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The Impact of Psychological Pricing in Consumer Decision-Making

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Abstract:

Pricing is not just about numbers anymore—it's a powerful psychological tool. This study dives into how strategies like charm pricing, prestige pricing, and price anchoring quietly influence the way we shop. Blending real-world data with theories from behavioral economics and marketing, the research highlights how consumers often react subconsciously to pricing cues. Whether it's spotting a "good deal" or associating a round number with luxury, pricing plays a bigger role in buying decisions than many realize. The study also touches on how these tactics impact how people see brands and build long-term trust.

1. Introduction

Once seen as a purely financial decision, pricing has evolved into a strategic psychological play. Today, companies use pricing not just to cover costs, but to influence how we think and feel about what we're buying.

This research explores the depth of psychological pricing—how it affects consumer choices and whether buyers are even aware of its influence. It asks key questions: Why does a price ending in .99 feel like a bargain? Can a higher price actually make something seem more luxurious? And do consumers recognize when they're being nudged by pricing tactics?

By unpacking these ideas, the study aims to reveal the hidden ways pricing shapes our choices.

2. Literature Review

2.1 Charm Pricing

Thomas and Morwitz (2005) introduced the idea of the *left-digit effect*—where Rs. 99 feels cheaper than Rs. 100, simply because of the first digit. Wadhwa and Zhang (2015) added that people often interpret these prices as signals of value and affordability.

2.2 Odd Pricing and Perception

Schindler and Kibarian (2001) found that prices ending in .99 or .95 are linked to deals or discounts. They tap into our emotional response to urgency and the satisfaction of getting a bargain.

2.3 Prestige Pricing

Prestige pricing is all about perception. Round numbers like Rs. 1000 suggest premium quality and exclusivity (Monroe, 2003). Meloy and Russo (2004) noted that rounded prices offer psychological comfort in luxury purchases.

2.4 Anchoring

Tversky and Kahneman's anchoring theory explains how our first exposure to a price becomes a mental "anchor." If we first see a high price, any lower price that follows seems like a better deal—even if it's still expensive.

2.5 Prospect Theory

According to Kahneman and Tversky's Prospect Theory (1979), we evaluate prices in terms of gains or losses. Loss aversion makes us more sensitive to potential losses than equivalent gains, meaning even small price differences can sway decisions.

2.6 Supporting Evidence

Anderson and Simester (2003) found that dropping prices from Rs. 100 to Rs. 99 led to significantly more sales. Their findings reinforce the power of even tiny pricing tweaks.

3. Research Methodology

3.1 Research Design

This is a quantitative study designed to measure how consumers react to psychological pricing and how those reactions differ based on age, gender, and income.

3.2 Population and Sample

The sample consisted of 100 people from diverse backgrounds who shop both online and offline. A non-probability convenience sampling method was used.

3.3 Data Collection

Data was collected through a Google Form questionnaire, with both closed and open-ended questions. It also captured demographic info to analyze patterns across different groups.

3.4 What Was Measured

- Awareness of psychological pricing
- How pricing affects buying choices
- Emotional reactions to prices
- Brand trust
- Which types of products are most influenced by pricing tricks

3.5 How It Was Analyzed

The data was analyzed using Microsoft Excel and SPSS. Bar graphs, pie charts, and cross-tabulations helped bring the trends to life.

4. Key Findings

4.1 Awareness

About 68% of people recognized psychological pricing strategies. Many described them as clever marketing, while others saw them as manipulative.

4.2 Love for .99

Around 72% preferred prices ending in .99 or .95, especially those aged 18–35. Even though the actual difference was just a rupee or two, the lower-looking number made a strong impact.

4.3 Trust Issues

While 60% felt charm pricing made products more appealing, nearly half were also suspicious—especially when these tactics were used on premium products. This shows the balancing act between smart pricing and consumer trust.

4.4 Demographics Matter

- **Lower-income shoppers** responded more strongly to psychological pricing.
- **Higher-income groups** were less swayed, but not immune.
- **Younger consumers** favored charm pricing.
- **Older consumers** leaned towards round, prestige-style pricing.
- **Gender** differences were small, but women showed slightly more sensitivity to discount cues.

4.5 Brand Perception

Brands using odd pricing were seen as affordable and value-focused, while those using round prices came across as premium or luxury. This shows how pricing strategy shapes brand identity.

5. Analysis

These findings match what psychological theory predicts. The left-digit effect explains why charm pricing works—it lowers mental barriers and encourages impulse buys.

Prestige pricing, meanwhile, speaks to our emotions. It's not about saving money but feeling good about a purchase. Anchoring reinforces both effects by setting up expectations.

That said, consumers are getting smarter. Overuse of pricing tricks can backfire, especially if it feels deceptive. The takeaway? Be strategic but stay transparent.

Visual data from the survey showed that charm-priced products were preferred up to 25% more than their round-number counterparts, especially in categories like fashion, electronics, and everyday goods.

6. Conclusion

Psychological pricing clearly influences how people shop. Tactics like charm pricing and anchoring create a strong sense of value and urgency. But it's a delicate balance—overdo it, and you risk losing consumer trust.

In short:

- Charm pricing works—but mainly for cost-sensitive buyers.
- Prestige pricing supports luxury positioning.
- Different people respond to pricing in different ways.
- Ethical, transparent pricing builds lasting brand loyalty.
- Anchoring and framing help shape how value is perceived.

The key is to align your pricing strategy with your brand and your audience.

7. Recommendations

- **Use Charm Pricing Wisely:** Great for volume sales and budget-friendly products.
- **Target the Right Audience:** Match the pricing strategy with the customer segment—use prestige pricing for luxury, odd pricing for value-seekers.
- **Be Honest:** Don't overdo it—transparency goes a long way in building trust.
- **Test Everything:** Use A/B testing to see what really works for your customers.
- **Explore Further:** Future research could look into digital shopping behavior, cultural differences in pricing perception, and long-term effects on brand trust.

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