

A Study on Consumer psychology and pricing

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Abstract

Consumer psychology and pricing: The cost of a product or service is relative to what the buyer thinks that cost should be. Based on his or her previous experiences, the customer will judge whether prices are too high, too low, or on target. Through personal experiences, advertising, and a base knowledge of standard pricing, your customers will have a good idea of where your prices should fall in relation to the market and your competitors. By using psychology, you can present a perception of value or discount that will help you to sell your products. For example, the common use of Rs.2999 over Rs.3000 has long been a matter of pricing psychology that says: Although there is only a 1 cent difference, something in the 9 range is a greater bargain than something in the 10 range. In fact, studies show that odd numbers are more commonly associated with lower prices than even numbers. Giving an item free with purchase is primarily a perception of savings. While a buy-one-get-one-free offer represents a small savings to the customer, it draws more business because of the idea of getting something for free. Other factors that play into the perception of pricing include availability. If, for example, you indicate a one-day sale, the idea that availability is limited will encourage the customer to act quickly rather than mull over the purchase. Likewise, if you know that supply and demand are in your favor, you can stand by a higher price and let it be known that only a few items remain available. Limited items always appear as more valuable.

Introduction

Pricing is a concept that transcends profit margins. It's also a marketing tactic that can help your business boost sales volume. When you think about pricing, you need to focus on more than what will cover your company's operating expenses and pay the bills. **You need to choose numbers that will compel your audiences to buy.**

Pricing decisions are extremely important for the firm. Some of the reasons:

- Pricing is the only part of the marketing mix which brings in revenue.
- Once a price has been set, consumers will often show a great deal of resistance to any attempts to change it.
- Pricing frequently has important implications for the positioning of a product.
- Price is the marketing mix variable for which a competitive response can be most quickly implemented.

WAYS TO CHANGE PRICE

The above conceptualization suggests that the marketer has several ways available to change price:

- Increasing or decreasing the "*sticker price*" of a product.
- Increasing or decreasing the *quantity* of material received. As prices of chocolate increased in the 1970s, firms found it difficult to raise candy bar prices. Instead, they simply made them smaller.
- Changing the *quality* of a product. Firms may cut back on services or dilute products more, possibly reducing or cutting out expensive ingredients.
- Change the *terms* of a sale. Firms may begin charging for previously free delivery. In recent years, many software manufacturers have stopped providing free telephone support for their programs.

If you're running a business or marketing team, you're probably focused on three key metrics: cost, revenue, and profit (*or margin*). Your goal is always to minimize costs while maximizing revenues. You may even work with a finance leader to set aggressive growth goals for your company.

For many business leaders, pricing is something practical. You choose numbers that will pay employee salaries and keep the lights on. You pick numbers that will be extremely competitive with the market — after all, it's your buyers that will keep your company afloat.

We are all in business to solve problems, add value and make a profit -- tasks which involve pricing your product or service. But how do you effectively price your product or service to increase sales and make more money with little or no effort?

It's simple; use psychological pricing.

Psychological pricing is a pricing/marketing strategy based on the theory that certain prices have a bigger psychological impact on consumers than others. Below are five pricing strategies entrepreneurs can adopt:

1. 'Charm pricing': Reduce the left digits by one.

This strategy, often called "charm pricing," involves using pricing that ends in "9" and "99."

With charm pricing, the left digit is reduced from a round number by one cent. We come across this technique every time we make purchases but don't pay attention. For example, your brain processes Rs.300 and Rs.299 as different values: To your brain Rs.299 is Rs.200, which is cheaper than Rs.300. So, the message here is, if you want to increase purchases of your products and services, convert zero ending numbers to nines. A perfect example of this strategy can be found on Apple's website, where each product price ends with a 9.

2. 'Prestige' pricing strategy

Prestige pricing is the complete opposite of odd or charm pricing. Prestige pricing involves making all numerical values into rounded figures, i.e., Rs.99.99 is converted to Rs.100.

You may be wondering why. According to this study, rounded numbers (e.g., Rs.100) are more fluently processed and encourage reliance on consumers' feelings, compared to non-rounded numbers (e.g., Rs.99.99), which are less fluently processed, and encourage reliance on cognition.

This means that rounded numbers "feel right" because the purchase is being driven by feelings and the price is processed quickly.

3. 'BOGOF': Buy one, get one free.

This is a pricing strategy in which customers pay the full price for one product or service to get another for free.

The psychological strategy at work here is, simply, greed. Once a customer comes across the offer, logic gets tossed to the wind and the main focus is making a purchase to get the free item.

Now, because this technique has been widely adopted and most people no longer take the bait, you could stir things up a bit by offering one of the following:

- Buy one and get 25 percent off your next purchase.
- Purchase one and get four bonuses valued at Rs.60, for free.
- Buy one, get three for free.

To fully maximize this strategy, get creative with your discount offers.

4: Comparative pricing: placing expensive next to standard

Comparative pricing may be tagged as the most effective psychological pricing strategy. This simply involves offering two similar products simultaneously but making one product's price much more attractive than the other.

This is a psychological game of choice for the customer, who has to choose between two products that are similar but have different prices.

This strategy works well with fashion brands, which place side by side tuxedos with similar quality but different prices, to make customers pick the more expensive one, which is the desired purchase.

To the average human, if something is expensive, then it is "quality."

5: Visually highlight the different prices.

When you offer a sale with a previous price side by side with a new one, you make more sales because customers feel they are getting a bargain and are not interested in researching the drop in price.

To make the new pricing strategy work effectively, use the psychological trick of changing the font, size and color of the new price.

This trick triggers a fluency effect and consumers interpret the visual difference to a larger numeral distinction.

Simply changing the font, size and color of the signage for the current sale price and placing it a little bit away from the previous pricing will increase the number of purchases, because customers see the new price as cheaper and a better deal than the previous price.

Conclusion

So, given these psychological pricing strategies, you might try them out, remembering to split-test different ones on different pages and products to determine what works best for your business and satisfy the consumers.