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Negotiating guru Jim Thomas explains the first two of the seven rules of negotiating.

Departments

Best Practices: Quid Pro Quo

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For much of the past two years, we've been secretly preparing American Executive readers for this article and three others that will follow. In July 2006, in the article "Constant Persuasion," we marked the all-important boundary between persuasion and negotiation and explained how these often interchangeably used terms actually describe vastly different processes.

In **May 2007 ("Negotiophobia")**, we described how, despite our many accomplishments, Americans are some of the worst negotiators on Earth. And in **December 2007 ("Reptile at the Bargaining Table")**, we explained that because humans come prewired with a deep-seated need to save face (and a burning desire to retaliate when we don't) the advantages of win-win negotiating are, by and large, a function of human evolution.

It's time to get to the crux of the matter: how to negotiate. When you boil down all the bromides, clichés, theories, and folklore about negotiating, you wind up with a handful of techniques that work. Seven basic principles drive the whole process. When you know these rules, you'll know negotiating.

Here's the plan. We'll explain two rules in this and each of two subsequent articles. In a fourth and final article, we'll describe the seventh rule and demonstrate all of the rules in a hypothetical negotiation.

Rule 1: Seek a trade-off for every concession
Trading is what negotiating is all about. The principle is elegantly simple: Don't make a concession without seeking something in exchange for it. "I'll do A for you if you'll do B for me" is the classic quid pro quo, the bread and butter of negotiating. A concession made without something received in return is a free gift, the most common mistake in negotiating.

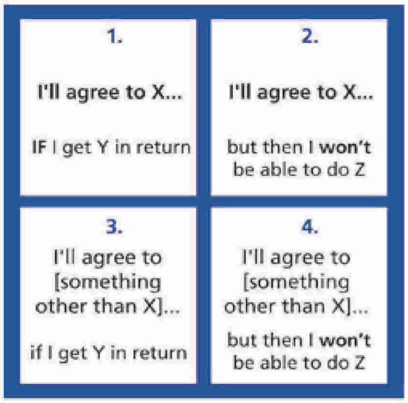

Figure 1.

At the risk of overcomplicating things, there are four variations of the basic trade. To the other side's "I want X," you could offer the other side **(1)** exactly what they asked for or **(2)** something other than what they asked for. In exchange, you could **(3)** require them to give you something or **(4)** take away something you had tentatively conceded earlier. **(See figure 1).**

If the other side wants something, and you can't immediately think of an appropriate "if," skip the issue temporarily. Simply say, "Let's set that aside for now and come back to it later." Never force a bad trade (or, worse, give a freebie) because you can't think of something to ask in exchange. Wait for it. Before the negotiation is over, you'll almost certainly find something you want.

Rule 2: Start high
For two consecutive years, Ronald Reagan denied raises to all 3.5 million federal employees. They were very unhappy. He stiffed them on raises again in year three, but they were delighted. Why? Because he didn't simply announce a salary freeze in year three. Instead, he announced a 5% pay cut, which, after a couple of weeks, he reluctantly rescinded. The result was that 3.5 million federal employees were ecstatic about receiving absolutely nothing.

I'm not making this up.
Reagan's pay cut announcement produced absolute pandemonium in the federal bureaucracy. Three and a half million federal employees, in unison, screamed "What? Cut my pay? I can't pay my bills now!" There was a 24-hour picket line around the White House with marchers carrying "Reagan unfair!" signs.

After a few weeks of this, Reagan called another press conference. "I care about our federal workers," he said. "They're my kind of people. I've given the matter considerable thought, and I've decided not to cut their pay. I'm going to keep it just where it is. I'll find another way to cut the budget." Three and a half million federal workers, in unison, said "Whew! That was close! We really dodged a bullet on that one! What a nice man he is!"

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Call it vaudeville, pro wrestling, or roller derby, there's no denying the result: it worked. Reagan took something that was fundamentally unpalatable (no pay raise for the third consecutive year) and, by using the classic start-high-drop-back negotiating two-step, made it palatable. He started high (at minus 5%) and then—ostensibly touched by the obvious distress of millions of federal employees—he dropped back (to no change).

In negotiating, there's a direct, statistically predictable relationship between where you open and where you wind up. Negotiators who start with more assertive (high) opening offers, within reason, come out better. Those who start by putting more conservative opening offers on the table don't do as well.

But only up to a point. Too-high offers are destructive. Open assertively, never ridiculously. The exact boundary between assertive and ridiculous changes with every negotiation and negotiator, but as a general rule, it's at the very edge of what's arguably realistic under the circumstances. The Japanese have a whimsical (but still quite valid) formula for determining this point called the Straight Face rule: a good opening offer is one that you can just barely make and still keep a straight face.

The moment of the opening offer is the most important moment in any negotiation. What's voiced at that instant will profoundly affect everything that follows. It will echo through every concession the parties exchange and any agreement they reach.

Your opening offer freezes your negotiating upside; it's only downhill from there. You make it or break it with your opening offer, so if you're going to mess up one way or the other, better a too-assertive opening than a too-wimpy one. You can always come down (apologizing for having misunderstood the situation and begging the other side's forgiveness). You can never go up.

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