

## **\$384,961.42 for a house? When precise bids work and when they backfire**

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Credit: David Wagner/public domain

Making a very precise offer for a car or a house may hurt your chances of success if you're negotiating with someone who has expertise in that area, according to research published in *Psychological Science*, a journal of the Association for Psychological Science. Results from a series of

studies show that precise bids - for example, \$9,572.36 or \$384,961.42 - are more effective with novice negotiators, who tend to interpret higher precision as a sign of competence. Experts, on the other hand, found moderately precise bids to be most persuasive.

"Our research shows that more precise opening prices can yield you a significant negotiation advantage, but you have to know whom you're negotiating with," says David D. Loschelder of Leuphana University Lüneberg in Germany. "With amateurs, this number should be very precise; with experts, however, negotiators should either choose a moderate level of precision or back up their highly precise number with a compelling reason."

Loschelder became interested in the effects of precise numbers when he had to negotiate the price of a rental bicycle as a graduate student.

"The student who rented the bicycle to me asked for €34.50 for a period of four weeks. Not €30, not €35, not even €32, but exactly €34.50—a precise number that can't really be divided by four weeks," he explains. "As a consequence of this precision, I felt my counterpart was overly competent and I didn't even negotiate for a single cent."

Loschelder and colleagues speculated that there must be a limit to the effectiveness of precision, but their initial studies with amateur negotiators showed that very precise opening bids created surprisingly strong anchor points that shaped subsequent counteroffers and final deal terms. The researchers decided to examine the effects that such precision has in the context of real-world expertise.

In one experiment, 230 novice negotiators and 223 real-estate agents examined and evaluated a real-estate listing. Participants received the same pictures, floor plans, and other information, but the list prices they saw ranged from only two precise digits (e.g., €980,000) to eight precise

digits (e.g., €978,781.63). They were instructed to make a counteroffer in response to the list price and to state the highest price they would be willing to pay for the house.

The results showed that participants responded to precision differently depending on their expertise. Amateurs' counteroffers and maximum prices increased as the precision of the initial bid increased. The same was true for experts, but only up to around 5 precise digits; after this point, experts' counteroffers actually decreased as the list price became more precise.

Loschelder and colleagues found the same pattern of results when they asked novices and expert jewelers to evaluate a diamond necklace.

The researchers hypothesized that both amateurs and experts find highly precise bids to be unusual but they come to different conclusions as to why the seller made that particular bid.

"Interestingly, amateurs seem to think: 'Oh, this number is so precise, my opponent must have thought quite a bit about a fair price. He or she must be really competent,'" Loschelder explains. "In contrast, experts perceive this as too-precise a price and denigrate their opponent's competence."

Indeed, additional data indicated that perceived competence explained the responses of both amateur and expert participants. While amateurs saw more precise offers as a sign of a competent bidder, experts considered very precise bidders to be less competent than those who made moderately precise bids.

Interestingly, providing experts with a rationale for the bid seems to counteract the negative effect of precision. When car salespeople evaluated a very precise bid for a car that took various conditions - such as recent inspections, a small scratch, and long-distance usage - into

account, they were willing to pay just as much as they would in response to a moderately precise bid. The results showed that including an explanation for a very precise bid made the seller appear more competent to the car experts.

Given that negotiations over things like a starting salary or the price of a house are an important part of everyday life, the findings have broad relevance:

"Whenever something is listed at a price, whenever someone opens a negotiation, price precision can come into play and you should pay close attention to your opponent's negotiation expertise," Loschelder concludes.

**More information:** D. D. Loschelder et al, The Too-Much-Precision Effect: When and Why Precise Anchors Backfire With Experts, *Psychological Science* (2016). [DOI: 10.1177/0956797616666074](https://doi.org/10.1177/0956797616666074)

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