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Price Anchoring Effect's Implications on Marketing with the 6-STEPPS Framework.

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Abstract:
The anchoring effect is a psychological effect in which providing an external anchor value in a context can influence an individual's perception of the actual value. In business and economics, this effect is transformed into the Price Anchoring effect where businesses attempt to use this psychological process to manipulate customer's perception of appropriate and preferable prices for a product. A case study analyzed the financial implications of this effect, by posing external anchor values to experimental units, and then questioning them about the appropriate prices of a product, the experimenters found that the price anchoring effect can allow businesses to influence their consumer's perceptions of appropriate pricing, thus implying increases profitability. The explanations to price anchoring effects vary, some of them relate to the 6-STEPPS principles of marketing, being Social Currency, Trigger, Emotions, Public, Practical Value, and Stories. By combining the uses of the 6-STEPPS principles and the price anchoring effect, businesses could also succeed in marketing.

Keywords: Price Anchoring, Consumer Spending, Marketing, Behavioral Economics

1. Introduction

The anchoring effect, as defined by Harvard Law School, is a cognitive bias where individuals rely too heavily on the first piece of information encountered when making decisions [1]. In business and economics, this psychological phenomenon (pricing anchoring) is strategically employed to influence customers' perceptions of products, often making them more inclined to purchase [5]. Specifically, the price anchoring effect establishes a reference point—an anchor—that shapes customers' understanding of what constitutes an appropriate price for a product [2]. There are many aims of pricing anchoring, of which the primary purpose of utilizing the price anchoring effect is to facilitate the sale of products at higher prices. This usage can in turn lead to increased profit margins. Also, this strategy not only can stimulate consumers' willingness to purchase but can also enhance business profitability, therefore, contributing to overall economic growth. To conclude, the price anchoring effect is a vital concept in behavioral economics that can drive consumer spending, presenting opportunities to help revitalize economies during recessions.

Based on the above discussions, this paper will adopt the case study methodology to illustrate the established effectiveness of the price anchoring effect. At the same time, this paper will connect pricing anchoring with the 6 STEPPS marketing principles (Social Currency, Trigger, Emotions, Public, Practical Value, and Stories). By examining how anchor values can influence customer perceptions of pricing, this study will also demonstrate the applicability of price anchoring within the broader context of marketing strategies.

2. Case Description

2.1 Methodology

Price anchoring is a technique used by businesses to bias consumer's judgments on pricing, pressuring them to be more likely to purchase products or services. This concept derived from "customer experience," another concept in the field of marketing, mentioned by Abbott in the 1950s [4]. In the experiment performed and published by Yi Zong and Xiaojie Guo, consumers are tested to make judgments regarding product pricing. The experiment found that consumers are greatly impacted by factors such as gender or knowledge when experiencing external anchoring effects [4].

The researchers attempted to use a randomized experiment to establish a cause-and-effect relationship between anchor values and consumer price judgment. 240 participants were split into 3 equal groups with different treatments: high anchor, low anchor, internal anchor, and control. In the high anchor group, participants are exposed to an external high anchor value (e.g., should VR headsets be 6000 RMB or lower?); in the low anchor group, participants are exposed to an external low anchor value (e.g., should VR headsets be 1500 RMB or higher?); in the internal anchor group, participants are asked to state a reasonable price for VR based on past knowledge and experience.

For the high and low anchor groups, the process of judging how valid the given price of a product is (with differing prices) was repeated to reinforce the effect of price anchoring. For the internal anchor group, they were asked several questions about different products' prices.

After this process, high and low anchor groups were asked to give out a price they believe is reasonable for the products, and the internal anchor group was asked to justify why their prices were appropriate for those products.

In this experiment, the independent variable is anchoring values, the dependent variable is the price range for products, and the control group is the internal anchor group which was never exposed to external anchor values. By manipulating the anchor values given to participants in the high and low anchor groups, the experiment finds significantly differing results as to how participants would price the same products. The high anchor group priced products much more expensively and the low anchor group did the opposite, showing that price anchoring effects are apparent in influencing the price judgment of products.

2.2 Analysis

One possible explanation as to why price anchoring effects are significant is due to the framing and portrayal of the product. For example, asking participants whether the new Apple Vision Pro device should be 20000 RMB or not – an expensive price – frames the Vision Pro as luxury or premium goods that are meant to be expensive like jewelry or other high-tech devices. Given the impression that Vision Pro are a luxury good, consumers now relate the product with other expensive digital devices on the market, thus pricing the headsets at also a high price – even if cheaper than 20000 RMB.

The market is segmented into different consumer groups. Higher-income populations would favor high price anchor values because the cost is not concerned as much. Instead, status and the Social Currency of an anchor value could be more valuable for them. In the 6-STEPPS, Social Currency refers to when consumers share information about a product because it makes them look better in some sense [3]. Consumers would share information about a high-end restaurant because it stands out as a wealthy; consumers would share information about a charity because it makes them look empathetic. This is Social Currency. High-price anchors could greatly benefit as they would shape the consumer's view of the product's pricing – to be higher than expected. Similarly, Practical Value could also be applied to low-price anchors. Consumers would share information about a cheap burger because it is useful information to their peers. This is Practical Value, another principle of the 6-STEPPS that states that consumers are willing to generate word of mouth by sharing information they believe is useful or helpful for their peers [3]. Low-price anchors, tilting the consumer's price judgments to be on the lower end, would contribute to the Practical Value aspect of the 6-STEPPS as consumers are excited by the news of cheap and cost-efficient products or services.

Another possible explanation for price anchoring effects is emotional bias. Consumers might be struck with a feeling of awe after hearing an expensive price for a product they are unfamiliar with, thus filled with excitement and high expectations for the product, then later pricing it at an expensive price too. This theory concurs with the Emotions aspect of the 6-STEPPS principle of Contagious: Why Things Catch On by Jonah Berger. In the book, Jonah Berger, a marketing professor at The Wharton School of Business, mentioned that feelings of awe would positively benefit the products' image in the consumers' heads

[3]. This claim could be a possible explanation as to why hearing an expensive price in a question would excite the consumers, and thus subconsciously also expecting a high price.

Pushing for emotional cues is an important part of Marketing. Consumers are rational, but they're also competitive. While they would feel awed and excited by hearing about the luxurious pricing of some products, they would feel a different sense of emotion when hearing about a cheap product. By utilizing price anchoring effect to portray a product to be cheaper – specifically, providing a high anchor value and then revealing the product's actual price to be much lower – consumers have the sense of winning, beating the sellers with the price they can buy the product for. This is the emotion of greed and competitiveness; consumers enjoy beating the seller because it feels like they're spending money wisely. With the premise of consumers being rational and competitive comes the assumption that they are selfish. Selfish as in the prioritize their benefits from purchasing the product. Utilizing price anchoring effects to give consumers the false image of "beating" the seller gives them the emotion of satisfaction and greed.

3. Suggestion

An implication of the price anchoring effect in the marketing fields of business would be storytelling. In the book Contagious: Why Things Catch On by Jonah Berger, Stories, as one of the six principles of STEPPS, are phrased as a "vessel of information" [3]. By telling a story with an exaggerated former price of the product, and then revealing its current price, the business can will phrase the product to be much cheaper than what the customers would've expected. Combined with a compelling story about the business or the product's development, the price anchoring effect can effectively promote the product and generate word of mouth.

Another use of the price anchoring effect in marketing would be releasing a luxury and a regular format for the same product. For example, a business can first release a coffee brewer that is at a very high price, displayed as a luxury good. After that, the business can release an everyday version of the coffee brewer. This comparison in price will make customers believe that the regular version has greater benefits and use compared to the luxury version. This, again, aligns with the Practical Value principle in the 6 STEPPS, where consumers will spread the word of mouth because they believe it is useful information for their peers. By releasing an everyday version of the coffee brewer consumers will tell their peers about this cost-friendly product.

4. Conclusion

In conclusion, many factors that explain why the price anchoring effect could influence consumers' price judgments are also strongly related to the 6-STEPPS principles of marketing. This research paper first analyzed a case study that posed anchor values to the volunteers during their interview and then collected their respective responses to questions about product pricing. It shows that posing an external anchor value to a product – that is, including an arbitrary product price in the conversation –influences the participant's perception of what counts as an appropriate price for the product.

The case study focused on presenting financial implications to the findings of price anchoring effects; specifically, how it could be applied in product pricing and improvements on business profitability. This paper, secondly, presents price anchoring's relationship with another field of business – marketing. The six principles of effective marketing are Social Currency, Trigger, Emotions, Public, Practical Value, and Stories. By relating possible explanations of price anchoring's effect with these six principles, the price anchoring effect could be applied in marketing fields of business to further identify, and answer consumers' needs and wants in the market. In this paper, two possible implications of the price anchoring effect are mentioned: Storytelling and Contrasting-Prices. By utilizing these two methods, businesses could benefit largely from the price anchoring effect in the fields of improving customer loyalty and visibility.

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