

Best Practices: Setting the Envelope

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Okay, you've followed rule two and started your negotiation with an assertive opening offer, giving you room for those all-important concessions (that let the other side save face and lead to win-win outcomes) without compromising your real needs. And you're going to trade, not just give, those concessions. So far, so good.

When should you make your concessions? At the beginning? At the end? In the middle? More at the beginning and end and less in the middle, or vice versa? Equal, declining, increasing, or random concessions throughout? And how big should they be? A bunch of medium-sized ones? Lots of little ones? A combination? How about a single huge one? Or none at all?

The envelope of negotiation is the answer. The envelope is your opening, target, and bottom line positions (all the outcomes that would be acceptable to you) on an issue.

Setting an envelope for each anticipated issue is the one thing you must do before you negotiate. With it, you'll be ready to negotiate. Without it, you won't be.

The opening is the most assertive offer you can realistically make on the issue. The target is a reasonable outcome, from your perspective, on the issue: between (but rarely equidistant from) the opening and bottom line. The bottom line is a ruthless, dispassionate boundary: the absolute minimum you can accept on the issue. If necessary, you're prepared to go all the way to your bottom line.

The message in the concession

The other side will keep negotiating with you as long as they think you have more to give. They'll agree to a deal only when they simultaneously believe two things: (1) your offer is acceptable, and (2) it's all you've got. You have very little influence on the first. You have lots of influence on the second.

Assume the following envelope: O = 300, T = 200, BL = 100. For simplicity's sake, the numbers are round and meaningless, the target is exactly halfway between the opening and the bottom line (rare in reality), and the envelope is stretched horizontally (the gaps between the positions are implausibly big) to give you a better view.

I want to close at 200. I've started artificially high at 300 so I can make concessions to the other side. I'd rather not go below 200, but, the truth is, I'll take anything above 99.

Here's the pivotal question: is there a way for me to move from 300 to 200 so, assuming 200 is acceptable to the other side, they'll take 200 and not keep pushing for more?

How about 300-300-300-300-200—no concessions for a long while, then a sudden drop to 200? If you were the other side, would you think 200 was my limit? No! You'd think, "Finally! Now we're moving!"

If I repeated, "200, 200, 200," you'd just keep telling yourself, "He stonewalled at 300. Then he dropped to 200. Now he's stonewalling at 200. I bet he'll drop to 100 if I wait." A large concession made after a prolonged period of inflexibility is likely to get you pounded below your target like a tent peg.

How about 300-275-250-225-200—a series of substantial, similar-sized (in this case, identical) concessions? The other side would think, "You're on a roll! Please carry on!" Ongoing, healthy-sized concessions merely whet the appetite for more healthy-sized concessions.

How about 300-295-255-245-215-200—random concessions? The other side would think, "I have no idea what's going on here, so I might as well keep negotiating." Random concessions confuse the other side and prolong the negotiations.

What about 300-295-285-265-200—radically increasing concessions? If you were sitting across the negotiating table from somebody who made larger and larger concessions as the talks progressed, what would you do? Not only would you keep negotiating, your expectations would be growing by the second! A pattern of steadily increasing concessions is the worst possible pattern.

We could look at hundreds more (convex, concave, pyramidal, you name it) but there's only one pattern that consistently gives you the best chance of closing at or near your target.

The steeply tapered concession

Consider 300-245-220-205-201-200—a striking initial concession followed by sharply declining moves, culminating in a final, reluctant, tiny drop. Do I appear to have anything more? Maybe a point or two, but nothing worth prolonging the negotiation for. If 200 is inside the other side's envelope, they'll almost certainly take it.

Your first concession should always be your largest. Each succeeding move should be sharply smaller than the one before it. Your last concession, made with reluctance, should be the smallest. The dramatic early moves generate enthusiasm and momentum. The small ending moves (especially the last, tiniest one) say, in effect, "You've done a good job. You've cleaned me out. You can stop now."

The rule of halves is a crude but useful tool for calculating this kind of pattern. It says that each of your concessions should take you about halfway to your target (not your bottom line!). It looks like Figure 1.

The rule of halves should never be used literally; it would take too long and be too obvious. Always massage the moves: stay near the nominal curve but not on it. And keep it simple. You're telling a story, and you've only got a few sentences to do it: you were very flexible, then less and less flexible, and now you're done. A big concession, a few medium-sized ones, and, grudgingly, a little one at the end.

People don't make concessions until they must, and, when they must, they tend to concede ineffectively if not self-destructively. The rule of halves forces them (regardless of issues, personalities, or circumstances) to consistently do the right thing.

The rule of halves defines the steeply tapered concession pattern, and both depend on the envelope of negotiation. Together, they're the essence of rule three, and rule three is the very heart of good negotiating.

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