

Anchoring Effect and People's Behaviour Decision Making: A Case Study

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Abstract. Many people may not have a systematic understanding of the anchoring effect theory, but they are often dominated by this behavior. The anchoring effect is widely used in economic and consumer decision-making behavior, and people often use it unconsciously or consciously, and it is seriously affected in judgment. This paper intends to conduct a comprehensive and systematic study on the anchoring effect to find out how the anchoring effect works in people's lives, in corporate pricing, and in marketing. This article adopts literature analysis method and case analysis method. Firstly, through the literature review, the development and theoretical framework of the anchoring effect are systematically sorted out. Secondly, this paper selects typical cases such as life consumption, corporate behavior, and company marketing to analyze how companies use anchoring effects to achieve their goals, and how consumers are affected by them. This paper finds that the anchoring effect is a common cognitive bias. If companies can make good use of this theory for pricing, publicity, and marketing, they will receive unexpected success. For individuals, they should take the initiative to avoid being affected by the anchoring effect and stick to their own ideas. This paper hopes that through this research, readers can have a clearer understanding of the principle of anchoring effect, and consumers can improve their ability to identify anchoring marketing. This paper also hopes that through this research, readers can have a clearer understanding of the principle of anchoring effect. Enterprises can moderately use this theory to promote products, and corporate consumers can improve their ability to identify anchor marketing.

Keywords: Anchoring Effect, Anchor Marketing, Cognitive Bias.

1. Introduction

Tversky and Kahneman He proposed the anchor effect principle in 1974(Tversky and Kahneman, 1974) [1]. The anchoring effect is widely used in economic and consumer decision-making behaviour, and people often use it unintentionally or consciously, and are heavily influenced in their judgements. The comments of colleagues, fixed opinions about the colour of people's skin, clothing, and accents can all influence your thinking and judgement on an issue without you even realising it. Therefore, by understanding the anchoring effect, companies can adopt appropriate pricing and sales strategies to increase sales; investors can adjust their investment decision-making behaviour; and consumers can try to reject the influence in consumption.

This paper conducts three-part research. First is a literature review, and the origin and development of the theory and its application in practice are explained. Then it analyzes the application of anchoring effect theory in reality, especially the impact on consumption decision-making and company marketing. Finally, this paper debates and analyzes the factors that affect the anchoring effect. The anchoring theory itself is neither good nor bad. The key lies in how to use it. If the anchoring theory behind the behavior cannot be found, it may be guided.

2. Literature Review

2.1. The Origin and Development of the Theory

In 1974, Tversky and Kahneman found that despite the participants' adjustment of the randomly determined numbers, they anchored their estimates of numerator values within a certain range of this number. The anchoring effect theory was further developed by Epley and Gilovich (2001) [2].

Mussweiler and Strack proposed Selective accessibility (Mussweiler and Strack, 1999) and the current theoretical development has been relatively mature [3].

2.2. Theoretical Framework

Scholars have proposed many possible explanations for the anchoring effect, including anchoring and adjustment, selective accessibility, changes in attitude.

2.2.1. Anchoring-And-Adjustment

The anchoring effect arises from insufficient adjustment, an idea further explained by Jacowitz and Kahneman (Jacowitz&Kahneman,1995) [4]. To demonstrate this idea, Epley and Gilovich (2004) make a distinction between autogenous anchor effects and experimenter anchor (or external anchor) effects [5]. In a subsequent experiment, Epley et al. examined the process of inadequate adjustment through multiple variables such as subjects' self-generated anchor values, target estimates, and acceptable estimation ranges. The result is that the mean of the subjects' estimates was smaller than the median of the estimated range. The experimental results also found that factors such as warning, time pressure, reward, cognitive load, and cognitive demand had a significant effect on the endogenous anchor effect and not on the experimenter anchor effect. (Epley and Gilovich, 2005) [6].

2.2.2. Selective Accessibility

Numerous studies have shown that the occurrence of the anchoring effect is independent of the characteristics of the anchor, the volitional effort of the judge, and the estimation context. Therefore, they argue that the anchoring effect is the result of the information accessibility of the problem setting, rather than the result of inadequate adjustment, and therefore propose a selective accessibility model (Mussweiler and Strack,2000) [7].

2.2.3. Attitude Change

Blankenship et al argued that anchors can be used directly as a cue or indirectly influence information processing to make judgments biased in favor of anchors (Blankenship,2008) [8]. Low anchoring occurs in non-deliberate processes, especially in non-deliberate processes. Information judgment activation is biased toward the anchor information. Anchoring is seen as a "hint" for a reasonable answer (Wegener et al, 2010) [9].

2.3. Application Of Theory

From everyday phenomena, such as the impact of the wording of promotional advertisements on purchase volume decisions (Lichtenstein and Slovic,1971), to risk prediction problems (Shapira and Shaver,2013); from common sense problems, negotiation problems, betting estimation problems, legal judgement problems, to self-efficacy assessment and software evaluation problems. (Furnham and Boo, 2011). [10-12] Many studies have followed and developed Tversky and Kahneman's framework, demonstrating through field experiments and the study of real-life examples that the anchoring effect is a pervasive and difficult-to-eliminate judgement bias from multiple perspectives.

3. Application

In real life, the anchoring effect can be seen everywhere, affecting our judgement of cases, purchases of goods, corporate marketing strategies and so on. In the application section, we focus on the application of the anchoring effect in everyday merchandising, Apple's marketing strategy and Coca-Cola's marketing strategy.

3.1. The Application in Real Life

According to research, the anchoring effect comes into play from the activation of information consistent with the presentation anchor. When companies set high anchors for consumers and then make drastic changes to them, consumer attitudes change noticeably.

The anchoring effect can lead to cognitive bias, and it is a common and difficult to eliminate judgment bias. In shopping malls, shops often put expensive clothes at the entrance, with the less expensive ones in the middle and the cheapest ones at the bottom. When the consumer enters the store and sees that the clothes are too expensive, he or she will go inside and see that the clothes in the middle are a great deal compared to the clothes at the door. Further in to see the clothes are too cheap, will think that the cheap clothes quality cannot be guaranteed. In the end, consumers will choose the clothes in the middle of the price range and will think that they have taken advantage of the bargain. For example, if at first a customer sees a \$200 shirt, then a \$100 shirt, and finally a \$30 shirt, the customer will think the \$100 shirt is a bargain and the chances of buying it are high. Here is where anchoring comes into play. \$200 and \$30 are the two anchors, people will compare the information and rely too much on the pre-existing information of 200\$, the perception of 200\$ is biased. Finally, people will be influenced by the anchoring effect to implement consumer behaviour.

3.2. Anchoring Effect in Pricing-General Strategies of the Companies to Earn More Profits.

Companies always use higher prices as anchoring points, then replace them with much lower ones when finally, pricing("markdowns"), but people under the illusion that they are taking advantage, hence their irrational decisions and impulsive purchases. So, the companies can earn more profits. A well-known example-things happening during the first press conference of iPad.

On 27 January 2010, the late Apple co-founder Steve Jobs debuted the first generation of Apple's tablet, the iPad. Apple went on to successfully sell 7.5 million iPads within six months, generating \$5 billion in direct revenue from this product in a market with no competition or pre-existing presence. Now, over 10 years later, Apple has sold over 400 million iPads in total, which has directly generated \$200 billion in revenue.

In retrospect, how did all this happen? One of the reasons for the iPad's popularity was Steve Jobs' use of the heart trick at launch - the anchoring effect - a technique used when announcing the price of a product that Apple still uses today. In the 75 minutes Jobs spoke, he asked a very straightforward and simple question: "Amazing product, tremendous breath. What should we price that?" After asking this question, Jobs did not ask himself. Instead, he referred to previous rumours about the iPad, mentioning the general speculation about the price of the product in the market." If you listen to the pundits, we should price this iPad product under \$1000 which is sold for 999," Jobs said. As soon as he finished saying this, the characters \$999 appeared on the large screen behind Jobs, in bold font. For the next minute, Jobs continued to introduce the product. He mentioned the technical and cost objectives of the product, and he also mentioned that he hoped that many people would be able to use it. Throughout this process, the large characters behind him, \$999, remained on the screen. Then, with a sudden turn of phrase, Jobs said, "I'm thrilled to announce to you that the iPad price starts not at \$999, it starts at \$499." With that one sentence and a cool animated effect on the background screen, Jobs completely repositioned the iPad in everyone's mind. "With a \$499 iPad, a lot of people can afford the iPad," he added. The room then applauded and the iPad was on its way to making history.

After Steve Jobs presented the benefits of the iPad, the focus was not on whether to spend \$499 on a product that you may or may not like, but also on the fact that a product that would have been worth \$999 could be purchased now for a direct savings of \$500. Steve Jobs took advantage of the anchoring effect.

3.3. Anchoring Effect in Marketing

Many people will be asked the same question when they go to coffee shops or milk tea shops: Do you want a large cup or a medium cup? Such preemptive words set an "anchor" for consumers unconsciously, and then guide consumers' decision-making. If a real estate agent takes you to see a house, they will always recommend the house they most want to sell to you at the end, and try their best to recommend the house with obvious shortcomings to you in the early stage. When you finally see the house recommended by him, you will be very satisfied and make quick decisions.

In fact, the human brain is extremely susceptible to the "anchor effect", even professional practitioners. Although many times they will deny it out of professional self-esteem, in fact, once the anchor point is established, almost no one can completely escape its influence. The anchoring effect occurred independently of the characteristics of the anchoring effect, the volitional effort of the judge, and the context of the estimate. When the anchoring effect works, it has nothing to do with people's experience and knowledge background, and even highly educated people are more likely to be affected. Such characteristics make marketers love to use the anchoring effect.

Marketing, in the final analysis, is a drama of studying human psychology. The reason why the "anchor effect" works is people rely on intuition and reference objects. The fastest way to build new awareness for consumers is to find references to consumers' existing awareness for new products and tell them what the new product is? Or tell them what the new product isn't? So far, telling them what the product isn't is often more effective than telling them what the product is. Apple's successful marketing is closely related to this marketing philosophy. When the iPhone was first released, in order to let consumers, understand what the iPhone is, Jobs found three references that consumers are familiar with: iPod, mobile phone, and computer. With the help of consumers' existing concepts and cognition references, tell consumers what they are going to buy is, what it is not, and when new concepts are established in the minds of consumers, they make decisions to buy products more quickly.

4. Discussion

It is also Furnham and Boo's (2011) observation that the participant's knowledge affects the anchoring effect. Research shows that regardless of expertise, the anchoring effect's magnitude is high in all individuals as it affects the certainty of decision-making [12]. Experience, knowledge, or expertise do not necessarily eliminate uncertainty in decision-making. Studies show that, despite the notion that knowledgeable individuals experience less anchoring effect, the reverse is true (Mussweiler, 2001) [14]. Personality differences can also impact the anchoring effect. Furnham and Boo (2011) cite that individual differences lead to different responses to a specific circumstance or event [12]. Furnham and Boo (2011) emphasize that understanding the anchoring effect is essential to comprehending the human decision-making process, regardless of the factors involved [12].

The use of anchoring can have a positive impact. Anchoring itself does not matter whether it is good or bad, only good or bad use. It is necessary to apply the anchoring effect appropriately, understand the anchoring effect, and avoid being kidnapped by it.

For enterprises, although the "anchor effect" can quickly occupy consumers' minds, it cannot be applied mechanically, because the market environment is flexible and changing, and consumers are not blind and can be educated. As Jobs said: "Customers don't want to take advantage, but to have a feeling of taking advantage.

For individuals, the "anchor" in life is everywhere. If we only make a limited comparison within a frame of reference and then make a judgment, although this saves effort, it will easily lead to cognitive inertia and thinking inertia, leading us to make irrational consumption and decision-making. How can we, as consumers and investors, minimize the impact of the anchoring effect? Initially, we ought to bear in mind that when bargaining happens in the market, consumers and companies are in opposing camps. This tip is conducive to keeping away from the temptation of purchases. Secondly, when we are in negotiation and companies are the first to price their products, remember to focus on our own desires and goals or the bottom-lines of the companies. In this way, we will be less affected by anchoring effect and less likely to make impulsive purchases. In an investment strategy, it is important to care about current (average) profits and then refer to some decision criteria to make decisions in the current market environment.

5. Conclusion

This report provides a comprehensive review of the anchoring effect by examining past experiments, and the causes of the anchoring effect. It then looks at the application of the anchoring effect in everyday life and in corporate pricing marketing and decision making. Then examines how the anchoring effect is used in the pricing of Apple products to increase sales, which can guide companies in using similar psychological tactics to increase sales when new products are launched. Anchoring effect also frequently appears in marketing methods and individuals should purposefully reduce the influence.

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