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The anchor price of moussaka

I was in Skiathos with family and friends and every evening we (semi-seriously) ran the **Moussaka Challenge,** checking the price of moussaka in the many competing harbour side restaurants to decide which restaurant we dined at - whether we ate moussaka or not.

We'd established our **"anchor price"**.

In fact we ate in **a different restaurant** almost every night. Was our anchor price for moussaka (obviously) being manipulated?

In his book, **Predictably Irrational**, **Dan Ariely** studied a number of students taking out subscriptions to the Economist. There were three options: An "internet only" option at $59; A "print only" option at $125 and an "internet+print option" at $125. The numbers subscribed were 16, 0 and 84 respectively. This would make sense because option 3 seemed a no-brainer.

However, when **Ariely removed** the middle option, "print only", the numbers subscribing changed to 68 for "internet only" and 32 for "internet+print". The "print only" was being used merely as **a decoy** to tempt punters to pay more. The Economist was obeying the **laws of relativity**, where comparing one thing in relation to something perceived as better value allows for price manipulation.

How could Starbucks charge £2.20 for a tall skinny latte at a time when coffee was £1.50 at McDonalds? By breaking the anchor price in the minds of the people coming through the door using words like "tall" and "grande", "mocha" instead of "coffee". Word of mouth recommendation from "friends" that an experience is to be had is enough to make Starbucks worth the new price.

Which are you most likely to buy? Quality truffle chocolates at £1.50 or "value" chocs at £0.50? **Ariely** found most people went for the more expensive £1.50 option until he started giving away bars of the £0.50 chocolate for **FREE**, then the vast majority shifted to the value product. So much for quality!

Anchor price is also about **situation**. We know petrol prices change daily, yet we'd rather pay £1.20/litre at a station five miles away than £1.25 just down the road. And we remember where these "cheaper" stations are for a long time.

For a new product entering a market, begin your price setting by manipulating the early adopters, who are more willing to pay higher prices just to be front of the demand queue.

The iPhone was originally launched at $549. Three months later it was $200. Then the IPhone 3G went out at $199. Apple created the buzz with early adopters, at a high anchor price before attacking the masses at bargain prices. While this seriously irked the early adopters it achieved a mass market.

Using a high, initial price creates room for your incentives and bonuses to work later, with each subsequent reduction making it seem an ever bigger bargain (e.g wine in supermarkets). However, simply displaying a price on your website's home page (for non-ecommerce websites) without incentives and bonuses, can easily devalue your entire proposition as visitors have nothing to compare it with.

Establishing anchor pricing on social network sites requires striking an even more delicate balance between your prospects' social and financial needs.

So can anchor prices be manipulated? You bet, but don't guess. Think what each customer sector might pay and how you create the buzz before going for the mass market? And test, test, test!

If you do nothing else today:

Review your product pricing. Would an iPhone-type strategy work for you?

To find your **moussaka anchor price**, email me at: **gerryw@flyingveemgt.co.uk**

or call: **0800 86 202 86**.