rate at which a negotiator should taper concessions. We found that the tapering effect worked best when applied at a moderate pace. To test this, participants negotiated the purchase of a \$1,500 second-hand laptop with a simulated seller. Some negotiators received three concessions of the same amount from the seller. Other negotiators received three decreasing concessions, but at various paces.

Participants made the highest average offer (\$975) when the seller offered decreasing concessions at a moderate pace, as opposed to tapering concessions slowly (\$957) or going with a very large first concession followed by a series of small ones (\$937). Keeping concession size constant in each round led to the worst outcome for the seller, as the buyers' final offer only amounted to \$909 on average.

This implies that negotiators need to decrease concessions substantially enough each round for the counterparty to take notice — your counterpart needs to realize that your concessions are getting smaller from round to round — but not so much as to make your original price seem like a fluke followed by tiny manipulative concessions. Negotiators who intend to taper their concessions should research their market to get an understanding of what “large” or “small” concessions would look like.

Signal Your Bottom Line

Why does the tapered concession approach work? Our studies show that by shrinking the size of each successive concession negotiators signal to their counterpart that they are reaching their

bottom line (whether that bottom line is real or not). Because counterparties are attuned to such cues, it compels them to lower their ambition and give in to prevent an impasse.

We also found that it works even better when you explicitly tell your counterparty that you are reaching your bottom line. In a separate study, we demonstrated this effect in a rent negotiation where the landlord was again simulated by a bot. When the simulated landlord tapered their concessions and mentioned they were reaching their bottom line, participants made an even higher average offer than when the simulated landlord only tapered their concessions. This implies that negotiators can attain even better outcomes when they accompany their concessions with a statement such as “I’m reaching my limit here.”

Although negotiators can claim more value when they successively reduce concessions, we caution negotiators to not use this at the expense of sacrificing potential win-win solutions, which are often achievable in negotiations in which multiple issues are involved, additional issues can be added, or when there is an ongoing relationship. Signaling your bottom line by tapering concessions might detract negotiators’ focus from attaining mutually beneficial solutions. Likewise, we advise negotiators against this approach when the market is relatively transparent and parties’ bottom lines are easier to estimate based on market research.

Many negotiators go into the room without a plan for how they’ll make concessions. But the relative effectiveness of decreasing your concessions over several rounds is testament to why you should always plan your concessions prior to negotiating.

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