

Press release

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New *PNAS* study from ESMT Berlin reveals ideal first offer in negotiations

When beginning a negotiation, buyers often struggle to find a first offer that lowers the final sale price but also avoids the risk of non-agreement. Based on the analysis of 26 million real eBay negotiations, new research from ESMT Berlin in *PNAS* shows how an ideal first bid should look.

Martin Schweinsberg, associate professor at ESMT Berlin, together with Hannes M. Petrowsky, research associate, Burkhardt Funk, professor, and David D. Loschelder, professor, all from Leuphana University Lüneburg, set out to determine how low a buyer can go with an initial offer without upsetting the seller. Prior to any negotiation, decision-makers must balance a crucial tradeoff between two opposing effects. While lower first offers benefit buyers by anchoring the price in their favor, an overly ambitious offer increases the risk of an impasse, thus potentially blocking an agreement altogether.

The results from 26 million eBay negotiations identify a linear anchoring effect, showing that lower first offers from buyers effectively bring down final sale prices. However, the analysis also identifies a non-linear effect of first offers on the risk of negotiation impasses across three zones. The negotiation impasse risk first decreases (“safety zone” for offers between 100 and 90 percent of original asking price), then steadily increases (“acceleration zone” for offers between 90 and 20 percent of original asking price), and finally reaches a plateau of constant impasse risk (“saturation zone” for offers below 20 percent of original asking price).

In addition, the researchers identified several points at which the impasse risk decreases – buyers can use these points to their advantage. If, for example, a seller asks \$100 for a product, buyers can increase their chance of a deal by offering \$50 than by offering \$51. These drops occur at salient points for which fractions can be easily calculated (e.g., 50 percent, 75 percent, or two-thirds) and which are mentally easy to process.

“Our study provides a data-driven approach to understanding the first-offer conundrum in negotiations,” says Martin Schweinsberg. “By analyzing millions of negotiations on eBay, we were able to identify the ideal spot for making a low first offer that maximizes the chances of reaching a successful agreement.”

Overall, the results contradict the prevailing view that the final sales price lies somewhere in the middle between the buyer’s initial offer and the seller’s asking price. In contrast, the researchers found evidence of a new type of buyer bias: Final sale prices are closer to buyers’ initial offers than to sellers’ asking prices. Thus, buyers’ initial offers have a larger influence than previously thought.

The whole study “How Low Should You Go? Low First Offers and Negotiation Outcomes” was published in *PNAS* and may be found [here](#). A free version of the study can be read [here](#).

About ESMT Berlin

ESMT Berlin is the highest ranked business school in Germany and top 10 in Europe. Founded by 25 leading global companies, ESMT offers master's, MBA, and PhD programs, as well as executive education on its campus in Berlin, in locations around the world, online, and in online blended format. Focusing on leadership, innovation, and analytics, its diverse faculty publishes outstanding research in top academic journals. Additionally, the international business school provides an interdisciplinary platform for discourse between politics, business, and academia. ESMT is a non-profit private institution of higher education, accredited by AACSB, AMBA, EQUIS, and FIBAA, and is committed to diversity, equity, and inclusion across all its activities and communities. [esmt.berlin](https://www.esmt.berlin).

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