

# Four ways that anchoring impacts marketing & sales

**Anchoring is an interesting human cognitive bias that is very relatable to marketing and sales. In short, anchoring refers to how an initial number or concept powerfully affects one's final analysis.**

For example, ask twenty people for an average gas price forecast on this date next year. But before you do, tell half of them that you saw gas in downtown Chicago going for almost \$5.00 a gallon recently. Tell the other half that you recently bought gas for \$3.50 in rural Indiana.

Variations of this experiment time and again show that the second group of people will forecast a lower price than the first group. Why? The original number acted as an anchor from which they adjusted their estimate.

What's even more interesting is that the anchor doesn't even have to be related to the topic. In another experiment, participants were asked to first write down the last two digits of their social security numbers. Then they were asked to bid on various items. The people with the highest two-digit numbers bid around twice as much for the same items as those with the lowest numbers.

## So what does this mean for business?



Pricing

Conventional wisdom says that you can always lower your original price, but it's tough to go up! Your original price acts as an anchor.



Negotiations

Anchors can serve as the reference point for the negotiation from which concessions are granted and can dramatically affect the final outcome.



Budgeting

When forecasting, we often choose a natural anchor, like last year's number, and adjust from there. To make better decisions, don't let the original anchor exert too strong a hold. Instead, use other scenarios and benchmarks as well.



Competitive Strategy

Anchoring is not only numerical. Often, when a firm surprises the industry with a new product, the competition starts thinking of ways they can respond with something incrementally better. A better approach is to focus on the real need that this new product is solving rather than anchoring all thoughts on the product itself.

**There are many other scenarios as well; if you look for it, you'll see this mental bias at work everywhere.**