

The Drag of the Anchor: Diminishing the Negotiating Power of the First Demand

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“If I look confused, it’s because I am thinking.” — movie mogul Samuel Goldwyn

In the art of negotiation, the first demand drives the settlement result. Study after study has proven this. Why and how does this happen?

This brain trickery (technically a cognitive bias) is known as the “Anchoring Effect.” The first number placed on the negotiation table subliminally pulls counteroffers close to that number. It doesn’t matter whether the first number is reasonable, outrageous or totally irrelevant to the issues being discussed — that first demand keeps dragging us inexorably toward it.

The Anchoring Effect is not just limited to numbers. Studies have shown that we often give greater analytical weight and credibility to the initial facts or information we learn simply because it is the first. The now-skewed evaluation can lead to miscalculations, missed negotiation opportunities and, potentially, impasse.

How does this phenomenon work? Some scholars argue that the anchor causes us to inadequately adjust our negotiation moves or plan far enough away from the starting point the anchor implies; the anchor has a greater pull on the final result than is warranted. Others suggest that the anchor “primes” or subconsciously suggests the correct answer or course of action. No matter how they work, anchors are powerful and pervasive.

Demonstrating the influence (and insidiousness) of the Anchoring Effect, renowned psychologists Daniel Kahneman and Amos Tversky created a “Wheel of Fortune” experiment several decades ago. A spinning wheel of seemingly random numbers was rigged so that the wheel would only land on the numbers 10 or 65. Participants then spun the wheel, got their “random” number and were then asked the percentage of African nations that were members of the United Nations. On average, those who got the number 10 guessed a lower percentage of countries than those who got the number 65. The numbers had no relationship to the percentage of African-member countries in the U.N., yet the irrelevant numbers impacted the participants’ choices.

I conducted a similar experiment with my students at UNT Dallas College of Law. I gave them a piece of paper and asked them to write the amount they would be willing to spend for a meal at a restaurant. What they didn’t know was that one-half of the notes listed the name of the restaurant as Bistro 17 and the other half, Bistro 97. Those with the name Bistro 17, on average, wrote a smaller amount they would spend than those who had Bistro 97; they were anchored to the irrelevant name of the restaurant.

Anchors are everywhere; MSRP for car sales, eBay minimum bids, the first idea mentioned in a meeting and inventory valuations, just to name a few. They influence us whether they are explicit, implied or presented as part of unrelated information. Anchors impact negotiations even when we know they are irrelevant or so extreme as to be unbelievable. The more memorable the anchor, the more formidable it becomes.

So how do we counter the Anchoring Effect? Ignoring anchors does not lessen their impact. Talking about them (such as explaining why the number is unreasonable) heightens the effect. The best option is

to *replacethe* anchoringnumber or information with our own well-researched, objective reference point. Link the new anchor to the story we want to tell. Then, drive discussions toward that new anchor, compelling our opponent to embrace our replaced anchor rather than their own.

This is hard stuff. Being alert is key to fighting against the tug of the first number or fragment of information. Replace the other side's anchor with your own, and you will be more successful in negotiations.

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