

# Most People Don't Bargain as Well as They Think They Do, Study Finds

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The give-and-take of negotiating generally leads both parties to believe they strike harder bargains than they actually do.

Attention all car shoppers and home buyers: The give-and-take of negotiating generally leads both parties to believe they strike harder bargains than they actually do. This is because each side misjudges the other's bottom line, according to a report published in the August issue of the *Journal of Personality and Social Psychology*.

In a series of three experiments, Richard Larrick of Duke University's Fuqua School of Business and George Wu of the University of Chicago's Graduate School of Business found that most negotiators make a skewed estimate of the size of the pie they're fighting over by thinking it is smaller than it actually is. (The pie represents the full range of the possible deal -- from the lowest to the highest possible purchase prices.) While buyers often believe they have successfully negotiated to the seller's lowest possible limit and sellers think they have extracted the buyer's highest possible purchase price, each is often mistaken and could have actually negotiated a better deal.

"If you're a buyer in a negotiation, a critical question is, 'What is the lowest price I can get the seller to agree to?' And, if you're a seller, you're trying to figure out the most that the buyer will pay," Larrick explained.

The researchers recommend that negotiators consider making more ambitious first offers and bargaining more aggressively. Although extreme offers run the risk of turning off a potential buyer or seller, the authors believe the "cost is more than outweighed by a number of benefits."

The researchers offer a specific example: Joe is willing to pay \$1,900 for a used car and is trying to guess the minimum amount the seller will accept. The seller has it listed for \$2,200, but will privately

take as little as \$1,500. Joe offers \$1,200 and, after much haggling and trading of concessions, they eventually settle on \$1,700.

Larrick and Wu say that at the end of the negotiation, Joe will believe that the seller's minimum is very close to the final price of \$1,700. Joe came in below his limit of \$1,900 by a comfortable margin and thinks he has claimed most of the pie. But he's wrong; just as he came in under his limit by a comfortable margin, so did the seller. In this example, the actual pie is the range between the \$1,900 Joe was willing to pay and the \$1,500 the seller would have accepted. So of the \$400 pie, Joe captured \$200 and the seller \$200, but each left the negotiation feeling that he captured much more than half.

"The consequence is that both bargainers see a smaller pie than really exists. This has a very interesting implication in that negotiators also think that they have managed to walk away with most of the available pie," Wu said.

Larrick and Wu studied three groups of 156 to 266 students at the University of Chicago's Graduate School of Business, dividing each group into imaginary buyers representing a motorcycle manufacturer and sellers representing a parts supplier. The students bargained for 45 minutes over the price of the parts. In the first two studies, the researchers varied either the size of the bargaining zone or each side's expectations about the other's bottom-line or "reservation price." In the third study, the researchers used cash incentives to encourage students to more accurately estimate their opponent's price limit.

In all three studies, the authors consistently found that negotiators underestimated the size of the pie available; as a result, both buyers and sellers ended up overestimating the size of the slice that they captured.

In fact, the student bargainers left the negotiating table thinking they had captured, on average, 56 to 72 percent of the available pie. In reality, they captured an average of only 50 percent.

The authors attribute the results to a substantial barrier in learning, which they call “asymmetric disconfirmation.” Negotiators only learn that certain types of judgments are wrong because of the way that their counterparts respond in the bargaining process. Other types of mistaken judgments go unchallenged, so the negotiators never find out they were wrong.

For example, buyers who incorrectly believe that sellers will take a very low price will quickly learn that their judgments are wrong because their opening offers are flatly rejected. In response, they inevitably raise their offers and adjust their estimate of the seller’s limit so that it becomes more accurate.

But when buyers overestimate the seller’s minimum price and start with a generous first offer, the seller might happily agree and the buyer never learns he could have offered much less.

Over time, the researchers predict, people may become overconfident about their bargaining skills because they usually come away from a negotiation feeling as if they have won, even if they have accepted a less favorable bid than is necessary.

Source: Duke University

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