



Pricing for Researchers: **Price Point Endings**

Introduction

- This 'Pricing for Researchers' newsletter is reviews of a recent study that has examined how consumers responded to different price endings.
- The research study is titled 'Price Endings: Magic & Math'. The paper is written by two researchers in consumer behaviour at the University of Guelph; J. Liang & Dr. V. Kanetkar (a research collaborator with The Advantage Group Inc. for the past 12 years).

The Research Purpose

1. To understand if consumers mentally process a price holistically or process each digit as an individual stimulus - (e.g. does the price \$45 get processed by consumers as the number 45 or do consumers breakdown the price into 2 parts; the first digit is a 4 and the second digit is a 5).
2. To understand if consumers subconsciously "rounded" prices off (e.g. \$0.67 gets rounded to \$0.70).
3. To understand whether or not prices ending in a 9 or 0 had an effect on a consumer's purchase intention.

Research Method

- A discrete choice experiment was conducted online with 188 respondents.
- Two different product categories were tested; canned soup & backpacks. These 2 products were chosen to represent a low and high priced item that the respondent sample (i.e. college students) was familiar with.

- The soup prices were systematically varied between \$0.40 to \$0.99 (every potential price ending between 0 to 9 was included).
- The backpack prices were systematically varied between \$30 to \$59 (no pennies).
- Each respondent was presented with 20 different pricing scenarios, with 3-5 items (e.g. 5 different brand names) to choose from, for each product category.

Findings

1. The research found that consumers do not process prices holistically. In other words consumers split prices into 2 parts, a left and right digit. Typically, consumers put more weighting and importance on the left digits. But as prices increase the weighting and importance of the right side digit gains in importance (although never to the extent of the left digit).
2. The second finding shows that consumers are much more likely to round prices to the nearest dime for low priced items (i.e. canned soup that is priced at \$0.47 is rounded to \$0.50).
3. Lastly the third finding shows a 'price ending' with the number 9 had a positive demand effect in the canned soup category but a negative demand effect in the backpack category.



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Practical Implications

- The research findings suggest that consumers may or may not pay attention to all digits in a price. If the price is less than \$1 consumers tend to round the price to the nearest dime. If the price is relatively significant in size (i.e. \$30 to \$59) consumers do not round the price and the right side digit plays an increasingly important role in the consumer's choice.
- These research findings support a pricing strategy where in:

The soup category:

- Product prices should end with the right side digit being a 9.
- Overall demand is proven to be higher when the price point ends with a nine.
- Consumers will treat all prices ending with 9, 8, 7, 6 & 5 the same and round them up. So anything less than a 9 is leaving money on the table.
- Relative to other canned soups price differences between SKUs need to be greater than \$0.09 or they will not get noticed by the consumer.

The backpack category:

- Product prices should not necessarily end with the right side digit being a 9.
- Overall demand is proven to not be any higher for a backpack priced with a 9 at the end vs. any other number.
- The right side digit is noticed by the consumer and plays a significant role in their decision making.
- Two similar in quality backpacks could be priced within the same dollar range (e.g. \$50 to \$60) be only a few dollars different in price (e.g. \$58 vs. \$54) and the consumer will consciously notice the price difference and include this information in their decision making process.

Note: This research paper has been recently submitted to the Journal of Product & Brand Management for review