



Advice

Psychology

of Selling

Increasing sales with price anchoring

James Dion explains price anchoring and how you can use it to your advantage

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OFTEN WE HAVE NO IDEA what a product should cost, unless it's a common comparable commodity like milk. However, most of what we buy doesn't fit into that category which is why savvy retailers can use price anchoring to their advantage.

Price anchoring is the practice of positioning a product so customers anchor it to a certain price point and evaluate their purchasing decisions based on that anchor price.

For example, say you sell two candles. A customer comes in looking for a hostess gift for an upcoming dinner party at her boss's house. You show her your low-priced (\$6) candle and your medium-priced (\$10) candle, which is also nicely packaged. Unless budget is a real issue, the customer will likely choose the medium-priced candle.

What if there was a third option, an even lower-priced candle (\$3)? The \$6

candle is now elevated in the customer's eye. It's not the cheapest option, nor the most expensive. The very existence of that lower-priced item legitimizes the purchase of the lower-priced item in her mind.

Now let's say those candles were priced at \$24, \$18 and \$12 respectively. Chances are the customer will go for the \$18 candle.

What these different scenarios demonstrate is that by showing customers high, mid and lower price points you anchor their perceived value to the higher price.

Anchors work best when the highest priced item is no more than three times the lowest priced item. ■

James Dion has a bachelors and masters degree in psychology from the Chicago State University and a Ph.D. in industrial psychology from the Illinois Institute of Technology. Coupled with 30 years of hands-on retail experience, he's one of the most sought-after retail consultants internationally. He's also the author of three books including *Retail Selling Ain't Brain Surgery*, *It's Twice As Hard*.