

To What Extent Does the Practice of ‘Charm Pricing’ (Ending Prices in .99) Influence Consumer Purchasing Behavior?

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1. Introduction

Charm pricing, or the practice of ending prices in .99, is a common marketing strategy that has been widely utilized. This research aims to explore the effectiveness of this strategy and its impact on consumer behavior. By investigating its history, market impact, and underlying psychological mechanisms, this study seeks to provide a comprehensive understanding of charm pricing.=

99.9\$ or 100\$

2. Why This Topic?

1. Personal Wish

I chose this topic because I plan to study financial engineering in university, and understanding consumer behavior is essential for my future. Also, charm pricing is a common yet overlooked strategy, and exploring it feels both interesting and meaningful.

2. Understanding Marketing Effectiveness:

Charm pricing is widely used, but its real impact in different contexts isn't fully understood. This research can show how this strategy helps businesses boost sales, giving valuable insights for optimizing pricing strategies.

3. Consumer Awareness:

By studying the psychology behind charm pricing, such as the left-digit effect, we can understand how consumers are influenced. This knowledge can help people become more aware of how pricing impacts their buying decisions.

4. Cultural and Market Differences:

Exploring how charm pricing works across different markets and cultures can reveal why certain groups respond differently. This helps global companies create better pricing strategies tailored to specific markets. Overall, this research can deepen the understanding of business pricing strategies and consumer decision-making processes, offering valuable takeaways for both marketers and consumers.

3. Literature Review

Gupta & Cooper (1992)

- Source: The Discounting of Discounts
- Main Idea: Psychological pricing, including .99 prices, strongly influences consumer decisions.
- Relevance: Supports the analysis of cognitive biases in charm pricing.

Naipaul & Parsa (2001)

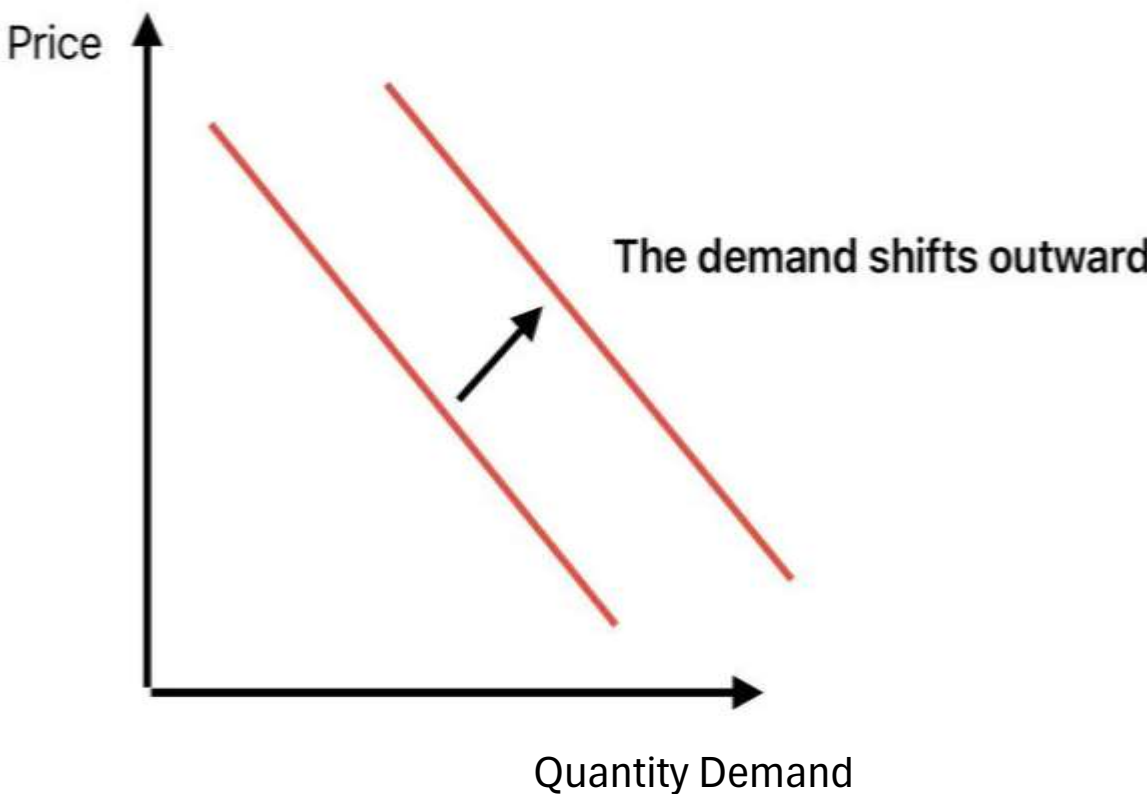
- Source: Menu Price Endings that Communicate Value and Quality
- Main Idea: .99 prices are seen as a good deal, while whole numbers signal higher quality.
- Relevance: Highlights charm pricing's role in different market segments.

Anderson & Simester (2003)

- Source: Effects of \$9 Price Endings on Retail Sales
- Main Idea: Prices ending in 9 increase sales both in the short and long term.
- Relevance: Provides data on charm pricing across different products.

Fiveable (Research websites)

- Source: Business Cognitive Biases and Charm Pricing
- Main Idea: .99 prices can boost sales by up to 20%.
- Relevance: Shows how charm pricing taps into cognitive biases to increase sales.



4. Aims and Objectives

Aim:

- This research is to analyze how charm pricing impacts consumer purchasing behavior, considering market trends, psychological mechanisms, and cultural differences.

Objectives:

1. History:

- To explore the origins and evolution of charm pricing.
- Research focuses on when and why this practice began and how it has evolved over time.

2. Market Effect:

- To analyze the influence of charm pricing on the market.
- Key questions include its effectiveness by market, comparison with other pricing strategies, cross-cultural differences, and its impact on e-commerce.

3. types of merchandise:

- Analyze how charm pricing impacts consumer purchasing for daily necessities (groceries and household products).
- Investigate its influence on the purchase of luxury goods (fashion or high-end technology).
- Explore differences in charm pricing effectiveness between high-frequency purchases (snacks) and infrequent purchases (appliances).

4. Psychological Mechanisms:

- Explore how consumers perceive prices ending in nine.
- Identify the cognitive biases contributing to consumer behavior toward Research focuses on when and why this practice began and how it has evolved over time.

5. Research Methodology

1. Consumer Surveys

- Method: Create a survey to ask people about their reactions to prices like \$4.99 vs. \$5.00.
- Sample: Include different age groups and shopping habits.
- Purpose: Understand how consumers view .99 pricing and its effect on buying decisions.
- Analysis: Use statistics to find patterns.

2. Field Experiments

- Method: Work with a store to price some items at .99 and others at round numbers.
- Sample: Observe customer purchases and sales data.
- Purpose: See how charm pricing affects real-life sales.
- Analysis: Compare sales of .99 prices with whole numbers.

3. Expert Interviews

- Method: Talk to marketing professionals about pricing strategies.
- Purpose: Learn industry views on charm pricing and its success.
- Analysis: Combine these insights with your findings.

4. Case Studies

- Method: Study companies that use charm pricing.
- Purpose: Discover how charm pricing works in different businesses.
- Analysis: Identify what makes this strategy effective.

5. Existing Data Analysis

- Method: Review studies and reports on charm pricing from databases like Google Scholar.
- Purpose: Compare your findings with past research.
- Analysis: Validate your results with secondary data.

Reference:

- Gupta, S., & Cooper, L. G. (1992). The Discounting of Discounts. Journal of Consumer Research, 19(3), 401-415. Retrieved from Google Scholar: <https://scholar.google.com>
- Naipaul, S., & Parsa, H. G. (2001). Menu Price Endings That Communicate Value and Quality. Cornell Hotel and Restaurant Administration Quarterly, 42(1), 26-37. Retrieved from Google Scholar: <https://scholar.google.com>
- Anderson, E. T., & Simester, D. I. (2003). Effects of \$9 Price Endings on Retail Sales: Evidence from Field Experiments. Quantitative Marketing and Economics, 1(1), 93-110. Retrieved from Google Scholar: <https://scholar.google.com>
- Fiveable. (2024). Business Cognitive Biases and Charm Pricing. Retrieved from Google Scholar: <https://scholar.google.com>Make sure to verify these references' details on Google Scholar for accuracy and align them with your citation style (APA, MLA, etc.).

6. Expected Difficulties

Issue:

- Ensuring responses are valid and representative across diverse demographics.
- Conducting experiments in real-world settings.
- Gaining access to marketing professionals.

Challenge:

- Participants might misunderstand questions or provide inconsistent answers, affecting data reliability.
- Finding experts willing to share in-depth insights or proprietary strategies on pricing practices.