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Anchoring Should Be The Mainstay Of Your Pricing Research

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A core part of behavioural economics is the 'anchoring principle'. Anchoring occurs when consumers use an initial piece of information to make subsequent judgments. Once an anchor is set, other judgements are made by adjusting away from that anchor, resulting in a bias toward interpreting other information around the anchor. As humans, we are all wired to draw references. It is a part of how we make sense of our surroundings.

Consequently, anchoring plays a significant role in how consumers view price. This means that researchers need to understand the core anchoring principles in this critical area of marketing where strategy meets the consumer and what this means for pricing research.

First impressions

Studies show that being first exposed to high or low values, even if it is irrelevant to the product at hand, affects consumers' price perceptions and thus their willingness to pay. A study conducted by Gregory Northcraft and Margaret Neale investigated this effect by exposing several expert property realtors to the same information about a property whilst varying the asking price, and then asking them what they expected people would be willing to pay for the property.

As the initial asking price increased, so too did the estimates from the experts. Northcraft and Neale also tested this among the public using the exact same method and found that it had an even larger affect.

When asked if "price influenced their estimates on what they thought other people would be willing to pay", 81% of professional realtors and 63% of laypeople said it didn't affect their decision, suggesting a lack of consumer acknowledgement of the effect anchoring has.

Positioning value

The same approach can be used to communicate initial product value. Steve Jobs used anchoring during the launch of the Apple iPad to such effect. At one of his famed launch presentations, he introduced the "rumoured cost" that was speculated to be $999. This information anchored the press to the notion this was a high-priced product. However, when Jobs later in the event revealed the iPad to be priced at $499, this "anchoring and reveal" tactic created a notion of value for money.

Positioning premium

Anchors can also be used to communicate a product premium without stating a transactional price – for example, Beats by Dre's communications position their product in line with high net worth celebrities. This anchors the product as having a premium following, without telling consumers it has a high price attached to it.

Relative context

Whether you are strategically anchoring a message of value or premium, relative context anchors – such as competitive price matching and discounting, dummy pricing and introducing a new product line – can be used as point-of-sale tactics to influence purchase behaviour.

This is often used in restaurants where menus will introduce an overly expensive option of an existing offering, which they know not many people will choose. The expensive option acts as an anchor to influence perceptions of the next highest alternative option as reasonable value – which makes customers more open to selecting it.

Pricing re-orientation

Introducing a higher-end product in a price sensitive market can re-anchor consumers and establish a new benchmark, making other product lines seem better value. When you do this at scale by introducing numerous new lines of products – 'flooding the market' – you can control the entire competitive context.

This approach was effective for Nespresso when it communicated that one pod equals one cup of coffee, allowing consumers to easily compare a unit of coffee to other places selling by the cup, such as Costa and Caffé Nero.

What does this mean for pricing research?

There are a few key learnings from these anchoring principles that researchers can apply to pricing methodologies:

- Understand the process of how consumers become aware of products that you are testing the willingness to pay for. If, for example, they became aware via a promotion, they are likely to have lower price expectation than people who became aware of a product on the shelf, charged at full RRP. It is important not just to know if consumers are aware of a product, but how they became aware of it
- Try to test the price measurement of a product in an environment – physical or recreated digitally – that best reflects where real buying decisions take place. Environment can be as much of an anchor of price as perceptions of the product itself
- Consumer choice is never made in a vacuum, so consider thinking outside your current competitive set and product category in a research environment. Think about including less obvious products in pricing research to reflect this reality, as anchoring isn't confined to the tight competitive boundaries we often impose on research

- Do more experiments. Split your sample within pricing studies in many ways and anchor them in different ways to best understand how different anchors work. Given how powerful anchoring can be, it is equally as important to test anchors as it is price points themselves.

Too often, when asked explicitly, consumers will deny price effects their perceptions. However, as Northcraft and Neale showed – this isn't always the case, so don't rely on consumers to know how pricing affects their opinions and decisions.

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