

SMART NEGOTIATOR, DUMB DEAL

The Eleven Dumbest Mistakes Smart Negotiators Make

Harry Mills

Research shows negotiators repeatedly make the same irrational mistakes time after time. As a result negotiators repeatedly leave money on the table, walk away from profitable deals and miss opportunities to turn win-lose deals into win-win agreements.

Here are the eleven most damaging mistakes negotiators commonly make.



THE ELEVEN DUMBEST MISTAKES

Dumb Mistake One: Overconfidence, Ego and Hubris

Negotiators are persistently, and irrationally overconfident. Research shows dealmakers consistently overrate their talents, knowledge and skills.

When overconfidence combines with arrogance or excessive pride the result is hubris.

The best and most persuasive evidence of overconfidence and hubris comes from the world of corporate mergers and acquisitions. Empire building CEO's have created what is now a 3 trillion dollar a year deal making orgy. Yet study after study - carried out over the last 30 years - shows two out of three mergers and takeovers fail. Instead of creating wealth for the buyer they destroy it. A prime reason: An overconfident buyer paid too much for the acquisition in the first place.

Buyers often try to cover up their mistakes with slick PR and creative accounting. The bravest option is to admit your mistakes and cut your losses.

In 1994 Quaker Oats purchased Snapple for \$1.7 billion. Analysts at the time said the purchase price was as much as \$1 billion too much. But the CEO confidently pushed ahead. "Snapple has tremendous growth potential through increased penetration, broader distribution and international expansion," he said.

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Twenty-eight months later Quaker off loaded Snapple to Triac for \$300 million, that is, for less than twenty percent of its original purchase price. The price of overconfidence: \$1.4 billion.

Dumb Mistake Two: Loss Aversion

When it comes to taking losses on the chin, dealmakers have a remarkably low pain threshold. Psychologically the pain that we experience from a loss of a dollar is twice as painful as the pleasure that we get from making a dollar.

As a result we are quick to abandon promising deals. Or at the opposite extreme, we hold onto losing investments much longer than we should. And having made a bad deal we continue to try and salvage the deal by sinking more money into it - throwing good money after bad.

Dumb Mistake Three: Plunging In

We often dive into deals without taking the time to systematically think through the reasons for it.

Psychologically, we often decide what we want to do before we have thought through the reasons for doing it in the first place. The result is we fall into what psychologists call the confirming evidence trap. We look for evidence that supports or confirms what we want to do while ignoring information that contradicts it.

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Dumb Mistake Four: Anchoring

Because we like to have benchmarks to guide us through a deal we often fall into the trap of using misleading information to influence our decisions. Most homebuyers, for example, judge their success by the amount they can negotiate off the list price. The list price in effect becomes an anchor or reference point, which the buyer uses as a reference point. A smart negotiator would ignore the list price and instead commission an independent valuation to calculate what the house really is worth.

The trouble is most anchors work on us unconsciously. How much would you pay for an engagement ring? Most people reply “two months salary”. That’s the anchor or benchmark De Beers have been not so subtly promoting to us for years in endless ‘Diamonds are Forever’ advertisements. Think about it for a moment, two months salary. It is an absurd figure. Shouldn’t the price of a ring should be based on what you can afford.

Dumb Mistake Five: Myopic Focus

Too often we become so self-centered, so myopically focused on our own needs, we ignore the motives and needs of the other side.

Negotiators often forget the whole purpose of negotiation is to trade what is cheap for you for what is valuable for the other side. To do this you have to have an intimate understanding of what motivates the other side.

Myopia creates misunderstanding and differences where they shouldn’t exist.

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And because - myopia is essentially caused by shortsightedness - it causes dealmakers to focus on the one shot deal. Myopic dealmakers rarely see a deal as the first in a series of deals, which would have long-term benefit for both parties.

Dumb Mistake Six: Frame Blindness

New York Yankees legend Yogi Berra was once asked how many slices he wanted his pizza cut into. Berra's reply: "You better make it four; I'm not hungry enough to eat eight."

An optimist looks at a glass of water and views it as half full. The pessimist looks at the same glass and views it as half empty. In the same way, the way we view or frame information has a powerful effect on the way we negotiate.

Research shows negatively framed negotiators give away fewer concessions and deadlock more often than positively framed negotiators.

Dumb Mistake Seven: Focusing on Vivid Events

When Jaws – the film starring a man-eating shark – opened at cinemas across the USA, the number of swimmers visiting Californian beaches dropped dramatically. Sharks do inhabit the Californian coast but the risk of a swimmer actually being attacked by a shark is very much less than the risk of being killed in a road accident while driving there.

Negotiators are often not influenced by the true facts of a situation. More

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often they are influenced by what makes the most vivid impression on their mind. Vivid information causes negotiators to misinterpret and distort evidence and end up making stupid decisions.

Dumb Mistake Eight: Number Dumbness

The Spanish love their lotteries. Virtually every Spaniard takes a ticket in the weekly National Lottery. The Christmas draw is so large, television broadcasts the event live. To prove to everyone the process is pure luck, children from a Madrid orphanage draw the winning numbers.

The winners become instant celebrities. One grand prizewinner was asked, “How did you do it? How did you know which ticket to buy?” He answered “For seven nights in a row, I dreamed of number seven, since seven times seven is forty eight...”.

The winner clearly can't multiply. He doesn't even understand he is claiming credit for an event that was determined by random chance, something that was totally out of his control.

Most negotiators rate their mathematics ability better than our lottery winner. But the fact remains, innumeracy (ignorance of mathematics) afflicts most negotiators. Typically negotiators miscalculate probabilities and fail to appreciate the impact of inflation on deals. They also fall into the trap of ignoring the small numbers in deals, the cost of which can add up to a small fortune over time.

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Dumb Mistake Nine: Irrational Commitment

Knowing when to quit or when to walk away from a deal separates the smart from the dumb dealmaker. Comedian W.C. Fields said it all. “If at first you don’t succeed, try, try and try again. Then quit. No use being a damn fool about it.”

Yet too often negotiators ignore Fields advice. Committed to a course of action they become emotionally entrapped. The history of investment fiascos provides dozens of examples. Investors buy stock when they think it is a bargain, and when it collapses they buy more of the same stock, since now it is an even better deal. The commitment and the dollars invested escalate out of control.

What started out as a rational investment decision has turned into desperate folly. “Fanaticism, says George Santayana, consists in redoubling your effort when you have forgotten your original aim.”

Dumb Mistake Ten: Win – Lose Mindset

Few people are more competitive in business than the late Steve Ross, the founder of Warner Communications and later CEO of Time Warner Inc. On one plane trip aboard his corporate jet (with his wife and another couple), he was playing canasta. They were coming into land when he lost the last game. So he commanded the pilot to circle the airport until he could win a hand.

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Hyper-competitive personalities like Ross often fall into the trap of treating negotiation as a contest. They can't bear to lose – or even share the spoils of a deal with another party. They win – you lose.

The trouble is win – lose negotiators come to the deal table with the belief they are fighting for a slice of a fixed pie. Since they believe the size of the pie is fixed, negotiations become a battle over who gets the biggest slice.

Even when the other side offer generous concessions the super-competitive personality automatically devalue the concessions – since they believe what is good for the other side has to be bad for them. Win – lose negotiators also often reduce negotiations to one issue, often money. As a result potentially good deals degenerate into acrimony.

Dumb Mistake Eleven: The Lemming Effect

Lemmings are dumb creatures because when one panic driven lemming charges over a cliff, other lemmings follow the first lemming dumbly and blindly to their death.

In the same way dealmakers will pay higher and higher prices for property, paintings and companies simply because other people, for the most part whom they have never met are willing to pay similar prices.

Wall Street calls this “investing with the herd.” Financial advisers take advantage of you by preaching another Wall Street aphorism cliché. “The trend is your friend.” Translated this says, “don't think” – follow the herd. Smart dealmakers should know better.

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Overcoming Irrational Thinking

How do you overcome or prevent these potentially catastrophic mistakes?

Most of the psychological mistakes we make in negotiation are made when our minds are locked unthinkingly on automatic pilot.

To move your brain from dumb mindless thinking, to smart conscious decision-making, negotiators have to recognize the thinking traps they fall into. This requires intensive simulation-based training where negotiators are exposed to all the common pitfalls.

Once negotiators can recognize the cognitive patterns that cause their mistakes, they can then be trained how to avoid the mistake. Plus, they can be taught to exploit the thinking mistakes opponents make.

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Author: Harry Mills

Harry Mills is a world authority on the art of negotiation. The author of 22 books – his negotiation titles include *Negotiate: The Seven Step Master Plan* and *The Dealmakers' Handbook*. *Negotiate* has been translated into 14 languages and was a Exclusive Book Club Book of the Month choice.

Harry's latest book *Artful Persuasion: How to command attention, change minds and influence people*, has been called by the American Chamber of Commerce, "one of the best books ever written on persuasion".

In 2003 U.S. publisher AMACOM will publish another negotiation title *The Streetsmart Negotiator: How to Outwit, Outfox and Outsmart Your Opponents*. *The Streetsmart Negotiator* includes tips, tricks and techniques on how to overcome all the psychological traps negotiators commonly fall into.

Harry Mills conducts negotiation workshops across the world for many of the world's largest corporates and consults for companies and governments on how to negotiate complex deals.

His international client base includes AMP, Toyota, KPMG, Unilever, IBM, Ernst & Young, PricewaterhouseCoopers, Telecom and WestpacTrust. Government clients include the I.R.D., Ministry of Justice and the Ministry of Economic Development.

A regular keynote presenter at international conferences, Harry also regularly appears on radio and television to commentate on business issues.

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The Mills Group

Over the last seventeen years, The Mills Group has built a reputation as an international leader in the field of negotiation.

The Mills Group's reputation is based on:

- Working with the worlds leading corporate firms. Our clients include AMP, KPMG, PwC and Ernst & Young, IBM, Oracle, Toyota, WestpacTrust and Telecom, Ericsson and Unilever.
- Delivering world class consulting, training and coaching that consistently produces bottom-line or performance enhancing results.
- Publishing leading edge business titles in our areas of expertise. Books by our staff on negotiation, sales, marketing and influence have been translated into 18 languages and distributed in more than 42 countries.
- Developing proprietary negotiation and strategy tools which deliver breakthrough rather than incremental results.

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