



NEGOTIATION REVIEW

Anchoring

By Steve Gates

An insight into how traders ensure they maximise their position through the art of anchoring.

Anchoring

Sailbuyers.com, a website for prospective boat purchasers, features a table which recommends anchor weights for different lengths and weights of boat. Astonishingly, the recommended anchor weight for an 18 metre boat weighing over 22 tonnes is a mere 30 kg. It is astonishing to think that something so big can be held firm, or anchored, by something so small. Almost a one thousand fold return on investment. If only everything else in life were that efficient.

But the good news is that the concept of anchoring translates just as effectively into negotiation. Anchoring in negotiation is a tactic whereby one party establishes a firm, sometimes entrenched, position, thus creating a strong point of reference and forcing the other party to adopt that position as their starting point in any negotiation. Effective anchoring allows skilled negotiators to determine the parameters of a negotiation. The combination of timing and positioning results in a psychological advantage which many individuals find difficult to recover from.

How would you answer these two questions?

1. Is the waiting list for an Aston Martin DB9 longer than 3 and a half years?
2. What's your best estimate of the current waiting list for an Aston Martin DB9?

If you're like most people, the figure of 3 and a half years used in the first question influenced your answer to the second question (unless you have called the garage lately and happen to know the

answer). Over the past 10 years we have asked hundreds of groups on our workshops this or a similar question. The answer to the second question is always higher when question A is asked before question B. The framing of three and a half years serves to set an anchor in our minds against which future relative considerations are made. How we perceive the value of a proposal is greatly influenced by the first figure or position that we are exposed to. Initial and intentional positioning, designed to attract a 'no' response is often used intentionally and in a calculated fashion. The process is commonly known by negotiators as anchoring.

Why use anchoring?

In situations where there are no clear market indicators and there is scope for the perception of value to be different from actual value, first offers, have an incredibly strong anchoring effect. This relative positioning exerts a strong pull throughout the rest of the negotiation.

Where supply and demand are continuously changing and the value has as much to do with risk, convenience or need, anchors are most effective. They serve to condition the psychological parameters within which negotiators operate.

Mergers and acquisitions provide a clear example. In May 2006 Goldman Sachs was keen to purchase the world's biggest airport operator BAA. However, the BAA board made it known that any offer below £10bn would simply not be recommended to share holders. They set their Anchor for others to consider. Goldman Sachs continued to build a

stake in the business. Grupo Ferrovial, Spain's second biggest construction company, entered the bidding with an entirely different agenda and financial structuring. However, both parties were conditioned to the £10Bn threshold. By early June an agreement was concluded with Ferrovial for £10.1bn, nearly £2Bn above the original opening offers.

Managing the high aspirations of others is often achievable through pre-conditioning. This represents a proactive form of anchoring that can be even more powerful. In the time between the offer being made (pre-conditioning) and the negotiation beginning, the receiving party has time to reflect. Most of the emotion based on rejection has had time to calm and the consideration for 'how could I afford to accept this offer' has featured in their thinking. They become less defensive over time as they reconsider their own break point.

Organisations who plan a price increase often employ a blanket letter to all suppliers to advise them of the pending change in terms as if it were a fait accompli. The effect is that most of the clients start from a position of trying to defend their position. This proactive form of pre-conditioning allows the initiating party to take charge of the process and impose their anchor to shape the negotiation. From our experience in negotiation consultancy over the past 10 years, we consistently witness anchoring, if not countered, as having a strong impact on the outcome of both collaborative and competitive negotiations.

Ego results in some negotiators wanting not only satisfaction from their belief that they have secured a better deal than was originally available but also a desire to 'win'. Every marketing professional will understand the art of positioning the price at X and the offer at Y to attract an impulsive decision relating to price rather than a total value based decision.



“Let's compromise, you forget about a pay rise and I'll forget about a pay cut”.

Threshers, a UK wine store, introduced a marketing vehicle in 2004 which resulted in a significant increase in sales. They simply increased the unit price of most bottles of wine by up to a third. They then offered three for the price of two of every wine sold. Anyone entering the store for a bottle of

wine walked out with at least 3 and satisfied that they made a killing... relative to the unit price. The real discount was barely worth the volume purchased. Few people bought one bottle, it was simply too expensive.

The use of precedents (yesterday's price) to imply that today's price is a bargain, also represents a form of anchoring. 'If they are confronted with a great deal people simply don't think, 'If they are offering this much value, how can I negotiate them down even further?' Have you ever heard of someone buying three rather than one because the price per unit was less despite the fact that they only needed one?

In this case the power of the written word (or The Law of Legitimacy) was also employed to lend extra credibility to the anchor. The psychological assumption that what is in some way written down and 'published' must be true as others appear prepared to pay it.

Three easy steps to drop an effective anchor

Anchoring is part of an overall process. It represents the very first form of communication. If used, it is critical that you understand your 2nd, 3rd and 4th steps. What should the anchor enable you to achieve and, having dropped it, where do you move to?

Next is positioning. How do we structure the counterparty's expectations in relation to the anchor so as to provide a seemingly less aggressive position and promote sustainable dialogue... relative to our anchor.

The next step is proposing, or packaging, a concrete proposal or offer, which provides the other party with satisfaction whilst staying as close as possible to our opening position. They, by now, should be thinking about our initial position, effectively playing on our ground, this giving us the home advantage. Our Anchor has served its purpose in defining the terrain on which the battle will be fought.

Positive anchoring

Brands such as the Pound Shop indicate everything in this store is sold at below a pound. The profile of shopper this is designed to attract is done so by this clear message in advance. 'Eat as much as you can for £9.99' a further positive anchor to promote custom. Any auction where the item has a declared reserve price. Ebay provides an everyday example of how the reserve price can influence the behaviour of the bidders involved.

How to use anchoring

The entertainer Derren Brown employs Neuro-Linguistic Programming (NLP) to make subliminal suggestions to volunteers on his TV programmes and thereby condition their responses. The results are that his volunteers behave or respond in a manner that he, as a result of effective pre-conditioning, can predict. This type of indirect messaging serves to shape the thinking and behaviour of others. We are not suggesting that you emulate Derren Brown by persuading total strangers to go out and rob a bank but his work provides a clear example of how effective anchoring and auto-suggestion can be.

Anchoring in negotiation

In negotiation, anchoring is typically, although not exclusively, used in hard bargaining, value distribution forms of negotiation. The positioning assumes that you need to move the aspirations of the other party rather than work with them to build a strong joint value agreement. Extreme openings help to manage the aspirations, and often change the expectations of the other party. Even when people know that a particular anchor should not influence their judgment, psychologically they are often incapable of resisting its influence. Of course this can backfire. Typically, if you attract a deal that is too good to be true as a result of your anchoring... it probably is.

John Ruskin once wrote; 'The highest reward for a person's toil is not what they get for it, but what they become by it.' A worthy consideration relating to our own personal and business values as we consider the potential cost of negotiating tactically.

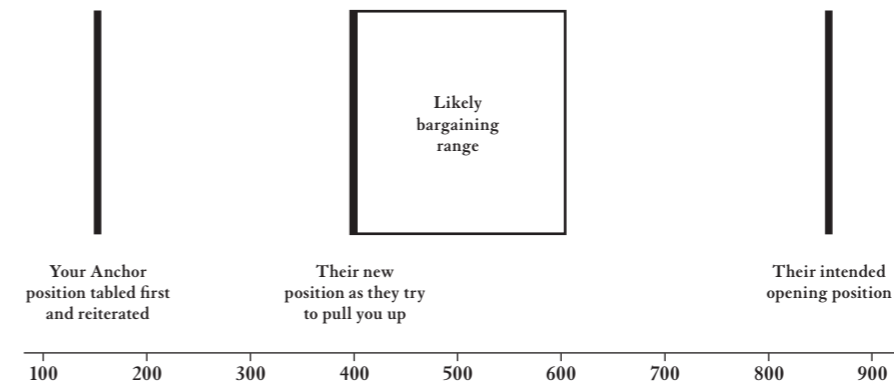
Research suggests that, in the majority of cases, negotiators who make their offer first will come out ahead. In addition to influencing expectations, high anchors direct our attention selectively toward an item's positive attributes; low anchors direct our attention to its flaws. This is why anchoring affects the judgment of even those who think they are immune to such influence.



“I’m getting the fire-breathing dragon with wings. He wanted \$200, but I talked him down to fifty bucks”.

Thomas Mussweiler of the Institute of Psychology at the University of Würzburg, Germany, had customers approach German mechanics - individuals expected to be knowledgeable about the true value of cars - with a used car that needed numerous repairs. After offering their own opinion of the car's value, the customers asked the mechanics

for an estimate. Half the mechanics were given a low anchor; the customer stated, "I think that the car should sell for about DM 2,800." The other half were given a high anchor: "I think that the car should sell for about DM 5,000." The mechanics estimated the car to be worth DM 1,000 more when they were given the high-anchor value!



Every item under negotiation has both positive and negative qualities – qualities that suggest a higher value and qualities that suggest a lower value. High anchors selectively direct our attention toward an item's positive attributes; low anchors direct our attention to its flaws. Thus, in the case study above, a high anchor directed the mechanics towards the benefits of the car's low mileage and pristine interior, while the low anchor led them to focus on a car's worn belts and ailing clutch.

The other party can become anchored to your position (figure 1) if they mention your figure. An attitude of 'that's not fair' can often result in one party demanding that the first party soften their demand, and in doing so are trapped into giving their initial position some credibility. When they mention how unacceptable the proposal is, there is only one proposal being discussed – yours! This is an advantageous position from which to continue the negotiation. The more you talk about your proposal, the more likely you will finish with a variant of your proposal.

A further law employed is the Law of Iteration, or the broken record ploy, where the position is repeated and repeated so many times that the positioned (designed as an anchor) assumes credibility.

Satisfaction

An extreme anchor allows you to make later concessions and still reach an agreement, while allowing the other party to feel satisfied with how they moved you to that outcome. By establishing an initial position that was perceived by the other party to be "unacceptable" you can change the definition of what is "acceptable" and generate satisfaction by giving the other party the impression that you have retreated from your original demand.

Accepting the first offer will lower the other party's level of satisfaction. Reject their proposal, even if it is acceptable and seek concessions. You'll not only achieve a more advantageous outcome for yourself, but you'll also increase the level of satisfaction for the other party.

A 'fair' and reasonable first offer leaves you with two unappealing options: make small concessions or stand by your demands. By making an extreme and yet realistic first offer you provide them with the opportunity to "extract" concessions from you. You'll not only get a better outcome, but you'll also increase the other side's satisfaction.

A satisfied counterparty will be more likely to live up to the terms of the agreement and less likely to seek future concessions or 'revenge' at a later date.

Another anchoring tactic used is known as The Social Smell. Everyone else is doing it, you are the odd one out, and clearly you are missing the value opportunity. All implied via suggesting that the market demand is in fact providing the opening position, despite being extreme, with some credibility. How much for a bag of popcorn at the supermarket? How much at the cinema? You know the difference.

Not just price

Of course anchors need not just be about price. Within the context of an existing relationship where one party holds significant power and dependency over the other, anchoring can be used in relation to quality, timing, or any other contractual arrangement. Standard trading terms, standard terms and conditions are often positioned as non negotiable. Anchors which aim to encourage the other party to consider only what they need to do via performance to improve their own position rather than challenging the validity of the terms themselves. The imposing party is then usually seen to employ the 'social smell' tactic in that 'all of our customers or suppliers will be operating to these terms' or 'this provides a fair transparent way of operating for all', suggesting some form of rational validity in their positioning. Where contractual options still exist, the minor point close ("will you be requiring them in the 36 to a box or 48 to a box arrangement?") or the assumptive close ("so you would prefer the 30 day payment option then?") are then used to narrow down decision making, assuming the anchor has served its purpose on the main issues.

Precedents

Precedents serve to set clear parameters and anchors in our mind within which expectations are managed. Some organisations choose to take a short term loss rather than yield to power and set a precedent for the future. Although, with short term objectives, this requires a brave stance for those accountable, it is a defensible strategy.

In an experiment involving a cage containing five apes a banana was hung on a string and stairs were positioned under it. Before long the ape climbs up the stairs and start to climb towards the banana. As soon as the ape touches the banana, all of the apes were sprayed with cold water. After a while, another ape made an attempt with the same result – all the apes were sprayed with cold water. The cold water was then turned off. Now if another ape tries to climb the stairs for the banana, the other apes will try to prevent it even though no water sprays them. One of the five apes was removed from the cage and replaced with a new one. The new ape saw the banana and tried to climb the stairs. To his horror, all the apes attacked him. After another attempt he is attacked again. He knows now that if he attempts to reach for the banana, he will be attacked. Next, another of the original five apes is replaced with a new ape. The new ape goes for the banana and is attacked. The previous newcomer takes part in the punishment with enthusiasm. Again, a third of the original five apes is replaced with a new ape. The new ape goes for the banana and is attacked as well. Two of the four apes that beat him up have no idea why they were not permitted to take the banana, or why they are participating in the beating of the newest ape. After replacing the fourth and the fifth of the original apes, there are no longer any apes left that have been sprayed with cold water. Nevertheless, no ape ever again approaches the banana – Why not? Because that's the way it is and the way it always has been.

So next time you ask for a proposal, or ask 'how much?' you may want to anchor your position by putting your position on the table first. Yes, you may well get a 'no' response, and this is to be expected as it serves to suggest; we are now negotiating.