Anchoring Bias

A number mentioned early in a conversation pulls every later number toward itself, even when we know that it is arbitrary. This is the anchoring bias, and it matters at work because prices, budgets, forecasts and salaries are usually discussed around a number that someone named first. In this video, Rawan, a procurement manager at a building-materials company, learns to notice anchors and to handle them in a negotiation. The video is a teaching aid, so facts and figures should be checked before they are used.

1. What an Anchor Is

In nineteen seventy-four, Amos Tversky and Daniel Kahneman described anchoring in the journal Science. People watched a wheel of fortune rigged to stop at a low or a high number, and then estimated the share of African countries in the United Nations. Those who saw the low number gave a median estimate of about twenty-five percent, and those who saw the high number about forty-five percent, although the wheel had nothing to do with the question. The authors explained this as anchoring and adjustment: we start from the number in front of us and adjust, but we stop too early. Later research suggests that an anchor also makes fitting facts easier to recall, and that warnings alone do not remove the effect. Because all this happens without our noticing, the final number feels like our own judgment.

Example: A restaurant menu lists a very expensive dish first, and that price is the anchor. The next dish looks reasonable beside it, although alone it might look expensive. A diner who would never pay that much for pasta now orders the second-priciest dish and feels thrifty. The first number has quietly set her sense of a fair price, which is exactly what an anchor does.

At work: Rawan needs a three-year maintenance contract for the company's trucks, and last year's budget was seven hundred thousand dollars. A supplier opens with a quote of one million two hundred thousand dollars. Her first instinct is to counter at nine hundred thousand and feel clever for cutting a quarter. But the midpoint would land near one million and fifty thousand, so the supplier's number has already done its work.

2. Where Anchors Hide

Anchors are not only first offers. They are list prices, last year's budget, a competitor's price, a target in a performance review, and any estimate said aloud at the start of a meeting. Experts are not immune either: in a well-known property test, real-estate agents denied that a listing price influenced them, yet they were affected about as much as students. Anchors also live inside organizations, because a budget is usually built from last year's budget, so last year's errors travel forward.

Example: A sales manager asks for next year's target, and the first person to speak names a number. Every later number lands close to it. Nobody questions that first figure, and the debate is only about small moves up or down from it. The useful question is what each person would have said without hearing it. That pull is the anchor at work.

At work: In Rawan's company, the fleet-maintenance budget has been last year's figure plus a small increase for years. Every spring the finance team copies the old line and adds a few percent, without asking what the trucks need. The supplier's quote becomes a second anchor. Neither number comes from the real cost of keeping trucks on the road, so both are anchors, not evidence.

3. Defending Ourselves

Four habits help. First, we form our own estimate before we see anyone else's number, and we write it down. Second, we consider the opposite by asking why the anchor might be too high or too low, the strategy with the most reliable evidence so far, although that evidence is limited. Third, we use a range built from several independent sources, such as three comparable quotes, instead of a single number. Fourth, we ask others

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for their estimates separately, before any discussion, so that one voice does not anchor the room. None of these removes the bias completely, so for big decisions we combine them.

Example: A hiring manager writes the salary range for a role from three market sources before she reads the candidate's expectation. The candidate's figure then becomes information to compare, not a starting point. When the candidate asks for more, she compares the request with her written range and explains the gap calmly. Her own estimate came first, so the candidate's number could not anchor her.

At work: Before replying, Rawan collects three comparable quotes from other fleets and asks two colleagues for their estimates separately. Her figure comes to about eight hundred and fifty thousand dollars, within a range from seven hundred and eighty thousand to nine hundred and twenty thousand. She also writes three reasons why the supplier's price might be too high, including services she does not need. Now she has an anchor of her own.

4. Using Anchors Fairly

The first offer sets an anchor, and the counteroffer becomes a second one. Negotiators who make the first offer often get better economic results, although they may feel less satisfied. Before every negotiation, Rawan prepares three numbers: the one she hopes for, the one she accepts, and the one at which she walks away. When the other side opens with an extreme number, answering with a slightly lower one accepts its frame, so it is better to say that the number is outside our range, explain why, and offer our own figure with evidence. Anchors must stay honest: a number we can defend with data builds trust, and an exaggerated number used to deceive is manipulation that damages reputation. We may also ask for time before replying, because time weakens the pull of the first number.

Example: A candidate asked about salary first quotes a market range with its sources, and the discussion continues around her figures. She names three published surveys and explains how her experience fits the upper half of the range. The employer asks about the sources, not about whether her number is too high. She has set the anchor fairly, with facts.

At work: Rawan tells the supplier that the quote is outside the range she sees in the market, and she shows three comparable contracts. She offers seven hundred and eighty thousand dollars, and they close at eight hundred and ten thousand. The midpoint of the first two anchors would have been about one million and fifty thousand, so she saves about two hundred and forty thousand dollars over three years. These numbers are an invented illustration.

Conclusion

Anchoring means that the first number we hear shapes the numbers that follow, even when it is arbitrary, because we adjust too little. Anchors hide in first offers, list prices and old budgets. We defend ourselves by forming our own estimate first, considering the opposite, using ranges from independent sources and collecting opinions separately. In a negotiation, a number backed by evidence is the honest way to set the frame, and before accepting any number we can ask whose number it is and where it comes from. The examples here are illustrations, so facts and figures should be checked before they are applied.

Sources

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- Names, companies and prices in the story are invented for teaching; they are not statistics.

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