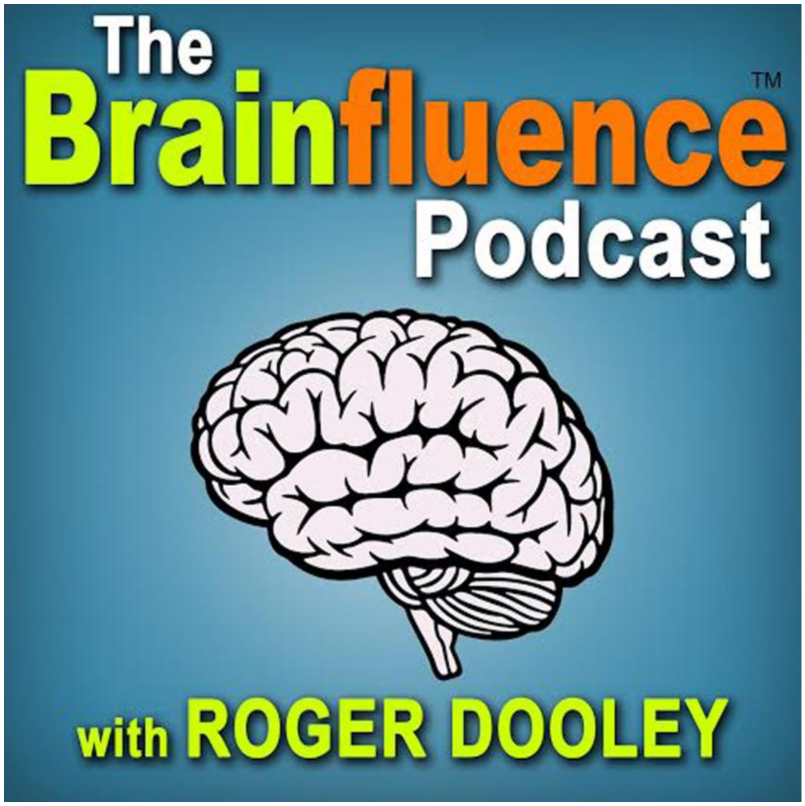
Ep #80: How to Use Anchoring and Framing Biases to Sell More



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Welcome to *The Brainfluence Podcast* with Roger Dooley, author, speaker and educator on neuromarketing and the psychology of persuasion. Every week, we talk with thought leaders that will help you improve your influence with factual evidence and concrete research. Introducing your host, Roger Dooley.

Welcome to *The Brainfluence Podcast*, I'm Roger Dooley. Today, it's just me. I've been on the road for speaking engagements in the last month and one of the things that I really enjoy is the discussion that follows a speech, either as part of a formal Q&A session or just in informal chats afterwards with folks who are in attendance.

In many of my talks, I mention the principles of anchoring and framing. These are cognitive biases we're all programmed with and they can be powerful tools to improve the results of your marketing, advertising, and sales efforts. In chatting with people, I found there's often some confusion about anchoring and framing. No doubt because they have some similarities. So today, I'm going to spend a few minutes talking about what both of these biases are, how you can use them, and, to wrap up, how you can even combine them for even more impact.

Let's talk about anchoring first. That's appropriate because often the anchoring bias is caused by whatever we do see first. In general, the anchoring bias is caused by our brains establishing a benchmark for something, typically values. Then we compare any new information to that benchmark. Marketers usually think in terms of anchoring as pricing, though it can involve other kinds of values as well. If we're used to paying $4.00 a gallon for gasoline, that value becomes an anchor and we compare other prices to that. If we're driving and we see a gas station advertising $3.00 gasoline, we're likely to pull in, even if we're not quite ready for a fill-up. Of course, anchors can change too. The first time we saw that $3.00 price, it looked really attractive, but if that $3.00 price holds for a period of time and we see it advertised by many gas stations, we become used to it and that becomes the new benchmark or the new anchor price.

Product features can be anchored too. Today's smartphones are designed to last a normal day before needing to be charged. We've adapted to that and most of us plug our phones in at night. If a smartphone maker introduced a phone that lasted say five days without needing a recharge, our collective brains would probably say, "Wow," because they're comparing it to the anchor value that's been established. Not all anchors come from experience though. Marketers can create anchors themselves, often quite simply.

Infomercials offer some great lessons for marketers of all kinds. The reason is that they work. They have to work. The advertisers spend lots of money to get them on the air and if those infomercials don't sell, if they aren't profitable, they'll be pulled and reworked. So if you see an infomercial running over a period of weeks or months, you can be sure it's making money.

Infomercial directors totally get the concept of anchoring. When you watch that infomercial, the first time they talk about price, it will almost never be the price that they are expecting you to pay. Instead, you'll be exposed to higher prices. For example, you might hear phrases like, "Thousands sold at $499.00." Or, "For a product with these features and benefits, you might expect to pay $500.00 or more." Or, "Competitive products sell for more than $500.00." The infomercial director might even combine some or all of these techniques in the same infomercial.

What they're doing with those various statements is setting a high anchor price of $500.00. When you eventually see the real price, it might be $199.00. That will now seem totally reasonable because your anchor has been set. They may even carry it a step or two further by adding a bonus product or two after they give you the price, further increasing the apparent value. They might even offer a plan of say three payments for

$69.00. Which now, that number, $69.00 is going to seem extremely low by comparison to everything that's come before.

Some of the more interesting experiments have shown that even totally irrelevant numbers can establish an anchor in our brain. The classic experiment was performed by Dan Ariely, who in fact was a past guest on the *Brainfluence Podcast*. He and his fellow researchers asked subjects to write down the last two digits of their social security number. In essence, this was assigning each subject a random two-digit number.

Then Ariely asked them to guess the prices of various items, some of which might be quite unfamiliar to them. For example, most of us know the price of a gallon of gas or a dozen eggs. But few of us would know the price of a particular kind of wireless keyboard. That in fact was one of the products that he exposed to his subjects. The results were really surprising. Ariely divided the subjects into five groups based on their two-digit number. The first group was 00-19, the second was 20-39, and so on. Up to the highest group 80-99.

What he found was there was an amazing correlation between the random number that each person had and their guess as to what that keyboard would cost. The 00-19 group guessed just over $16.00 for the keyboard price. The guess went up with each successive group and the highest group, the 80-99 group, guessed almost $56.00. That means an anchor that was totally irrelevant, the last two digits of your social security number, still caused a more than three-time jump in what these subjects thought was the value of a keyboard. Of course, that worked because they weren't accustomed to pricing that keyboard. It made it a lot easier to influence their choice than if it was a product that they were intimately familiar with.

So how can marketers use anchoring? How can you do it? For online marketers, it's a bit more of a challenge than for infomercials because infomercials control the viewer's timeline. The viewer can't skip around or look ahead so pricing and other information can be introduced in the desired order and even with desired pacing. An anchor might be repeated several times and then allowed to sink into the viewer's mind before the real price is shown.

Print and digital marketers have a lot less control over their customers but anchoring can still work. Introducing a high anchor price like, "Thousands sold at $299.00" or "Compare to products selling for $300.00 and up" can be introduced high on the page where the viewer is more likely to encounter them first. One strategy I really like is when products have three or four versions. For example, a software product might have a free version, a basic paid version, a pro version, and then an ultimate version, each at a higher price. Parenthetically, that brings up the topic of decoy marketing, adding a product that you don't want to sell to help sales of another product, which we won't get into today but I'll link to that on the show notes page if you want to explore that topic further.

Back to our lineup of software products. Most sellers do it wrong. They start on the left with the free or cheapest product and work their way up to the most expensive. This seems logical for people who speak English and others who read from left to right. But from an anchoring perspective, that first price, free or cheap, becomes the anchor. Each subsequent product looks more expensive than the last. Instead it would be a much better idea to start with the highest priced product on the left and then work down to the cheapest product on the right. What that does is it sets the anchor high and the other products all seem cheaper by comparison.

Based on Ariely's work, you could even experiment with irrelevant anchors. You can include a big number high up on the page before introducing your price below, even if that number didn't really have anything to do with the price of the product. But I think in general you can probably find a way to use a relevant anchor rather than trying to come up with some crazy, irrelevant anchor and hope that that influences your customers. You can always compare your product to other more expensive products, to what it cost before price reduction, to what it's going to cost in a week or a month when you raise the price, or whatever. It's important to get that high number out there first and then later give them what they get if they pay right now.

Let's move on to framing. The framing bias covers a lot of territory. Broadly, the framing bias states that the way information is presented makes a difference in how it's processed. That may seem kind of obvious but it does have some rather interesting consequences. The exact same information is going to be perceived differently depending on how it's presented. Newspaper headline writers use this a lot. If they want to either bias the way their readers view the content or if they're trying to be impartial, they still have to be aware of the potential for framing bias. For example, imagine these headlines that could all refer to the exact same data point:

Version One: Crime rate rises for third consecutive year.

Version Two: Crime rate increase lowest in three years.

Version Three: Crime rate up four percent.

Version Four: Growth in crime slowing.

Depending on what the reporter or editor is trying to show, there are no doubt dozens of ways this headline can be written. That headline could well influence the reader's opinion about whether a crime problem is getting better or worse. One common framing strategy is loss framing versus gain framing. The reason that's important is because research by Daniel Kahneman and others has shown that people are more motivated typically by avoiding a loss than realizing a gain.

For example, in one experiment people were asked to choose between two treatments for a disease involving 600 patients. They were told that treatment A would result in 400 deaths while treatment B has a 33 percent chance that nobody will die but a 66 percent chance that everyone will die. Then the scientists presented these choices to participants either with a positive frame, that is how many people would live. Or a negative frame, that is how many would die. So for example, the positive framing would say, "Treatment A saves 200 lives and treatment B has a 33 percent chance of saving all 600 people with a 66 percent possibility of saving nobody." The negative framing would be for treatment A, "400 people will die." Or for treatment B, "A 33 percent chance that no people will die and a 66 percent chance that all 600 will die."

Now in the positive framing situation, treatment A was chosen--that was the saves 200 lives--by 72 percent of the participants. But when it was expressed as 400 people will die, only 22 percent of the subjects chose it, which is really a pretty amazing difference when of course the mathematics is all the same. It was merely the way it was expressed. It's been shown to be effective in many different contexts.

One experiment that was a lot more recent than the Kahneman experiment involved the early registration of Ph.D. students. They found that 93 percent of these students registered early when there was a penalty fee for late registration but only 67 percent registered early when it was presented as a discount. So in that case, the penalty was a lot more ominous and effective than the discount. Again, even though the prices were the same in either case. There are literally hundreds of experiments like this that demonstrate how framing, particularly in terms of loss or gain, can change outcomes fairly dramatically.

Now from a practical standpoint, marketers can use the framing bias to good effect. One obvious way is to focus on loss rather than gains. For example, if your product will save its users $1,000.00 a month, it might be more effective to say, "You are losing $1,000.00 every month you don't use our product." As with just about any recommendation that I make, either here or on my various blogs, you should always consider these ideas as something to test rather than statements of fact of what will work in your particular case. Every situation is unique. Products are different. Customer groups are different. The only way to know what's really going to work is to test it.

So with that caution, I'll add something else. When you're using framing or really exploiting other cognitive biases, it's best to keep things simple. There's evidence from experiments that framing effects in another language--in other words, when the subject understands the language but it's not their native language--are reduced. The theory that the researchers have is that the reason these framing effects are less effective when they're in another language is because it sort of slows down the processing of the information on the part of the subject and gets them into more of a thinking or cognitive processing mode and hence they're less influenced by the bias. These biases work best when the individual is making a quick emotional decision.

That actually brings us sort of full circle back to Daniel Kahneman, who divided our thinking into two kinds: System 1 and System 2. System 1 is fast, intuitive, emotional, and rule-based, and it's very energy-efficient for our brains, which our brains like. System 2 is what we think about as thinking where we're sort of grinding through a process of weighing pluses and minuses and actually thinking through a decision carefully. One thing that Kahneman found was that our brains are lazy and we will default to that System 1 whenever possible. It's efficient. So if we can simply say, "Well this is what worked last time." Or, "This is what I think I want to do," and decide that way without grinding through, we'll almost always do that.

Now gain and loss framing is just one kind of framing. If your product offers its users prestige, for example, if it's a status symbol. You can frame your marketing in terms of status enhancement. At the other end of the spectrum, you can use Walmart as an example. Just about all of their advertising is framed in terms of value and saving money. That appeals to their buyers who are primarily looking for ways to save money and get their weekly shopping done a little bit more efficiently and cheaply. So when you frame your marketing in a certain way, you actually force your customers to think of it in that context.

So now to wrap things up, let's take a look at how you can combine both anchoring and framing for maximum impact. Imagine you have three versions of your product: a luxury model, a standard model, and a value model. Leading with a luxury model will set a high anchor price. Now your price-oriented buyers can be enticed with copy that emphasizes savings and value. The luxury model meanwhile can still appeal to those buyers interested in prestige. Of course, there are a lot of ways you can combine these and other biases. A high anchor, whether it's a competitive price, a previous price, or even an unrelated high number can be used in many marketing situations.

Anchoring and framing biases are just two of the many human biases that have been identified. We've got a great guest post by Jeremy Smith that lists 67 cognitive biases and includes a suggestion of how each one can be used. We'll link to that post in the show notes page at RogerDooley.com/Podcast. It's definitely worth a look and will really show you the plethora of opportunities you have to exploit these sort of brain bugs, if you will, as you're putting together your marketing.

That wraps up our show for today. We'll be back next week with an exciting guest I know you'll enjoy hearing from. I'd encourage you to drop by the show notes page and let me know if you enjoy these occasional solo podcasts. I don't do very many but I'd be happy to do a few more from time to time. Let me know too whether my usual length of about thirty minutes of content works for you. If you want longer ones or prefer bite-sized ones, and this one would qualify as somewhat bite-sized, let me know and I'll try and accommodate you.

And of course, please, please, please drop by iTunes or Stitcher or wherever you get your content and leave a review for *The Brainfluence Podcast*. This really helps us spread the word that brain and behavior science can indeed help your marketing. That's all for now. I'm Roger Dooley and we will see you next week.

Thank you for joining me for this episode of *The Brainfluence Podcast*. To continue the discussion and to find your own path to brainy success, please visit us at RogerDooley.com.