

Real-World Cases of Anchoring's Pricing Strategies in Business and Economics

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Abstract. Anchoring is a heuristic bias in behavioral economics, where individuals rely heavily on initial reference points when making decisions. This paper explores the real-world impact of anchoring in pricing strategies within two competitive sectors: retail, and real estate. Using qualitative case analysis, the study investigates how pricing anchors influences consumer behavior and distort market efficiency, focusing on J.C. Penney's 2012 shift from a high-low pricing model to everyday "fair pricing," and the anchoring behavior observed during the 1990s Boston housing market downturn. The findings collectively reveals that anchoring effects are reinforced by cognitive biases such as loss aversion and become more pronounced when coupled with market-specific factors like information asymmetry. In J.C. Penney's case, the removal of price anchors led to a significant drop in perceived value and consumer trust. In real estate, sellers' resistance to lowering prices, where having been anchored to prior high values, resulted in prolonged listing periods and market inefficiency. This paper also introduces behavioral optimization strategies including tiered pricing structures and enhanced transparency tools to diminish anchoring distortions, showing the importance of data-driven and psychologically informed pricing for businesses, while also, recommending what investors and policymakers should improve on, such as the access to market data and consumer education to reduce decision biases. The research contributes to both academic understanding and practical policymaking by connecting behavioral economic theories with various pricing strategies.

Keywords: Anchoring effect, Pricing Strategy, Behavioral Economics, Consumer Decision-making.

1. Introduction

The anchoring effect introduced by Tversky and Kahneman, is a key heuristic bias in behavioral economics. The theory describes how individuals, whether consciously or unconsciously, tend to weigh heavily towards the initially exposed information (anchor points) when making evaluations. The nature of anchoring is a mental shortcut which is difficult to override, hence, challenging any subsequent adjustments to the evaluations and often resulting in decisional biases[1]. This effect has since become one of the core heuristics in behavioral economics in demonstrating that human decisions often deviate from classical rational models.

In marketing and retail, firms tend to intentionally use high reference prices or Manufacturer's Suggested Retail Price (MSRP) values to shape consumers' perceived value of a product in aim to increase the likelihood of purchase when a discount is offered [2]. In real estate markets, anchoring often establishes how sellers base their listing prices on the original purchase price, while buyers on the other side, anchor on listed prices when forming value judgments, even when those prices may significantly deviate from true market value [3, 4]. Anchoring is also often reinforced by loss aversion and information asymmetry, in which both factors contribute to pricing distortions and inefficient outcomes [5].

Given the importance of the anchoring effect, this paper aims to investigate the real-world impact of anchoring in pricing strategies in the field of business and economics. Focusing on retail pricing and real estate markets, the first case in 2. will explore how J.C. Penney's failed shift from a high-low pricing model to fair pricing disrupted consumers' value perception due to the removal of price anchors. The second case in 3. will analyze how anchoring affects listing behavior and market efficiency in the housing sector, especially during market downturns. Through these two cases, this paper will offer a well-rounded analysis in anchoring from both consumer and seller perspectives and

offer behaviorally optimization strategies for pricing applications and consumer decision-making processes.

2. Case 1: Retail Pricing and Consumer Perceptions (J.C. Penney's Pricing Strategy)

2.1. Background Information

In 2012, U.S. retailer J.C. Penney implemented a huge change to its pricing strategy by eliminating their traditional “high-low” pricing model. Previously, the company always set high list prices were often the Manufacturer’s suggested as Retail Price (MSRP), and also applied substantial discounts to create a psychological anchor to leave consumers the impression that they were getting a bargain. Under CEO Ron Johnson’s management, the company introduced a “fair pricing” strategy with everyday low prices and no markdowns [6].

At the time, the U.S. retail market was highly competitive and saturated consisting of major players such as Walmart, Target, Macy’s, and Kohl’s competing for market share through intense promotions, customer loyalty programs, and along with fast fashion cycles. Those competitors heavily relied on dynamic pricing and seasonal sales to attract cost-sensitive consumers. While J.C. Penney was positioned as a mid-tier department store, they appeal towards more value-conscious and middle-class shoppers. However, the brand lacked strong product differentiation and struggled to compete with both low-cost retailers such as Walmart and also, more trend-focused brands like Target and Macy’s.

Despite the initial plan being well-intentioned, this shift led to a 25% drop in sales and nearly a \$1 billion net loss within a year [7]. The consumers and those who had become accustomed to evaluating value based on the difference between the original and discounted prices began to perceive the absence of discounting as a loss of value, which then decreased store traffic and weakened the brand’s overall appeal.

2.2. Behavioral Analysis

In the J.C. Penney case, the MSRP or “original” price functioned as the anchor, the shoppers used this anchor as a reference point to assess how good of a deal the final price was. Historically, J.C. Penney’s frequent markdowns of 40–50% reinforced this perception of consumer surplus. However, once the high anchor was removed and replaced by a single low-price reference, the perceived value of the deal diminished as shoppers began to question the product’s quality and whether their purchase was saving money [8].

From the perspective of traditional consumers, this shift disrupted their established consumer habits and psychological expectations. Over time, these consumers had already developed a habit of comparing listed and discounted prices to estimate the perceived savings, then, in making purchase decisions. These routines created a frame for evaluating pricing. When J.C. Penney broke this expectation, many consumers experienced decisional discomfort and loss of trust, even though the actual prices still remained competitive [9]. Furthermore, the situation shows the relative nature of price perception, as consumers assess price not in absolute terms, but in comparison to other available prices and historical anchors [10].

2.3. Behavior Optimization

From the consumer’s perspective, their awareness of the anchoring effect is key in avoiding any impulsive purchase or biased decisions. Shoppers should proactively compare prices across platforms and vendors to generate multiple anchors internally in aim to minimize reliance on a single retailer’s framing. Consumers should also focus more on product attributes and their own pricing threshold rather than letting MSRPs or inflated discounts dictate a product’s value [11]. Lastly, being mindful of the individual’s actual needs also prevents being confused by overly inflated prices.

For businesses, anchoring can be used ethically to influence consumer perception. Retailers can present a credible high anchor, such as an actual previous price or a decoy product with a higher price point in order to frame a target product as good value [2]. If a business needs to change its pricing strategy, they should do so gradually or with sufficient explanation and clarity to give consumers time to adjust their expectations [12], while a sudden and unexplained removal of anchor prices, such as in J.C. Penney's attempt, will eventually disrupt consumer trust and reduce sales. A second strategy for businesses can be utilizing differentiated pricing strategies. For products with high price elasticity, a high anchor followed by frequent discounts can drive urgency and boost sales in the short-term. As for products with low price sensitivity, everyday low pricing potentially works better when supported by quality and trust from the brand. In both cases, anchoring can help to shape perceived value as long as the anchor itself remains truthful and consistent with the customers' psychology.

Additionally, businesses can also influence tiered pricing strategies to enhance the anchoring effect through value comparisons. For instance, one effective model is the "three-tier structure":

Entry-level option: Also known as the low anchor can be used to attract price-sensitive customers through offering a basic version with limited features, which often serves as a decoy. For example, streaming platforms may offer a lower cost plan that only supports standard definition (e.g., 480p), this makes higher-tier options more appealing by comparison.

Middle-tier option: Also known as the core profit point is designed to offer the most balanced value, typically includes 80% of the features customers need [13]. This tier is priced to appear as a compromise between the extremes, weighing the compromise effect so customers would be persuaded and choose the middle option as a "safe" choice. For instance, a gym offering a 1 year long membership at 2,000 RMB versus a 6 month option at 1,500 RMB, this often sees the most customers favor the annual plan due to perceived better value.

Premium option: Also known as the value anchor, this high priced option includes symbolic upgrades or exclusive services (such as priority customer support or prestige labeling), which raises the upper price boundary. Though fewer and more niche consumers will make purchase, its real purpose is to serve as a high-value anchor that makes the mid-tier option appear more reasonable [14].

3. Case 2: Anchoring in Real Estate Markets (Housing Prices and Listing Anchors)

3.1. Background Information

In real estate markets, anchoring can significantly influence both sellers' and buyers' decisions. In the 1990s Boston housing market downturn, it showed that even when broader market conditions declined, many homeowners who had purchased properties at peak prices still became psychologically anchored to those earlier high values. These sellers frequently set asking prices well above current market expectations, which were typically about 25–35% higher than their home's true market value [3].

During this period, the U.S. experienced a broader housing correction following a late-1980s real estate boom driven by overbuilding, speculative investment, and relaxed credit. Especially in Boston, saw one of the sharpest housing declines due to regional economic contraction, such as falling employment and along with tighter lending standards. Between 1989 and 1992, home prices in Boston dropped by much as 15–20%, while average time-on-market increased significantly [15]. As a result, market liquidity decreased and the price stickiness became more distinct.

These inflated listing prices served as anchoring reference points, which not only twisted property buyer perceptions, but further resulted in final sale prices roughly 3–18% higher than similar properties listed at market-aligned prices [3]. However, this came at a cost as listings with high anchors remained unsold for significantly longer periods, which was a phenomenon referred to in real estate literature as a lower sale hazard. In some extreme cases, listings failed to sell altogether because buyers simply perceived them as overpriced when compared to other market anchors [3].

3.2. Behavioral Analysis

For sellers, the anchor is frequently the original purchase price or a previous market peak. This anchoring bias is further reinforced by loss aversion, which is another concept in behavioral economics, referring to the psychological pain of incurring a loss weighs more heavily than the satisfaction of a neutral or small gain [4]. As a result, sellers tend to overprice their properties, hence they hold out for offers that match their anchored expectations despite any objective signals that market values have dropped. Buyers may rationalize the delay in the sale as temporary and hope to “wait out” the market or attract a buyer willing to meet their high anchor.

On the other hand, buyers also do not as tend to be immune to the anchoring effect. A property listed above comparable sales can subconsciously raise a buyer’s estimate of the home’s value, even if the intrinsic worth does not justify its premium. Buyers may interpret the high asking price as a sign of special features or with hidden value, which can lead them to overpay or to focus negotiations around the inflated anchor rather than an effective objective comparable. Collaboratively, both the dynamics from the buyer and seller contribute to overall market inefficiencies, where overpriced homes stay on the market too long, or sell above fair value, distorting the natural process of price discovery. Anchoring thereby contributes to “sticky prices” in declining markets, as both the sellers and buyers anchor to outdated high values and neglect any downward adjustments based on real-time supply and demand [3, 5].

Furthermore, the asymmetric information between buyers and sellers may further intensify these anchoring effects. Sellers may ignore updated market data and maintain outdated anchors due to a lack of access to real-time information. Meanwhile, buyers, those especially in markets where property uniqueness is high may not be capable to recognize that the listed price is not justified by the home’s actual value. Thus, this asymmetry of information makes it even more difficult for buyers to form accurate reference points which contributes to a wider anchor gap between the two parties. Reducing such market information asymmetry through better data transparency, including access to transaction history or standardized appraisal methods can help weaken the influence of irrational price anchors in promoting more efficient market behaviors [4].

3.3. Behavioral Optimization

To decrease the anchoring effect in real estate markets, both individual and structural improvements at the market level are an essential approach. On the seller’s side, the effect of anchors can be reduced through supporting listing prices in objective market data, instead of emotional attachment or outdated reference points. This can be achieved by consulting multiple professional valuations, and also, through reviewing recent comparable sales and actively updating pricing strategies in line with the real-time market trends. Furthermore, sellers should also be able to recognize the risks of over-relying on unrealistically high anchors. Since listings may reduce visibility and bargaining power over time, this can ultimately lead to market situations where larger downward adjustments are required, therefore hurting the overall return [3, 4].

In targeting the buyer’s side, consumers should exercise information-based self-discipline. In other words, instead of accepting listing prices at face value, buyers should conduct thorough comparative market analyses, and then, seek independent valuation assessments to establish their internal reference anchors. Whereas in cases where a seller’s asking price appears inflated, buyers can introduce a counter-anchor, such as citing recent comparable sales to steer the negotiation toward a more realistic valuation [4]. Additionally, if anchoring leads to a persistent pricing mismatch, buyers should also not hesitate to walk away or wait, as buyers shall be aware that prolonged time on the market will often weaken the seller’s anchoring position.

On a broader macro-level, reducing information asymmetry in the housing market can also help both parties to form more accurate anchors, therefore reducing the divergence between seller and buyer expectations. In many cases, sellers fail to update their reference points because they lack access to new market information or don’t fully grasp current pricing trends [5]. Conversely, buyers, particularly in markets where property heterogeneity is high, may lack awareness of how such

features impact value [16]. These asymmetries will prevent either side from forming well-calibrated anchors and therefore enhance market transparency. For example, public access to transaction data or AI-powered listing platforms can be efficient in facilitating more informed pricing decisions [17]. Moreover, public or private institutions can also provide comparative analysis tools to show the differences in property features, which can help buyers and sellers adjust their anchors based on more accurate and comparable information. Therefore, by narrowing the information gap, the market may also become more efficient, thus, the distorting influence of anchors will then be naturally diminished.

4. Conclusion

In summary, this paper explores the anchoring effect and its real-world implications in pricing strategies across the retail and real estate fields. Anchoring occurs when individuals rely heavily on an initial reference point when making judgments, which leads to systematic biases that deviate from rational economic behaviors. In this paper, the research focused on two case studies: J.C. Penney's retail pricing strategy transformation and the pricing behaviors observed in the Boston real estate market during the 1990s housing downturn. The purpose of the analysis was to evaluate how anchoring shapes pricing decisions and disrupts market efficiency; how anchors influence the perceived value from both consumer and seller perspectives. As shown in the first case, removing high anchor prices in J.C. Penney's shift to "fair pricing" led to reductions in consumer engagement and trust, which ultimately causes financial losses. In the second case, buyers and sellers being anchored towards past purchase prices and inflated listing prices created inefficiencies in the housing market, as sellers were overpricing their properties and buyers were struggling to assess a true value.

The findings also reveal that anchoring effects are reinforced by psychological heuristics such as loss aversion and also market-specific factor of information asymmetry. To optimize consumer behaviors, businesses should adopt a more data-driven and transparent pricing strategy that can considers consumer psychology. On the contrary, consumers should also remain aware of potential biases and conduct price comparisons to form their own independent valuations.

Despite these insights, the research conducted also has its limitations. Since primarily of the findings are drawn on case studies from the U.S., the results may not fully reflect anchoring market dynamics on a global scale or other economic contexts. In today's media world, future research could explore anchoring in digital marketplaces such as algorithmic pricing and personalized recommendations, these insights can be important in creating new forms of anchor manipulation. Furthermore, studies could also investigate how anchoring interacts with other behavioral factors, such as time pressure or brand loyalty in a more complex consumer environment.

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