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FEATURE

Understanding Anchor Pricing

Anchor pricing is a prevalent marketing strategy used by retailers to influence consumer perception and purchasing decisions. By establishing a high reference price, or "anchor," businesses can make their actual selling price seem more attractive. While this technique can be beneficial, it is important for consumers to understand its implications fully, including their rights and responsibilities. This comprehensive guide will delve into all facets of anchor pricing, providing insights, case studies, and practical advice.

What is Anchor Pricing?

Anchor pricing leverages the psychological principle known as the "anchoring effect," where individuals rely heavily on the first piece of information they encounter (the anchor) when making decisions. In retail, the anchor price is typically a higher original price or a competitor's price, against which the actual selling price is compared.

How Anchor Pricing Works

1. Establishing the Anchor: A high reference price is displayed, often labelled as the original price or manufacturer's suggested retail price (MSRP).
2. Presenting the Discounted Price: The selling price is shown as significantly lower, creating a perception of value.
3. Perceived Value: Consumers perceive the discounted price as a better deal compared to the anchor price.

Detailed Case Studies and Examples

Case Study 1: Electronics Retailer

An electronics retailer lists a high-end television at an original price of FJD 2,500, with a discounted price of FJD 1,900. The high anchor price makes the discount appear substantial, encouraging consumers to purchase, believing they are getting a great deal. In reality, the market price of similar televisions might be around FJD 2,000, making the "discount" less significant.

Case Study 2: Online Fashion Store

An online fashion store lists a designer dress with an original price of FJD 300 but offers it at FJD 150. The dramatic reduction creates a sense of urgency and value, prompting quick purchases. However, similar dresses might regularly sell for FJD 150, meaning the anchor price was artificially inflated.



The Consumer Angle

Consumer Rights

1. Truthful Advertising: Consumers have the right to truthful and non-misleading advertising. The anchor price should reflect a genuine previous price or a legitimate comparison.
2. Fair Pricing: Prices should not be artificially inflated to create a false sense of discount. Misleading pricing can be considered deceptive trade practices.
3. Informed Choice: Consumers should have access to sufficient information to make informed purchasing decisions. Retailers must provide clear and accurate pricing information.

Consumer Responsibilities

1. Critical Evaluation: Consumers should critically evaluate the anchor price and consider whether the discount is genuine. This involves understanding market norms and typical pricing for similar products.
2. Research: Conducting research on average market prices can help consumers determine if the offered deal is truly beneficial. Comparing prices across different retailers is a key part of this process.
3. Awareness: Being aware of marketing tactics, like anchor pricing, can help consumers make more informed decisions. Educating oneself about common retail strategies is essential.

Impact of Anchor Pricing

Positive Aspects

1. Perceived Value: Anchor pricing can make products appear more valuable and affordable. This can enhance the shopping experience and lead to increased consumer satisfaction.
2. Increased Sales: By encouraging purchases through perceived discounts, businesses can benefit from increased sales volumes. This can lead to better economies of scale and potentially lower prices in the long term.

Negative Aspects

1. Potential Deception: If the anchor price is artificially inflated, it can mislead consumers. This can result in consumers overpaying for products they believe are heavily discounted.
2. Consumer Distrust: Overuse or misuse of anchor pricing can lead to consumer scepticism and distrust. Once consumers recognize deceptive practices, they may be less likely to trust the retailer in the future.



Regulatory Framework

The FCCC Act 2010 does provide provisions which we can apply to anchor pricing:

1. Section 75 - Misleading or Deceptive Conduct: This section prohibits businesses from engaging in any conduct that is misleading or deceptive, or is likely to mislead or deceive consumers.

In the context of anchor pricing, this could apply if:

- The initial high price (anchor price) is significantly inflated and has no reasonable justification.
 - The advertisement focuses heavily on the discounted price without clearly presenting the original price for comparison.
 - The advertisement creates a false sense of urgency or scarcity around the discounted offer.
2. Section 76 - Unconscionable Conduct: This section prohibits businesses from engaging in conduct that is, in all the circumstances, unconscionable.

Anchor pricing could be considered unconscionable if:

- It targets vulnerable consumers who might be more susceptible to being misled by the high initial price.
- The price difference between the anchor price and the sale price is unreasonably large.

Practical Advice for Consumers

- Compare Prices: Look at prices from different retailers to determine if the discounted price is genuinely a good deal.
- Check the History: Investigate whether the product was genuinely sold at the anchor price before the discount.
- Evaluate the Necessity: Consider whether the purchase is necessary or if it's driven by the perceived discount. Reflect on the actual value and utility of the product.

Anchor pricing is a powerful tool in the retail arsenal that can significantly influence consumer behaviour. While it can offer real benefits, it also has the potential for misuse. Consumers are encouraged to stay informed, exercise their rights, and approach anchor pricing with a critical eye. The Consumer Council of Fiji remains committed to ensuring fair trading practices and protecting consumer interests.

By understanding anchor pricing, consumers can make more informed choices and avoid falling prey to deceptive marketing tactics. For more information and assistance, consumers are encouraged to contact the Consumer Council of Fiji.



@CCoFiji



Consumer Council of Fiji



www.consumersfiji.org



Mobile App

Contact Information

Consumer Council of Fiji

Phone: +679 330 0792

Email: complaints@consumersfiji.org

Website: www.consumersfiji.org

Address: Level 5, Vanua House, Suva, Fiji

Stay informed, stay empowered, and make smart purchasing decisions.