

# Negotiation

# Negotiating an Offer

- Negotiating an offer
  - ***can initially seem scary***. You might be concerned about offending your potential employer, seeming greedy, etc.
  - ***is expected***. It's totally normal to negotiate and you're not going to upset anyone by trying.
  - ***is beneficial***. If you negotiate an offer correctly, you and the company you work for can end up much happier.
  - ***is critical***. You will miss out on a lot of lifetime income if you don't do this.

Why Negotiate?

# Your Initial Salary

- The salary you receive in your first full-time job will set a baseline for your future earnings.
- Pay increases are often percentage-based:
  - If you're getting a raise inside the company, it will probably be given as a percent increase. (I don't know my current salary exactly because it's been adjusted by various percentage amounts over the years.)
  - If you're switching companies, the company you're switching to will often offer a new salary that's a percentage bump over what you have when you apply as a way of luring you over.
- This means that your earnings are a function of your starting salary and the rate at which that salary increases.

# The Math

- Your earnings at any point in time can be described by an equation of the form

$$Income(t) = BaseSalary \cdot e^{t \cdot rate}$$

- Your net income from time 0 to time  $t$  is the integral of this function evaluated from time 0 to  $t$ , which works out like this:

$$\begin{aligned} NetIncome(t) &\approx BaseSalary \cdot e^{t \cdot rate} / rate \\ &= BaseSalary \cdot (e^t)^{rate} / rate \\ &= BaseSalary \cdot (e^{rate})^{time} / rate \end{aligned}$$

# The Math

$$\textbf{NetIncome}(t) \approx \textbf{BaseSalary} \cdot (e^t)^{\textbf{rate}} / \textbf{rate}$$

- What can you do increase your net income?
  - Work longer (increase  $t$ ).
  - Increase your base salary.
  - Increase your salary growth rate.
- Notice that your net income grows linearly with your base salary and superlinearly with the increase in rate.
- This can lead to *huge* differences over a lifetime!

| Base Salary | Salary Growth Rate | Years Worked | Lifetime Income |
|-------------|--------------------|--------------|-----------------|
| \$100,000   | 2%                 | 35           | \$5,068,763     |
| \$100,000   | 2%                 | 40           | \$6,127,704     |
| \$100,000   | 3%                 | 35           | \$6,192,170     |
| \$100,000   | 3%                 | 40           | \$7,733,723     |
| \$100,000   | 4%                 | 35           | \$7,637,999     |
| \$100,000   | 4%                 | 40           | \$9,882,581     |
| \$100,000   | 5%                 | 35           | \$9,509,205     |
| \$100,000   | 5%                 | 40           | \$12,778,112    |

| Base Salary | Salary Growth Rate | Years Worked | Lifetime Income |
|-------------|--------------------|--------------|-----------------|
| \$125,000   | 2%                 | 35           | \$6,335,954     |
| \$125,000   | 2%                 | 40           | \$7,659,630     |
| \$125,000   | 3%                 | 35           | \$7,740,212     |
| \$125,000   | 3%                 | 40           | \$9,667,153     |
| \$125,000   | 4%                 | 35           | \$9,547,499     |
| \$125,000   | 4%                 | 40           | \$12,353,226    |
| \$125,000   | 5%                 | 35           | \$11,886,506    |
| \$125,000   | 5%                 | 40           | \$15,972,640    |



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Getting into the Right Mindset

# Advocating for Yourself

- Just because a company is offering to pay you a lot of money doesn't mean they won't / shouldn't pay more.
  - ***You have extremely valuable skills and come from an elite university.*** You are perfectly justified in asking for more if other companies are offering more.
- Do you find uncomfortable negotiating on behalf of yourself? Imagine that you're negotiating for someone else. Would you want them to get the best deal possible?

# Gender Income Disparity

- It's well-established that as a group, women earn less than men.
- There is a *lot* of evidence that salary negotiation is a big factor here; without prompting, women tend to negotiate less than men.
  - (Source 1)
  - (Source 2)
  - (Source 3)
- Even if you feel uncomfortable negotiating, it's really important. There are both theoretical and empirical numbers demonstrating this.

The Other Side of the Desk

# Why Companies Negotiate

- Companies are willing to negotiate because
  - you will generate a ton of revenue for them,
  - there aren't many people like you, and
  - they want you to be happy.
- For that first point: Google's market cap (number of shares times share price) is about \$1.02 *trillion*. They report having 24,400 employees. That works out to about \$42 *million* per employee.

# Why Companies Negotiate

- Companies usually won't give you absolutely everything you ask for because they have an incentive to keep wages down.
  - In software, wages make up a huge fraction of operating costs.
  - The companies don't want to set trends that in the long run causes a cost overrun.
  - Also, sometimes companies are just greedy. C'est la vie.
- Large companies typically have a range of salaries they're prepared to offer to different job titles. You can definitely improve your offer by negotiating, though you may hit institutional limits.
- Smaller companies are more freeform. They may have a range, or they may just do everything on a case-by-case basis.



# Why Companies Negotiate

- Because companies generally have limits on what they consider reasonable, it's really important that you have multiple offers available.
- This also lets you reframe the conversation from “I think I should get paid more” to “*someone else* thinks I should get paid more.”
- It also gives you more bargaining leverage, which you should (nicely! politely!) take advantage of.

Before You Negotiate

# Preparing to Negotiate

- ***Apply to lots of companies***. This will give you a better sense for what's out there. Having multiple offer letters definitely doesn't hurt!
- ***Research the field***. You can find the median salaries for Stanford CS/EE graduates with BS, MS, and Ph.D's from the Computer Forum. Look online to get a sense of what people at the company are typically paid.
- ***Understand your offers***. Read over what the initial offer is and make sure you understand the details – stock options, benefits, retirement, etc. It's perfectly reasonable to ask questions about it either before or during a negotiation.
- ***Compare your offers***. If you have multiple offers and one or two seem clearly worse than others, figure out *why* you think that. That helps identify what you might want to negotiate for.

# What To Look At in Offer Letters

# Ballpark Salary Numbers

- For software internships:
  - Good internships typically pay around \$6,500 - \$7,500 a month or around \$35 or \$40 an hour.
  - (Internship salaries are harder to negotiate, but that shouldn't stop you from trying! It's good practice.)
- For first full-time jobs with a CS/EE degree, as of 2013-2014:
  - With a BS: Median offer was \$100,000, with good offers going up to \$110,000.
  - With an MS: Median offer was \$112,000 with good offers going up to \$120,000.
- Talk to the Computer Forum for more up-to-date numbers.

# Offer Deadlines

- Most offers have an expiration date. It is almost always negotiable, but companies will rarely tell you this.
- If you're getting recruited through Stanford's Computer Forum, you are entitled to a certain amount of time in your offer letters – check with Connie Chan about this.
- Companies often do this to put pressure on you, but sometimes they have their own internal deadlines. Understand that it's a bargaining tactic and push back if you need more time.

# Signing Bonuses

- Many companies these days are offering (patently absurd) signing bonuses.
- Although this is a one-time payment, it can be huge if you have student loans to pay off or if you're supporting family members.
- You can definitely try to negotiate this, especially if one of your offers has a huge bonus attached.
- You might also be able to get the company to comp you for a summer trip, for a new laptop, etc. From the company's perspective, it's an  $O(1)$  cost.

# Equity

- Many companies will offer you some amount of equity (stock) in the company as part of your compensation.
- Usually, you'll get some number of shares that vest over a fixed time period (i.e. you get nothing immediately, then they start transferring things to you.)
- ***Equity is high-risk, high-reward***. It can be utterly worthless, or it could make you a millionaire overnight.
- Assess your own needs and risk profile when thinking about how much of this that you want.
  - If you have loans to pay off, family to support, or medical bills you need to pay, you may want to go for a lower-risk strategy until things are stable.
  - If you don't, you may want to take on more risk. The younger you are, the less it impacts you if your risks don't pay off.



# Retirement Matching

- Many companies will set up 401(k) retirement accounts for their employees.
- They'll withhold money from your paycheck and put it into your retirement account.
  - The income that's withheld is not taxed, which lowers you immediate tax burden.
  - You're taxed many years later when you withdraw the money.
- Many companies will match some of your retirement investments. Take a look at this – this can be hugely valuable long-term.

# Vacation Days

- Take a look at the company's vacation policy.
- Most companies give you a fixed bank of vacation days to use. See if you like the number.
- Some companies have a “take off whatever seems reasonable” policy. Be careful – this might indicate a hard-working culture.

# Maternity / Paternity Leave

- The tech industry used to be notorious for having awful maternity leave and paternity leave policies. That is starting to change.
- If you are in a position where you think or know this will affect you, you should *definitely* ask about it.

# The Negotiation Itself

# General Negotiation Advice

- ***Appeal to objective criteria.***
  - You negotiate from a stronger starting point if you can objectively justify what you're asking for. It takes the focus off of you and puts it on the request.
- ***Arrive with a sense of what to accomplish.***
  - Knowing what you'd like to achieve makes it much easier to argue for it. Plus, it means you'll be able to do your research.
- ***Treat negotiations as relationship building.***
  - You will almost certainly interact with the other person again. Do not think of the outcome of a negotiation as a “win” or a “loss.”

# Specific Advice

- ***Don't lie.***
  - If a company isn't your first choice, don't say that it is. If a company isn't offering you \$130,000 a year, don't say that one is. You definitely do not want to get caught lying. It can damage your reputation.
- ***Understand who you're talking to.***
  - You may be talking to a recruiter rather than a manager. Recruiters often are preauthorized to adjust offers in particular ways.
  - Considerations: does your offer set a precedent for other people?
  - You can ask different things of recruiters and of managers. You also probably won't directly work for your recruiter. ☺

# Specific Advice

- ***Frame the conversation positively.***
  - You want to be happy working for the company. They want you to be happy working for them. Try to find a way to make everything win/win.
- ***Ask questions.***
  - If you don't fully understand parts of the offer, ask questions about them. If you think you could get paid more, ask the company how they arrived at your salary numbers.

# The Longer-Term View



# Increasing Your Income

- If you perform well at a company, they'll probably give you a raise. (Hopefully, that doesn't come as a surprise.)
- At times, you will need to advocate on your own behalf and ask for a raise.
  - This might be because you're at a place where employees put themselves up for promotion.
  - This might be because you think you can get compensated more for the work you're doing.

# The Honest Truth

- You can often get a larger pay raise by switching companies than by sticking with a fixed company for a long time.
- If you are trying to maximize your income – or if you want to feel like you're getting paid a fair rate – you need to be willing to migrate around between companies.
- That said, staying at the same place offers a ton of stability, and that might be more valuable to you based on your situation or goals.

# Negotiating a Raise

- When negotiating a raise, you probably want to follow the same general advice as before.
  - Do your research – is there a clear “scale” that you should be climbing up? If so, are you meeting the objectives of the next level of the scale?
  - Get good numeric estimates – can you figure out how much someone in your same position would get paid?
- That said, you need to be prepared to leave. Do the cost-benefit analysis. Is the increase in pay worth the switch? Chances are the answer is “yes” unless you're not happy with the place you'll be going.