PRICING **Lesson 19**

Psychological Pricing

Retail Prices are often expressed as odd prices: a little less than a round number, e.g. $19.99 or £6.95. Psychological pricing is a theory in marketing that these prices have a psychological impact that drives demand greater than would be expected if consumers were perfectly rational.

The psychological pricing theory is based on one or more of the following hypotheses:

- Consumers ignore the least significant digits rather than do the proper rounding. Even though the cents are seen and not totally ignored, they may subconsciously be partially ignored.

- Fractional prices suggest to consumers that goods are marked at the lowest possible price.
- Now that consumers are used to psychological prices, other prices look odd.

The theory of Psychological Pricing is controversial. Some studies show that buyers, even young children, have a very sophisticated understanding of true cost and relative value and that, to the limits of the accuracy of the test, they behave rationally. Other researchers claim that this ignores the non-rational nature of the phenomenon and that acceptance of the theory requires belief in a subconscious level of thought processes, a belief that economic models tend to deny or ignore.

Research supporting odd pricing theory

In a study, the perceived value of all the numbers between 1 and 100 were studied, and 77 was shown to have the lowest perceived value relative to its actual value.

Retailing/Odd price

Retailing consists of the sale of goods/merchandise for personal or household consumption either from a fixed location such as a department store or kiosk, or away from a fixed location and related subordinated services. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells individual items or small quantities to the general public or end user customers, usually in a shop, also called store. Retailers are at the end of the supply chain. Marketers see retailing as part of their overall distribution strategy.

Shops may be on residential streets, or in shopping streets with little or no houses, or in a shopping center. Shopping streets may or may not be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation.

Shopping is buying things, sometimes as a recreational activity. Cheap versions of the latter are window shopping (just looking, not buying) and browsing.

Shops and stores

There are three major types of retailing, two of which have buildings that the customer can visit to do business with.

The first is counter-service, once the only type of shop, but now rare except for selected items.

The second, and now more widely used method of retail, is self-service.

Quickly increasing in importance are online shops, the third type, where products and services can be ordered for physical delivery, downloading or virtual delivery.

Even though most retailing is done through self-service, many shops offer counter-service items, e.g. controlled items like medicine and small expensive items.

Shops used to deal with just one type of article. In the nineteenth century, in France, arcades were invented, which were a street of several different shops, roofed over. From this there soon developed, still in France, the notion of a large store of one ownership with many counters, each dealing with a different kind of article was invented; it was called a department store. In cities, these were multi-story buildings which pioneered the escalator. In the mid-twentieth century in the United States there developed the mall, midway between the arcade and the department store. A mall consists of several two-storey department stores linked by arcades (many of whose shops are owned by the same firm under different names).

A recent development is a very large shop called a superstore. Local shops can be known as brick and mortar stores in the United States.

Many shops are part of a chain: a number of similar shops with the same name selling the same products in different locations. The shops may be owned by one company, or there may be a franchising company that has franchising agreements with the shop owners.

Some shops sell second-hand goods. Often the public can also sell goods to such shops. In other cases, especially in the case of a nonprofit shop, the public donates goods to the shop to be sold. In give-away shops goods can be taken for free.

The term retailer is also applied where a service provider services the needs of a large number of individuals, such as with telephone or electric power.

Retail pricing

The pricing technique used by most retailers is cost-plus pricing.

This involves adding a markup amount (or percentage) to the retailers cost. Another common technique is suggested retail pricing. This simply involves charging the amount suggested by the manufacturer and usually printed on the product by the manufacturer.

