

HOW PRECISION MAKES YOU A BETTER NEGOTIATOR

Negotiations are fickle. Not only do you have to anticipate your counterparty's remarks and arguments, you need to convince the Buyer that your ideas are the better route. Columbia Business School recently published a study explaining how numerical precision can be an extremely powerful negotiation tactic. The study, authored by Malia Mason, Alice Lee, Elizabeth Wiley, and Daniel Ames, discovered that using precise values during a negotiation — especially in the first offer — conveys knowledge and confidence, which translates into less aggressive counter offers.

While the study focused primarily on early-stage negotiations, I have also seen the benefits of precise numbers even before negotiations start. In an analysis of the most successful investment teasers on the network, we learned that opportunities with financials rounded to the thousands tended to perform better than those rounded to the millions.

Precise Numbers Demonstrate Knowledge

According to the study, “Speakers generally express information — and are assumed by listeners to do so — in a manner that is no more precise than their knowledge warrants. Thus, when prompted to provide estimates and forecasts of quantities, speakers compensate for their uncertainty by decreasing the precision with which they express them.” In other words, the more uncertain you are, the more round your number will likely be.

Round numbers, despite their tendency to convey uncertainty, are used in all types of negotiations. As Alice Lee, one of the paper's authors, explained, “Round numbers are prevalent in our everyday language for many reasons. Perhaps the most obvious reason is that they are so easy to express and remember. Several studies, have repeatedly demonstrated how heavily round numbers are utilized in everyday conversation and even in sites that are centered on negotiations — like Zillow or eBay.”

By contrast, the use of precise numbers can leave a very positive impression during a negotiation — especially if you are confident about your numbers. Elizabeth Wiley, another author, explained, “If you can use precise numbers and back it up with data or analysis, you are likely to be viewed as informed, knowledgeable, and experienced. In short, a precise number is a simple, yet very impactful way to convey you know what you are talking about”.

Appearing informed, serious, and insightful has clear benefits for both the current deal and future ones. Even if the given deal falls through, the positive impression you instilled in the other party can foster future opportunities and relationships.

Precise Numbers Also Get Better Offers

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In addition to leaving a positive impression on the counter party, a precise offer can actually help you close the deal at a better price. The study discovered that if you made a precise offer, the counteroffer was closer to the initial offer than if you made a rounded offer. Or, in official terms, “First offer recipients make greater counteroffer adjustments to round versus precise offers.” Wiley explained, “Precise numbers are better anchors in negotiations. They create the impression that you have a sense of the real worth of the good. Round numbers, on the other hand, are more often viewed as guesses or estimates, allowing the counter offer to be more flexible.” She continued, “If you use a precise number and are able to support it with evidence, you have demonstrated you are more informed and have a good sense of the worth of the good. It is difficult for the other party to make a dramatically different counter offer.”

Don't Get Too Specific

However, don't get carried away. While precise numbers are almost always beneficial during the negotiation process, they can become problematic if they are too specific or clearly overstate/understate the value. According to Lee, “While you want to use a precise number, you need to make sure your number is ‘reasonable’ — both in its value and its precision. If your offer is too precise or too large, you run the risk of appearing inflexible or insincere.” She continued, “Through our real-life negotiation data, we noticed that when one party suggested an exceedingly precise number, it led the counterpart to walk away because he saw no room for negotiation or conversation.” One of the best ways to determine the reasonableness of the specificity of your negotiation offer is to consider base ten numbers (e.g. 10, 1,000, 1,000,000) to be round. “When you are being precise, it is really important to do your homework to make sure that the number you are suggesting is within the realm of reality,” explained Wiley.
