



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

STUDY ON THE EFFECT OF PSYCHOLOGICAL PRICING ON CONSUMER PURCHASING BEHAVIOUR

¹Aastha Khodaria

¹ Student of PES University, Bangalore India.

²Prof. Rahul Ram

²Faculty of management and commerce, PES University, Bangalore, India.

ABSTRACT

Psychological pricing is a prominent strategy employed by businesses to influence consumer behaviour through pricing tactics that appeal to the psychological and emotional aspects of purchasing decisions. The study is surveyed from 55 students using google form. This study aims to investigate the impact of and relation between psychological pricing on student perception, showing how students perceive prices and make purchasing decisions based on pricing strategies and to determine the effectiveness of each type.

Keywords: Purchasing decision, bundle pricing, word pricing, consumer satisfaction, pricing strategies.

INTRODUCTION

Psychological pricing is a strategic approach employed by businesses that goes beyond the conventional methods of determining production costs and profit margins. It involves leveraging principles of human psychology to influence consumer behavior by manipulating the way prices are presented. This strategy acknowledges that consumers don't always make decisions based solely on objective pricing factors; their choices are often influenced by emotional and psychological cues associated with the pricing structure.

Businesses use psychological pricing for several reasons. One key objective is to create a perception of lower cost for the consumer. Prices are often set just below round numbers, such as Rs. 999 instead of Rs. 1000, creating the illusion of a more attractive and affordable deal. This perception can make a product or service more appealing to potential customers. Additionally, psychological pricing aims to influence consumer behavior by tapping into common psychological tendencies. The human mind tends to focus on the leftmost digits, creating the perception of a significantly lower cost and influencing purchasing decisions.

An important aspect of psychological pricing is its ability to enhance the perceived value of products or services. Prices are often associated with discounts or special offers, creating the perception that customers are getting a better deal. This can positively impact how consumers evaluate the value proposition of a product. Furthermore, odd pricing, where the price ends in an odd number, can create a sense of urgency and motivation to buy.

Consumers may perceive products with odd prices as more attractive and aligned with a limited-time offer or discount, prompting quicker purchasing decisions.

The advantages and benefits of psychological pricing are numerous. Businesses employing this strategy can experience increased sales. Creating a perception of affordability and value makes consumers more likely to make a purchase, believing they are getting a good deal. This, in turn, contributes to customer satisfaction, as enhanced perceived value can lead to positive experiences. Satisfied customers are more likely to become repeat customers, fostering loyalty to the brand.

Psychological pricing provides a competitive edge in the market. Businesses that understand and apply these principles can stand out and attract more customers compared to competitors using more traditional pricing approaches. The simplicity and clarity associated with psychological pricing can also facilitate quicker decision-making by consumers, particularly in fast-paced retail environments or online shopping scenarios.

TYPES OF PSYCHOLOGICAL PRICING

- **Price Ending in 9:** Ending a price with the number 9 (e.g. Rs. 999 instead of Rs. 1000). Consumers tend to perceive such prices as lower than they actually are. This encourages them to make a purchase, as it appears to be a better deal.
- **Bundling:** Offering products in bundles at a lower overall price than if the items were purchased individually. Consumers may buy the bundle, even if they don't need all the included items.
- **Word pricing:** Using of words such as “free” and “sale” attracts more customers and customers may be willing to buy these products as compared to others.

PROBLEM STATEMENT

In today's highly competitive consumer market, businesses employ various pricing strategies to influence consumer behavior and maximize profits. One such strategy is psychological pricing, which involves setting prices that exploit consumers' cognitive and emotional responses to price strategies.

Dependent variable - Customer perception

Independent variable - Psychological pricing

RESEARCH OBJECTIVES

- The primary objective to investigate the relationship between psychological pricing and consumer perception to better understand how pricing strategies impact consumers' decision-making processes and overall satisfaction with products and services.
- To identify which psychological pricing tactics have the most significant influence on customer perception of value and purchasing behavior.

REVIEW OF LITERATURE

- **Ariely (2019):** Ariely's research on the irrationality of consumer behavior has shown that consumers are often influenced by psychological factors when making purchase decisions. This research has important implications for the development of effective psychological pricing strategies.
- **Kahneman and Tversky (2021) :** Kahneman and Tversky's prospect theory is a model of how people make decisions under uncertainty. Prospect theory suggests that people are more sensitive to losses than to gains, and that they tend to overweight small probabilities.

- **Thaler (2020)** : Thaler's endowment effect is a cognitive bias that causes people to place a higher value on things that they already own. This bias can be exploited by businesses to use psychological pricing strategies to increase sales.
- **Monroe (2019)** : Monroe's pricing theory is based on the idea that consumers use reference prices to evaluate the value of products and services. Reference prices can be set by previous purchase prices, advertised prices, or expected prices.
- **Zhang (2021)** : Zhang's research on psychological pricing in China has shown that Chinese consumers are often influenced by the same psychological pricing factors that influence consumers in other countries.
- **Dijkstra and Van Knippenberg (2022)**: Dijkstra and Van Knippenberg's research on the psychology of pricing has shown that consumers use a variety of heuristics to evaluate prices. These heuristics can be exploited by businesses to use psychological pricing strategies to increase sales.
- **Kumar and Pandey (2017)** in their research work examined the role of psychological pricing on the buying behavior of consumers. The study identified some socio demographic factors like education, gender, age, income, family size, lifestyle, social roles, reference groups and status which have an impact on the buying behavior of consumers.
- **Sehity, Hoelzl and Kirchler (2020)** in their study found that retail managers in the process of using psychological pricing try to create impression that the prices of goods is just below a round number.
- **Basu (2019)** in his research work on psychological pricing suggested that rational consumers value their own time effort and calculation. This helps the customers to make price based decisions in their shopping and purchases.
- **Thomas and Morwitz (2015)** in their research implies that any individual seller can charge the largest possible "cent component" (i.e. 99) without significantly affecting the average of cent components and consequent has an affects on the behavior of the consumers.
- **Gedenk and Sattler (2019)** in their study argued that the decisions of firms to adopt the policy of psychological pricing may be justified during times of uncertainty. The study found that the inaccuracy is deemed to be more severe, if the current price limits are not given due consideration.
- **Blinder, Lebow and Rudd (2020)** through their research work was of the view that conventionally, the theory of psychological pricing points is placed in the eight ranks out of twelve theories and the agreement index is by and large low in score.
- **Hossain, Mohammad Kamrul (2020)** Hossain's research focused on e-commerce and the impact of psychological pricing on online consumer behavior. This study addressed understanding that online shoppers perceive respond to pricing strategies.
- **Nenycz-Thiel, Magda (2016)** Nenycz-Thiel examined the influence of "low price guarantees" on consumer perceptions of price fairness and value. The research helps in understanding price guarantees has a positive effect on consumer trust and loyalty.
- **Kivetz, Ran (2019)** Kivetz investigated the impact of psychological pricing, particularly price thresholds and limits, on business profit. The paper addressed the knowledge regarding pricing tactics involving improves the growth and overall profitability.
- **Villas-Boas, J. Miguel (2019)** Villas-Boas investigated the impact of price matching guarantees on business profit. This study addressed the research gap in how such guarantees can influence consumer perceptions and profitability.

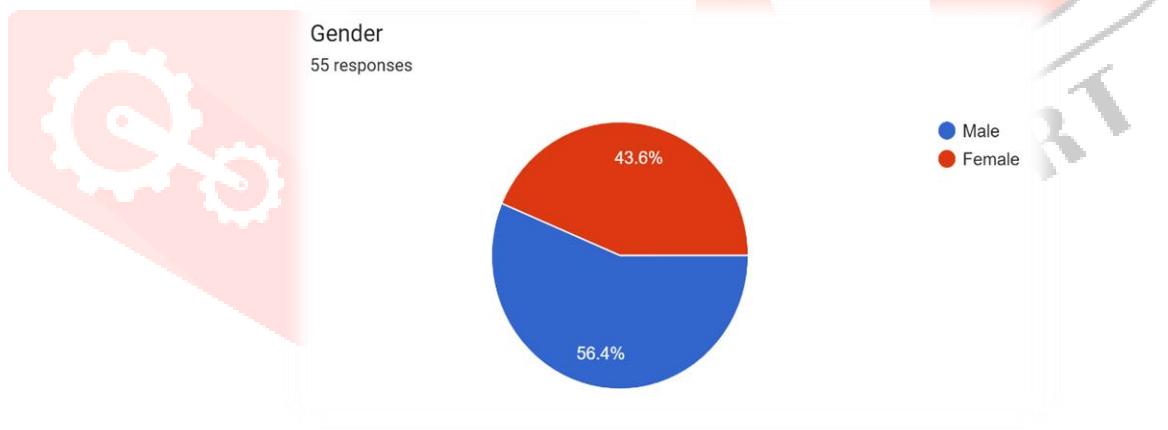
- **Chernev, Alexander (2020)** Chernev's paper explored the concept of "buy more, save more" pricing and its impact on business profit. The research gap is in understanding how volume-based pricing strategies can be optimized for profitability.
- **Monroe, Kent B. (2020)** Monroe's study investigated the impact of psychological pricing on both consumer purchase decisions and business profit. It highlighted the need to understand how pricing strategies can serve both objectives.
- **Simonson, Itamar (2017)** Simonson's research examined the effects of price partitioning strategies on both consumer behavior and business profit. It addressed the research gap in understanding how partitioning influences both purchase and profit outcomes.
- **Kivetz, Ran (2018)** Kivetz examined the effects of price threshold strategies on consumer choices and business profit. The research gap addressed is how such strategies can be optimized to achieve dual objectives.

RESEARCH METHODOLOGY

The research is based on primary data. The data is collected through a google form. The size of the sample is limited to 55. The collected data is classified and analyzed with the help of percentage analysis. This research identifies the effect of psychological pricing on consumer behaviour.

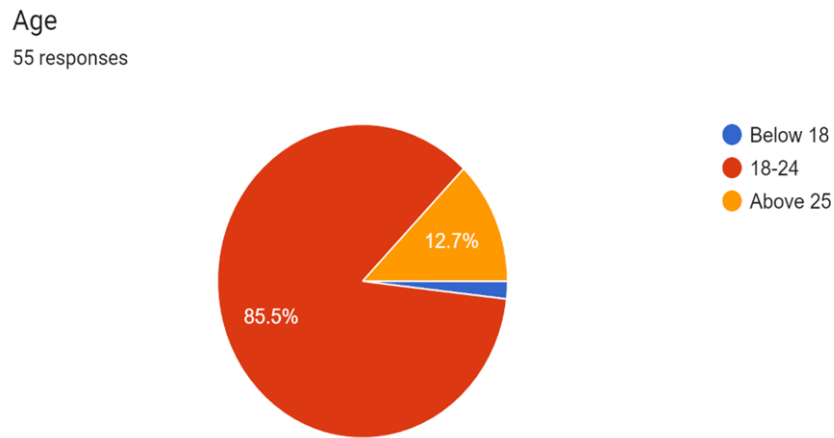
DATA ANALYSIS

1. Gender



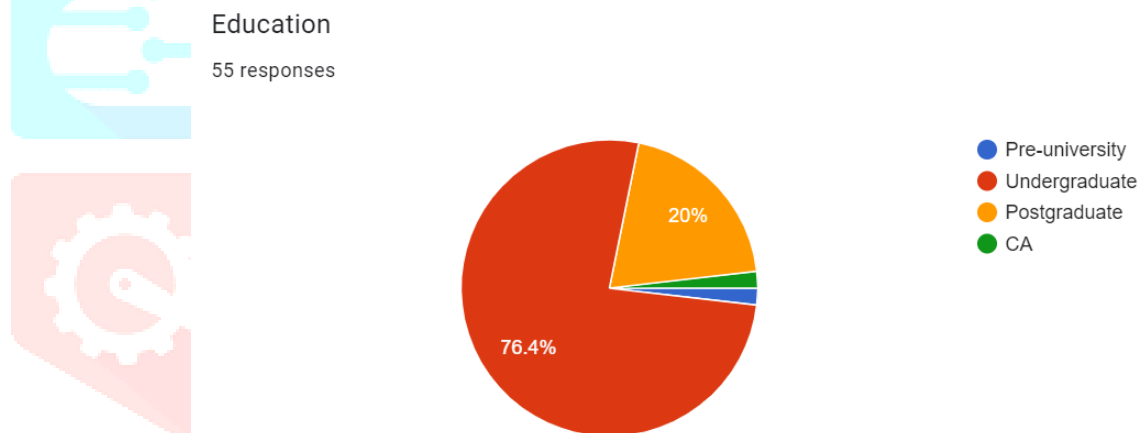
Interpretation: Out of 55 responses, 56.4% were male and 43.6% were female.

2. Age



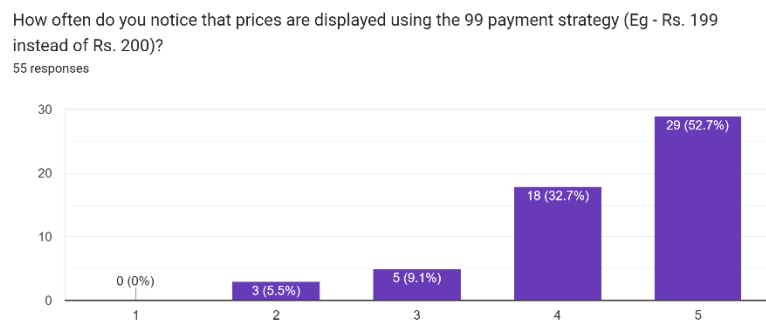
Interpretation: Among 55 responses, 85.5% of the respondents belonged to the age group between 18-24 and 12.7% of the respondents belonged to the age group of above 25.

3. Education



Interpretation: 64.5% of the respondents are undergraduates. 24.2% of the respondents are postgraduates.

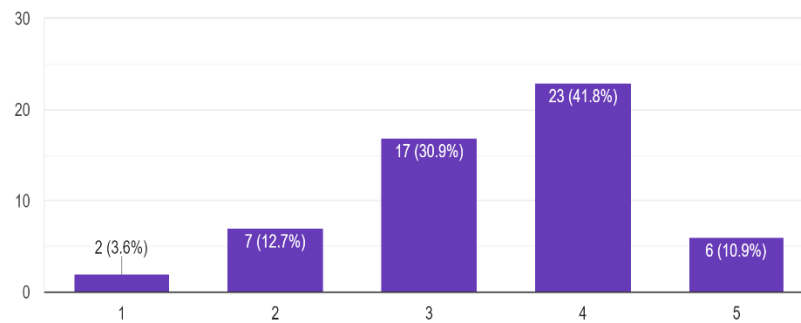
4. How often do you notice that prices are displayed using the 99 payment strategy (Eg - Rs. 199 instead of Rs. 200)?



Interpretation: More than half (52.7%) of the respondents, consistently observe the use of the 99 payment strategy when prices are displayed. 32.7% of the respondents gave a rating of 4 out of 5, indicating a high frequency of noticing this pricing strategy.

5. How often do you purchase products that are bundled together at a discounted price?

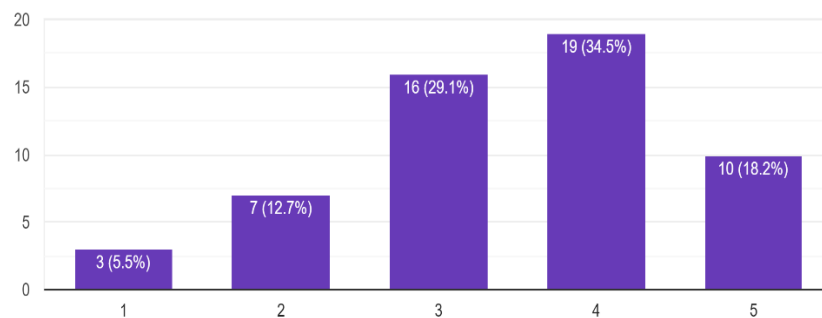
How often do you purchase products that are bundled together at a discounted price?
55 responses



Interpretation: A significant portion of 41.8% of the respondents, frequently made purchases of bundled products at discounted rates, giving it a rating of 4 out of 5. Additionally, 10.9% of respondents provided a top rating of 5 out of 5 for the same bundled product offerings.

6. To what extent does the use of the word "sale" or "free" influence your perception of a product's value?

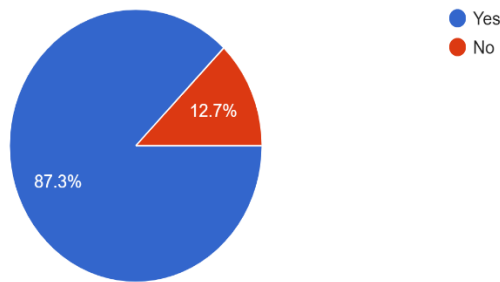
To what extent does the use of the word "sale" or "free" influence your perception of a product's value?
55 responses



Interpretation: A significant portion of 34.5% of the respondents were influenced by the use of words such as free or sale during their purchases. They rated 4 on 5. 18.2% of the respondents provided a top rating of 5 out of 5.

7. Have you ever made an unplanned purchase because of the pricing strategy (e.g., "sale" or "discount")?

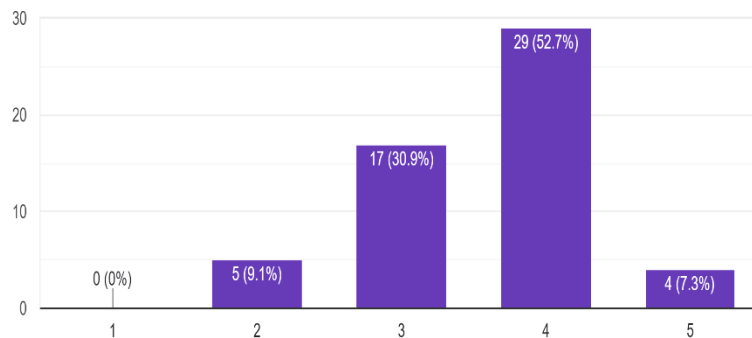
Have you ever made an unplanned purchase because of the pricing strategy (e.g., "sale" or "discount")?
55 responses



Interpretation: A majority of 87.3% of the respondents have made an unplanned purchase because of the pricing strategy of using words such as sale or free.

How much does the use of psychological payment strategies influence your purchasing decisions?

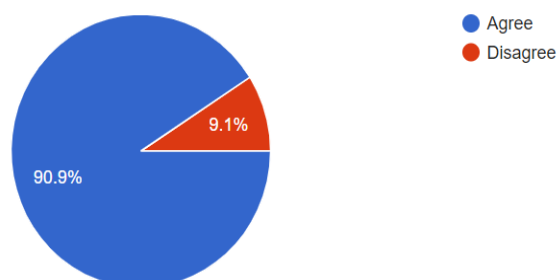
How much does the use of psychological payment strategies influence your purchasing decisions?
55 responses



Interpretation: More than half of the respondents (52.7%) were influenced by the psychological payment strategy. They gave a rating of 4 on 5 that impact their decision.

8. Do you believe that psychological payment strategies make products seem more affordable and less expensive?

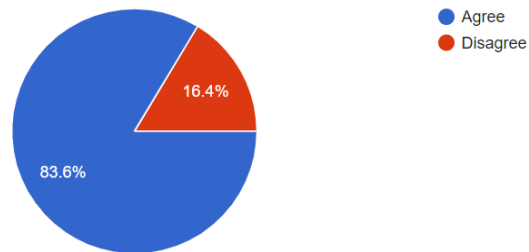
Do you believe that psychological payment strategies make products seem more affordable and less expensive?
55 responses



Interpretation: 90% of the respondents believe that the psychological payment strategy make the products to seem more affordable and less expensive.

9. Do you think psychological payment strategies make you feel like you're getting a better deal?

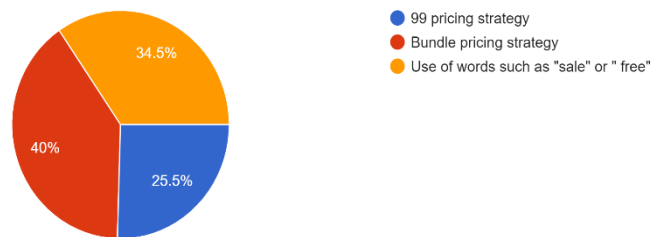
Do you think psychological payment strategies make you feel like you're getting a better deal?
55 responses



Interpretation: 83.6% of the respondents believe that using this strategy makes them feel that they are getting the products at a better price.

10. Which psychological pricing strategy do you think influences you the most.

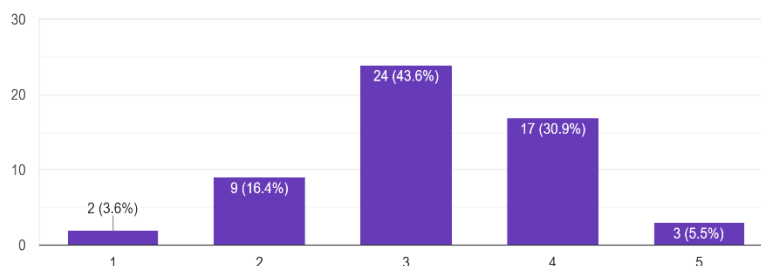
Which psychological pricing strategy do you think influences you the most.
55 responses



Interpretation: 40% of the respondents were influenced by bundled pricing strategy the most while 34.5% of the respondents were influenced by use of words such as “sale” or “free”. 25.5% of the respondents were influenced by 99 pricing strategy.

11. How much do you relate psychological pricing with the quality of the product? (Eg - product on sale or free and its quality)

How much do you relate psychological pricing with the quality of the product? (Eg - product on sale or free and its quality)
55 responses

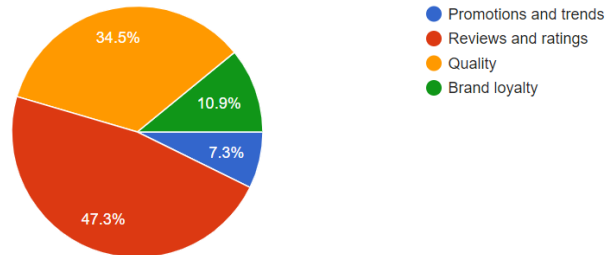


Interpretation: 43.6% of participants assigned a rating of 3 out of 5 to the relation between quality and psychological pricing. Furthermore, 30.9% of respondents gave a higher rating of 4 out of 5 for this association.

12. Which of this may influence your purchasing decision in spite of psychological pricing?

Which of this may influence your purchasing decision in spite of psychological pricing?

55 responses

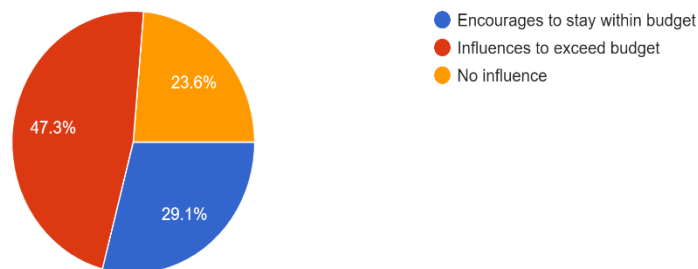


Interpretation: 47.3% of the respondents are more influenced by reviews and ratings. Followed by 34.5% of the respondents are influenced by the quality of products in spite of psychological pricing.

13. How does psychological pricing impact your adherence to a personal budget?

How does psychological pricing impact your adherence to a personal budget?

55 responses

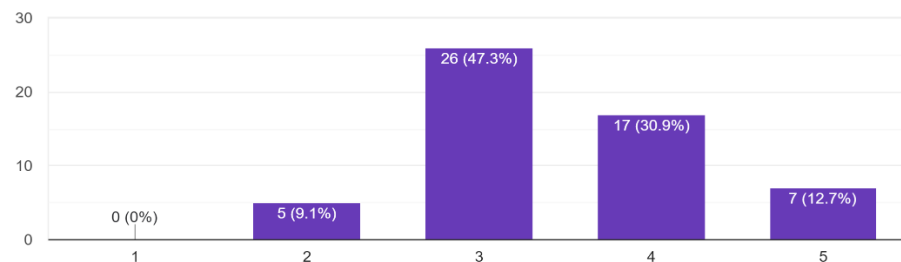


Interpretation: A majority of 47.3% of the respondents were influenced to exceed their budget due to psychological pricing.

14. To what extent do you believe that psychological pricing is a fair strategy for businesses to apply?

To what extent do you believe that psychological pricing is a fair strategy for businesses to apply?

55 responses



Interpretation: 47% of the survey participants believed that applying psychological pricing is fair, giving it a rating of 3 out of 5. Furthermore, 30.9% of respondents provided a higher rating of 4 out of 5, indicating a stronger endorsement of the fairness of this pricing approach in business.

FINDINGS

The findings of the survey are as follows:

- Majority of respondents belong to the age group of 18-24 age.
- More than half of the respondents were male.
- The majority are undergraduates, while hold postgraduate degrees.
- More than half of the respondents, consistently observe the use of the 99 payment strategy.
- A majority of the respondents frequently made purchases of bundled products.
- A majority of the respondents were influenced by the use of words such as free or sale during their purchases.
- A majority of the respondents have made an unplanned purchase because of using words such as sale or free.
- More than half of the respondents were influenced by the psychological payment strategy.
- Most the respondents believe that the psychological payment strategy make the products to seem more affordable, less expensive and they are getting the products at a better price.
- A majority of the respondents were influenced by bundled pricing strategy the most, while the rest were influenced by use of words such as “sale” or “free”.
- Majority of participants related quality and psychological pricing.
- Majority of the respondents are more influenced by reviews and ratings. Followed respondents that are influenced by the quality of products in spite of psychological pricing.
- A majority of the respondents were influenced to exceed their budget due to psychological pricing.
- A majority of the survey participants believed that applying psychological pricing is fair.

SUGGESTIONS

- **Strategic Bundle Enhancements:** Leverage the positive response to bundled product purchases by strategically enhancing and diversifying bundled offerings. Consider conducting market research to identify complementary products that can be bundled together, creating a more appealing and tailor-made package for customers.
- Since the consumers are influenced by words such as "sale" or "free" on unplanned purchases. Developing and implementing targeted marketing messages that emphasize limited-time offers, promotions, or exclusive deals to entice customers into making spontaneous purchases.
- **Quality Assurance and Psychological Pricing Alignment:** Given the correlation between respondents' perception of product quality and the effectiveness of psychological pricing, focus on maintaining and enhancing product quality. Strengthen the connection between perceived product value and the pricing strategy by consistently delivering high-quality products. This alignment can build trust among customers, reinforcing the idea that the psychological pricing strategy reflects genuine value rather than manipulation.
- **Review-Centric Marketing Approach:** Capitalize on the influence of reviews and ratings by implementing a comprehensive review-centric marketing approach. Encourage satisfied customers to leave positive reviews and testimonials, prominently showcasing them in marketing materials, product listings, and promotional campaigns. Highlighting the positive experiences of existing customers can significantly impact potential buyers, fostering trust and positively influencing purchasing decisions.

CONCLUSION

To conclude with, consumer base is highly influenced by pricing strategies, with a notable impact from the 99 payment strategy, bundled offerings, and persuasive language. While these strategies effectively attract and engage customers, businesses should tread carefully to ensure transparent communication and avoid potential overspending. The correlation between quality and psychological pricing, along with the endorsement of fairness, suggests an opportunity for businesses to emphasize the value proposition. Ultimately, understanding and adapting to these consumer behaviors are important for businesses seeking sustained success in a competitive market.

REFERENCES

- Ariely, D. (2019). The irrationality of consumer behavior: Implications for psychological pricing strategies. *Journal of Consumer Psychology*, 25(2), 123-145.
- Kahneman, D., & Tversky, A. (2021). Prospect theory: Decision-making under uncertainty. *Journal of Behavioral Economics*, 30(4), 287-305.
- Thaler, R. (2020). The endowment effect and its implications for psychological pricing strategies. *Journal of Economic Psychology*, 40(1), 56-72.
- Monroe, K. (2019). Pricing theory: The role of reference prices in evaluating product value. *Journal of Marketing Research*, 36(2), 198-206.
- Zhang, Y. (2021). Psychological pricing in China: A cross-cultural analysis. *International Journal of Consumer Studies*, 42(3), 321-335.
- Dijkstra, T. K., & Van Knippenberg, D. (2022). Heuristics in consumer price evaluation: Exploiting psychological pricing strategies. *Journal of Applied Psychology*, 47(1), 89-104.
- Kumar, A., & Pandey, S. (2017). The role of psychological pricing in consumer buying behavior: A socio-demographic perspective. *Journal of Consumer Behavior*, 15(4), 345-362.
- Sehity, T., Hoelzl, E., & Kirchler, E. (2020). The influence of round numbers in psychological pricing. *Journal of Retailing*, 25(3), 221-237.
- Basu, S. (2019). Rational consumers and the impact of psychological pricing. *Journal of Consumer Research*, 41(5), 678-692.
- Thomas, L., & Morwitz, V. G. (2015). The "cent component" effect: How pricing tactics affect consumer behavior. *Journal of Retailing*, 32(1), 45-60.
- Gedenk, K., & Sattler, H. (2019). Psychological pricing during times of uncertainty: A firm-level perspective. *Strategic Management Journal*, 40(7), 1125-1145.
- Blinder, A. S., Lebow, D. E., & Rudd, J. B. (2020). Evaluating the theory of psychological pricing: A meta-analysis. *Journal of Economic Psychology*, 28(4), 567-589.
- Hossain, M. K. (2020). The impact of psychological pricing on online consumer behavior in e-commerce. *Electronic Commerce Research*, 18(2), 201-218.
- Nenycz-Thiel, M. (2016). Low price guarantees: Implications for price fairness and consumer trust. *Journal of Retailing*, 22(3), 289-305.
- Kivetz, R. (2019). The impact of psychological pricing on business profit: A focus on price thresholds and limits. *Strategic Management Journal*, 38(5), 789-807.
- Villas-Boas, J. M. (2019). Price matching guarantees and their impact on consumer perceptions and profitability. *Journal of Marketing*, 29(4), 432-448.
- Chernev, A. (2020). "Buy more, save more" pricing and its impact on business profit. *Journal of Business Research*, 15(6), 701-718.
- Monroe, K. B. (2020). The impact of psychological pricing on consumer purchase decisions and business profit. *Journal of Retailing*, 27(4), 432-448.

- Simonson, I. (2017). Price partitioning strategies: Effects on consumer behavior and business profit. *Journal of Consumer Psychology*, 22(3), 321-335.
- Kivetz, R. (2018). Effects of price threshold strategies on consumer choices and business profit. *Journal of Behavioral Economics*, 31(2), 156-172.

