



## The impact of pricing strategies on consumer decision-making

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**Abstract**

Pricing strategies can have an impact on consumers' decision-making. Having an understanding of the factors that have an impact is important. In addition, utilizing pricing strategies is a way of creating more profits. The aim of this thesis is on introducing the factors in pricing strategies that cause a change in consumers' decision-making. The goal is also to find out how companies can utilize these strategies effectively. The thesis begins by introducing different pricing strategies and providing examples of successful and unsuccessful use of these strategies. Other factors relating to pricing are also discussed.

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**Keywords** pricing strategies; consumer decision-making

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## 1.0 Introduction

The four key elements of marketing have traditionally been: 1) the product 2) promotion 3) placement 4) price (Nagle & Müller, 2017). Pricing is different from the other three because it is the point where a company is actually attempting to realize the value it has created. Even if a company is able to execute the first three parts flawlessly it all can come crashing down if the pricing has not been thought through. Kienzler & Kowalkowski (2017) cite Borden (1964) and state that pricing has always been an integral part of marketing. They also cite LaPlaca (1997) and Shipley & Jobber (2001) to conclude that pricing is the only one of the traditional marketing elements that creates revenue. As an example, Nagle and Müller (2017) also mention that Apple was able to become a world-known company partly because they realized that pricing music by a single song instead of traditionally pricing music by an album is a more consumer-friendly way to price the product, in this case music.

Pricing is clearly an important factor for businesses and the Apple case presented by Nagle & Müller (2017) goes on to prove that pricing can be an effective tool for companies to make their product or service really stand out from their competitors. Being able to utilize a well thought through pricing strategy is an important element for companies in winning their competition. Therefore, it is reasonable to gain a deeper understanding on how pricing strategies affect consumers' decision-making. This thesis focuses on finding out how and why different pricing strategies either produce or do not produce wanted outcomes; superior returns. Approaching these key questions happens by focusing on answering the following two questions:

1. *What are the factors in pricing strategies companies should consider that cause a change in consumers' decision-making?*
2. *How can a company utilize pricing strategies?*

The purpose of these questions is to find out the elements of pricing strategies that actually produce wanted outcomes and how pricing strategies can be utilized in practice.

Kotler & Keller (2014, p. 440) mention four points as reasons customers may turn away from a product or a service because of pricing. 1. the product might be out of reach or perceived as too expensive. 2. Price increases - the customer might have been willing to pay for the price before but not after the price has increased. 3. Unfair pricing - the customer might find the pricing unfair and therefore does not want to pay the asked price. 4. deceptive pricing - customers might feel like they are not treated with respect. It is obvious that in these cases the chosen pricing strategy has failed. Of course, there are exceptions - if a product is clearly out of someone's price range there is not much a company can do when applying a pricing strategy.

In this thesis, the term *consumer decision-making* is used to describe how certain actions affect the way consumers behave. In this context decision-making means simply consumers' decision to purchase, not to purchase or likelihood of purchase of a product or a service.

## 2.0 Pricing strategies

Nagle & Müller (2017) define a pricing strategy as the well-thought decisions that are made to create demand for what the creators of the strategy are selling to maximize their profitability. This comes down to sellers deciding what to offer to consumers, how communication of their offers is done, how pricing between consumers and applications should be done and, finally, how managing expectations and incentives should be done. Cressman (2012) describes pricing strategies as follows:

*“A pricing strategy provides a systematic delineation of the elements that must be managed to achieve profitable performance in a business.”*

Cressman (2012) explains that client targeting decisions, identification of acceptable offerings for each target customer, communication to persuade customers to buy, a sales negotiation process, and a pricing methodology are all parts of a pricing strategy. Because most sellers reach their ultimate clients through distribution channels in most commercial marketplaces, a pricing strategy must also take distributor selection and management into account.

The following quote from Gijsbrechts (1993) describes creating a pricing strategy quite accurately:

*“Developing an appropriate pricing strategy is both crucial and highly complex.”*

## 2.1 Market entering strategies

### 2.1.1 Penetration pricing

A company that employs a penetration pricing strategy charges a lower price for a product or a service than its usual, long-term market price to accelerate the adoption of the new-to-market product (Ingenbleek & van der Lans, 2013). According to Spann, Fischer & Tellis (2015) citing Dean (1976) and Nagle et al. (2011) this is for the purpose of reaching a large fraction of the market and to be an initiator for word-of-mouth.

Nagle & Müller (2017) mention that penetration prices don't need to be cheap but they are low enough to be attractive. Penetration pricing often works but nevertheless, failure when utilizing this strategy is somewhat common as well. The customers of the approached market need to be willing to change their current brand of use for a cheaper option for the strategy to be efficient. Another object on the way of success for the strategy is that in some cases lowering the price can affect how the customers perceive the brand. Lacoste, for example, gave permission for lower-priced mass merchants to discount their products. This led to Lacoste not being seen as a premium brand in the same way as before. The burden of the change in the eyes of customers and high-image retailers fell on their failed attempt to offer a more affordable price. This led to Lacoste having to change their image to regain their position as an exclusive brand as explained by Nagle & Müller (2017).

In addition, when applying penetration pricing strategy one must look at the numbers. The lower the incremental costs are, measured as a percentage of each sale, the better of an option penetration pricing is. The goal is for each sale to have a large contribution to profit, and since the contribution is high, a lower price doesn't affect the profitability as dramatically as it otherwise would (Nagle & Müller 2017).



## 2.1.2 Price skimming

Besanko & Winston (1990) describe price skimming as the activity of decreasing the product price over time to achieve maximal profits off of the varied valuations of products in consumers' minds. In other words, when a product enters the market it is more expensive than after it has been there for a while - the price decreases.

According to Liu (2010), whereas consumer heterogeneity leads to an incentive for price skimming, network effects provide an incentive for penetration pricing. This means that if consumers are generally quite similar on their consumer profiles it would make sense for a brand to practice price skimming. However, when there are networks involved it produces a better outcome to practice penetration pricing. Network effects in this context are defined as a product or a service where the user experience improves when more and more users consume the product or service. Liu (2010) studied video games and pointed out their network effects.

Another interesting factor in price skimming is that rational consumers' demand is more price elastic than myopic consumers' demand (Besanko & Winston, 1990). Rational consumers see the existence of a substitute as a good option whereas myopic consumers do not. If a firm assumes the consumers to be myopic when they actually are rational, price skimming will be more unsuccessful than anticipated - and that can be seen in the profits. In cases where the product is expected to be kept on the market forever, it's a good strategy to make consumers believe that the price is set in stone, in other words, convince consumers that the price will not decrease in the future. It can be completed by a strategy of restricting the amount of a good produced by dismantling production facilities once a particular amount has been produced. An example of this strategy is limited edition products. After the limited edition products have been sold the company could bring the product back but not as a limited edition branding. If the horizon is finite it's a good way to benefit from intertemporal product differentiation, for example year-to-year styling changes, that makes the present version of a product "out of style" after a set period of time.

Spann, Fischer & Tellis (2015) argue that generally speaking market pricing dominates price skimming and penetration pricing in practice, despite recommendations. However, their study is limited to highly complex branded markets. It is worth noting, though, that pricing strategies are not a simple subject to gain a full understanding about. Spann, Fischer & Tellis (2015) describe the three strategies:

*“The dominant skimming pattern is to launch the new product 16% above market price and subsequently increase the price relative to the market price. The dominant penetration pattern is to launch the new product 18% below market price and subsequently lower the price relative to the market price. The dominant market-pricing pattern is to launch the new product at market price level and subsequently move in sync with the market price.”*

## 2.2 Other strategies

### 2.2.1 Premium pricing

Yeoman & McMahon-Beattie (2006) state that consumers are not willing to pay much for commodities. However, they are willing to pay more for what they see as luxury. According to researchers “luxury has a psychological association with premium pricing.” Yeoman & McMahon-Beattie (2006) mention that Allstop (2004) states that price and quality are combined with the intangibles of style, uniqueness, occasion, and experience to create premium value. In this context goods and services like home furnishing, food and home electronics have a high value perception. However, goods such as airplane tickets or electricity have no added value and are not seen as luxury. Therefore, consumers are not willing to pay much for them. The implication is that marketers should be able to create a brand equity that the consumers see as value adding and thus are willing to pay more.

Vigneron & Johnson (2004) state that luxury is viewed by marketers as the most important feature in distinguishing a brand in a product category, as well as a central driver of consumer choice and consumption. Yeoman & McMahon-Beattie (2006) say that it is critical for marketers or pricing managers to discover the essential aspects from the consumer's perspective in order to grasp the additional value. Vigneron & Johnson (2004) introduced the brand luxury index (BLI) (see figure 1). The important luxury dimensions that managers must set up or keep an eye on in order to develop an enduring luxury brand are shown in BLI. BLI is a multi-dimensional scale that combines five sub-scales to create a luxury compensation index. While customers may choose to maximize all five aspects, they are more likely to trade off less important qualities for more important ones in practice.

Another interesting angle to look at premium pricing is to look at if a product has branded components. Venkatesh & Mahajan (1997) mention that products with branded parts are being sold more frequently. Computers with Intel CPUs (central processing unit) and diet soft drinks made with the NutraSweet formula are two examples. Branded components may influence how consumers value the bundle, requiring businesses to adapt how they categorize and price these bundled products. Venkatesh & Mahajan (1997) note that it does not always lead to the optimal outcome to price products with branded components very highly. Some buyers of a basic bundle may decide not to purchase the all-brand bundle for reasons like inconsistency between the branded components or predominance of one component over the other, which could harm profitability.

As can be seen, premium pricing is not as simple as one could easily think. Branding plays a big role in it but it is definitely not the only factor, as can be concluded from the study by Yeoman & McMahon-Beattie (2006). Also, the fact that pricing products with branded components does not automatically lead to higher profits is an important finding for companies.

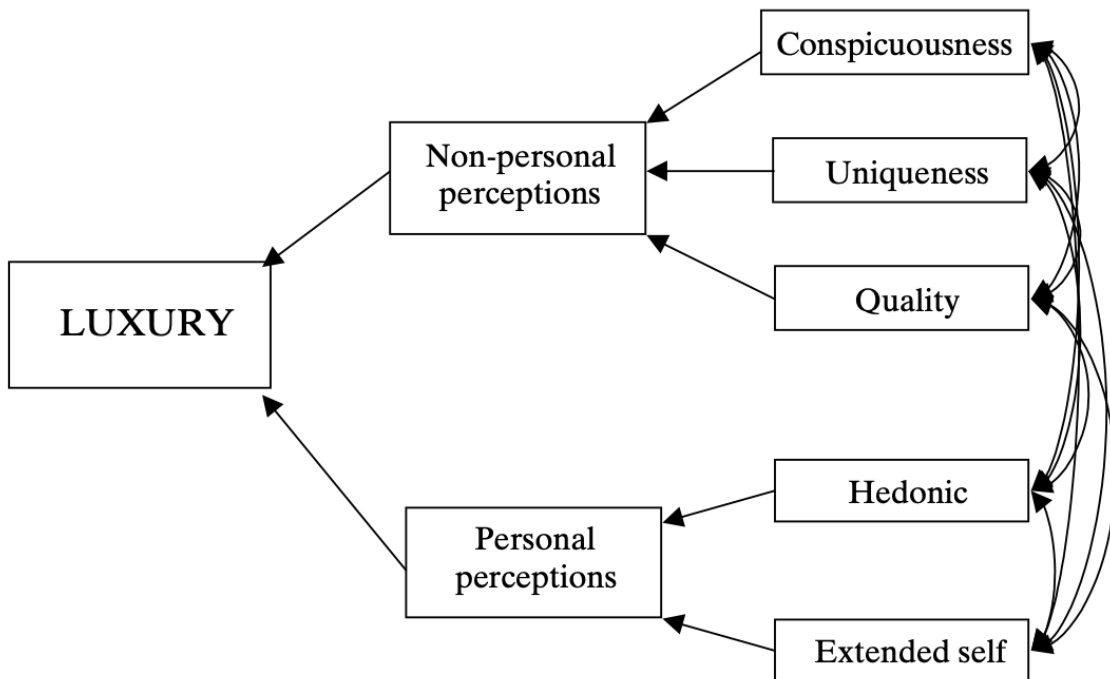


Figure 1: Vigneron & Johnson (2004): “proposed framework of brand luxury index”

### 2.2.2 Psychological pricing

According to Wedel & Leeflang (1998) manufacturers and retailers frequently set their pricing slightly below the nearest round number. Psychological or odd-pricing are common names for such pricing strategies. An example would be 8.99€ instead of 9.00€ or 99.95€ instead of 100€. The adoption of these price settings is justified by the expectation of a higher price elasticity at the psychological price than at prices within the immediate price range. Price reductions from \$1.00 to \$0.99, for example, are anticipated to result in more sales than price reductions from \$0.99 to \$0.98 or from \$1.01 to \$1.00.

However, Bray & Harris (2006) conducted a sizable trial that contradicts with the assumption that 9-ending prices would be efficient. Their findings are in conflict with results of earlier experiments into 9-ending prices, which either found no significant relationship between price endings and sales volumes or the opposite effect, and basic economic theory that implies that revenues would be less at a greater price.

Mohammed (2017) analyzed Apple iPhones' prices. Apple had priced its new iPhone at \$999 instead of \$1000. Mohammed (2017) introduces his opinion which states that Apple had the option to confidently claim that the phone is worth \$1000 and not \$999. His view is that Apple should have avoided the 9-ending price and priced it higher, to the four digits. That would have displayed the confidence Apple has in their phones better. Mohammed's (2017) view seems to be that it would have been good for Apple's brand to price the new phone confidently at \$1000. This claim is in line with the profit maximizing strategy Bray & Harris (2006) show but contradicts the traditional psychological pricing strategy where prices ending with 9 are favored, as shown by Wedel & Leeflang (1998).

Tripathi & Pandey (2018) conducted a study of which results show that consumers favor odd endings for low-priced and utilitarian products, but zero endings for green and pleasure-motivated products. In particular, the study discovers that when product price rises, the influence of nine-ending prices weakens. This study is in line with Mohammed's (2007) claim that Apple should have priced its new product at an even number instead of a 9-ending one.

It is interesting to note the different approaches to 9-ending prices. Especially the findings from the study Tripathi & Pandey (2018) did - that products' perceived value determines how it should be priced is fascinating and has great managerial implications. Utilizing round-ending prices when pricing the products can lessen the perception of low quality and discourage brand loyalty that results from a low-priced/discount image of a product.

Another interesting approach towards using psychology in pricing is taken by Aroean & Michaelidou (2013). Their results imply marketers should carefully craft their pricing strategies, taking into account the fact that forward-thinking consumers are

sensitive in their associations between price and prestige. On the basis of this, it is argued that mobile phone marketing efforts use pricing as a "prestige" cue in order to carefully maintain the prestige felt by its forward-thinking users, supporting Mohammed's (2017) claim that Apple should have priced their new phone to the four-digits. As an illustration, when a new version is released, mobile phone companies might take into account offering a trade-in program for older versions. Marketing managers should encourage creative customers to use social media to share with other customers their perception and experience of the prestige they appreciate having as a result of purchasing pricey mobile phones. The latter proposal enables marketing managers to find and jointly develop fresh ideas for next product breakthroughs with their creative customers.

Because consumers are more receptive to emotional stimuli than cognitive stimuli, the findings of the study conducted by Aroean & Michaelidou (2013) specifically encourage marketers of innovative products to use emotional message strategies and appeals in their media campaigns to draw in current customers who enjoy using mobile phones and other innovative products. Marketing managers and advertisers should therefore use clues that elicit emotions and induce emotional involvement when creating advertising campaigns for such people, such as celebrity endorsements, humor, color, and music.

Few other examples of utilizing psychology in pricing are provided by Hardisty & Griffin (2020). They have a few words of advice when thinking about setting the way price is displayed. The first piece of advice is for a situation where a better version of a product is being offered. In this case it is important to focus on the difference and provide the higher-quality choice for "\$50 more" rather than providing a regular option for "\$200" and a better alternative for "\$250." Second, it might be challenging for customers to assess various sustainability and quality factors. How valuable is it if a new dishwasher saves 20kWh per cycle? It is necessary to convert intangible costs into metrics that appeal to customers in order to find a solution. Dollar expenses in particular provide a technique to rephrase the total cost of ownership in a manner that is more relatable to consumers. Third, "stacked" discounts are accumulated special offers that are shown to customers in a particular order, such as a 20% "first-time buyer" discount on top of a 15% "holiday weekend sale." Hardisty &

Griffin (2020) mention that according to research, stacking several discounts is more efficient than offering a single overall discount.

### 2.2.3 Competitive pricing

Sudhir (2001) states that in a competitive marketplace competitors' response to a price shift done by a business is crucially related to how effectively a price reduction increases demand. Anderson & Kumar (2007) conclude that regular, substantial promotions may be the best strategy for preserving a leading market position. They note that while a strategy of cheap prices and regular promotions might not always be profitable there are many situations where it proves to be a great strategy. Another finding worth noting by Anderson & Kumar (2007) is that a dominant brand must exercise caution when employing strategies that weaken a competitor because doing so could have the unforeseen result of lowering industry prices and earnings for both businesses.

One could easily come to the conclusion that weakening a competitor would automatically boost another firm's profits but as Anderson & Kumar (2007) show that it is not the case. It is clear that when employing aggressive pricing tactics a business needs to take into account what their competitors might do and how to respond to that. It could well be that the outcome of an aggressive move will be worse for all players in the industry and, therefore, it would be better for every company in the industry if said tactic would not be used.

Anderson, Rasmussen & MacDonald (2005) conclude that smaller businesses with greater cost structures can compete successfully in the same market, as seen in practice, when consumers place less of an emphasis on competitive pricing. This outcome suggests that big-box merchants and smaller, service-oriented retailers can coexist.

Let's look at the outcome Anderson, Rasmussen & MacDonald (2005) come to a bit closer. Lidl, for example, is a large company that is known for its inexpensive prices. Lidl is mostly known as a grocery store but they sell all other products as well, ranging from clothes to toys. If a consumer is on a limited budget and does not care about the service (or quality for that matter) they get when shopping for clothes Lidl might be considered as an option. However, if the same consumer is looking for a shopping experience and wants a good service Lidl would not be considered an option. The same example would work also if we changed Lidl to H&M which is focused only on clothes. However, branding is ignored in this way of thinking. Regardless, it is important to look at things from different perspectives.

#### 2.2.4 Price bundling

Gourville & Soman (2002) mention that businesses often bundle prices in order to drive up demand. They point out that price bundling often leads to increased short-term demand. However, it might simultaneously reduce consumption - which in turn tends to drive future sales. The relation of consumption to future sales will be discussed more in depth later.

Naylor & Frank (2001) find that when determining value, buyers take into account more factors than merely benefits (quality) and price. According to their research,



offering an all-inclusive price package can dramatically boost first-time buyers' impression of value, even if the total cost is greater. Users seem to prefer paying more for an all-inclusive plan over having to cope with extra fees. Even though clients would save costs by paying for services separately, outside of the bundle, this is still the case. Relating to this finding Naylor & Frank (2001) conclude that incomplete bundling is bad for customer experience. Customers might be confused about what is included and what is not included on their package.

Guiltinan (1987) explains mixed bundling well and visualizes it with figure 2. With figure 2 Guiltinan explains that from a strategic perspective, a company may try to gain clients to the bundle from each of the four potential sectors (the ones on the left). If cross-selling was our strategic goal, we would direct our efforts either toward Segment 1, Segment 2, or both Segments. If gaining new clients was our goal, we would concentrate on section 4 and simultaneously search out new clients for A and B. Finally, bundling can be used to achieve a retention goal in some circumstances, with segment 3 being the target. Segment 3 often only matters because packages that are intended for the first two or the fourth segment may also be offered to and accepted by clients who already utilize both services, which would diminish profits from this segment.

Guiltinan also talks about add-on services. The conclusion is that because an add-on service is one that cannot be acquired without the lead service, add-on bundling is not exactly a mixed-bundling offer. Add-on bundling provides a chance for a company to sell extra products or services on top of the actual products the consumer wants to purchase. This enables companies to make extra revenue per product or service sold and provide extra value for the customer.

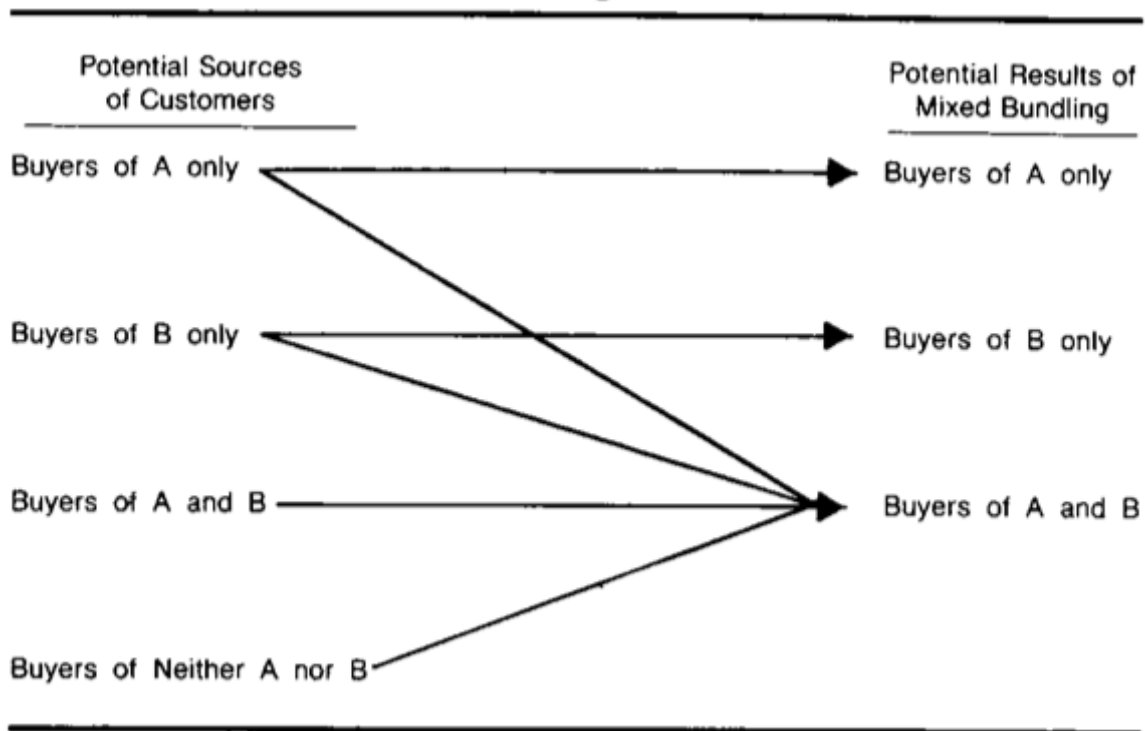


Figure 2: Embedded from Guiltinan (1987)

### 2.2.5 Value based pricing

Executives often tend to attempt to hide the actual cost of their product or service. However, being aware of the cost affects consumers' actual consumption of the product. Executives often think that as long as they get the customer to make the decision to purchase the company's product they are good. However, that's not the best case for a company in the long run. If the customer is more aware of the cost,

so that the cost is not “hidden” but rather brought up, the customer actually tends to consume the product instead of purchasing it and then not using it. The degree to which a buyer consumes the product over time typically has an impact on whether or not they would purchase it again. Therefore, pricing tactics that push the consumer to use the product have a long-lasting effect on building relationships with customers. The key point is that buyers are more likely to consume products if they have realized its actual cost. Consumers feel like they have wasted money if they don’t consume a product or a service they have paid for (Gourville & Soman, 2002).

As Gourville & Soman (2002) state, executives often do not implement this strategy. Hinterhuber (2008) identifies five reasons why. The reasons are as follows: deficiencies in the evaluation of value, the communication of value, the ability to segment the market effectively, deficits in the management of the sales force, and senior management’s lack of backing value based pricing.

Gourville and Soman (2002) also argue that companies often fail to see the importance of making their customers see the value their products have. There is a simple and logical reason for that; if said company doesn’t get the first sale there is no need to stress about the consumption. However, this way of thinking is harming long-term customer relationships. Gourville and Soman (2002) give a great example of the problem - cruise ships often include all the costs in a single all-inclusive fee so that the consumers don’t actually see all that they have paid for. The customers won’t realize how much they have spent on a single product or service, which decreases the chances of the customer actually using said products or services.

Gourville and Soman’s (2002) conclusion that consumers should be made to be aware of the price does not contradict Kachersky & Kim’s (2010) notable conclusion that consumers tend to choose products they think have a less persuasive intent than their more persuasive seeming counterparts. Even though one would intuitively think that pricing is almost without an exception made to be persuasive, consumers tend to choose less persuasive seeming products.

## 2.2.6 Algorithms in pricing

Cachon & Daniels (2017) point out that recent platforms like Uber and Lyft give service to customers through "self-scheduling" providers who choose how frequently to work. These platforms have the ability to set pricing for customers and pay providers wages that change in response to market conditions. Uber, for example, has a "surge pricing" strategy that pays suppliers a fixed commission of its fluctuating price. Bertini & Koenigsberg (2021) agree that pricing algorithms are becoming more and more popular.

In comparison to contracts with a fixed price, fixed wage, or both, Cachon & Daniels (2017) found that the ideal contract significantly enhances the platform's profit. According to them surge pricing is not optimal, but it typically generates profits that are very close to the optimal profit. They note that surge pricing has drawn criticism due to worries for the welfare of suppliers and customers, despite its benefits for the platform. According to the authors' model, however, as labor costs rise, surge pricing benefits both providers and consumers because it more effectively uses available resources and gives customers access to more services during peak demand. Contrary to common criticism, Cachon & Daniels (2017) come to the conclusion that the usage of surge pricing on a platform with self-scheduling capability can be advantageous for all parties involved.

Bertini & Koenigsberg (2021) agree with Cachon & Daniels on the fact that pricing algorithms are being used by more and more businesses to increase revenues. Bertini & Koenisberg (2021) note that real-time price modifications depending on supply and demand, competitor activity, delivery schedules, etc. are possible thanks to artificial intelligence and machine learning. Constant pricing changes do, however, have a drawback in that they could lead to negative opinions of a company's products and brand. However, Bertini & Koenigsberg (2021) suggest four methods to prevent harm: establish a suitable use case for algorithmic pricing and explain to clients its advantages; appoint a system owner to oversee and be responsible for the system; establish and maintain guardrails to prevent wild surges and to learn how pricing changes affect every element of the business; when required, overrule the algorithms.

Castillo, Knoepfle & Weyl (2017) explain the situation and what led to the need for this surge-pricing with Uber and Lyft well. They explain that a city's available idle drivers are too thinly distributed because of an overworked dispatch system, forcing matches between drivers and clients who are located far apart. Thus, to pick up far-off consumers, cars are dispatched on a wild goose chase (WGC), wasting the time of the drivers and lowering their pay. This exacerbates the issue by effectively removing cars from the road both directly, as drivers are occupied doing pick-ups, and indirectly, as drivers exit in response to lower revenue. Both drivers and passengers suffer as a result of this negative feedback cycle, which causes a precipitous decline in welfare. It is crucial to understand WGCs in order to build markets in a way that avoids WGCs and takes advantage of the possible welfare advantages from the new technology. A ride-hailing market that regularly falls into WGCs may consequently perform worse than conventional street-hailing taxi systems.

Castillo, Knoepfle & Weyl (2017) continue to explain that when utilizing a first-dispatch protocol, in which an idle driver is quickly dispatched whenever a rider requests a trip, all market equilibriums are WGCs when prices are too low in relation to demand. According to the authors, this proposes two strategies for avoiding WGCs in pricing. First, one may always set a single high price that is sufficiently expensive to prevent WGCs even at times of peak demand. Naturally, this design has the flaw that prices will be excessively high, which would ineffectively restrict demand during periods of low demand. Using dynamic "surge pricing" that adapts to market situations is a more complex mechanism. Castillo, Knoepfle & Weyl (2017) note that early in its evolution, Uber implemented such a mechanism. When demand is at its highest, prices are set high, but they may drop when it is at its lowest. Contrary to popular belief, surge pricing enables ride-hailing apps to lower prices from the static baseline rather than raising them.

Cachon & Daniels (2017), Bertini & Koenigsberg (2021) and Castillo, Knoepfle & Weyl (2017) all seem to agree that surge pricing, which by nature utilizes algorithms, is a better option than the traditional pricing system. This applies when talking about the taxi industry but similarities can surely be found in other industries as well. The

general understanding, however, seems to be that algorithms (in pricing) are mostly utilized in the taxi industry and have yet to find their way to other industries. This, however, creates opportunities for existing industries and potentially enables the creation of new industries or revolutionarising of already existing ones.

### 2.2.7 Timing of payment

Gourville and Soman (2002) come to the conclusion that timing is important when looking to generate renewals of a membership or a payment plan. They noticed that the consumption of the product or service, like a gym membership, is the highest during the month when the payment happens. If the payment happens once a year the consumption is highest right after the payment. Figure 3 visualizes this concept and makes it easier to get the idea. It is best for companies to charge monthly (or as often as reasonably possible) to get the consumer to use the product or service the most. This results in the highest possibility of renewal of the product since it is in constant consumption.

Berry & Kanouse (1987) did a study on timing of payment. They conducted an experiment where the idea was to get physicians to respond to a mailed questionnaire. A payout of \$20 was available to each person who received mail. A randomly chosen half was informed that they would receive their payment after completing and returning the questionnaire, while the other half received the payment along with their first questionnaire and cover letter. Both groups received the same follow-up correspondence and phone calls. Prepayment significantly increased response rates overall.

It is interesting to note how the timing of a payment can alter the decisions individuals make. For companies this means opportunities to reach a more profitable

level and reduce their churn rate, if implemented correctly. The example Gourville & Soman (2002) introduced is a great one to demonstrate how companies can take advantage of timing. The same principles of payment timing are in place, of course, in other industries in addition to the fitness industry, so the monthly payment plan strategy is easily implemented in many other services as well. Companies have utilized this strategy and it can be seen in every-day life.

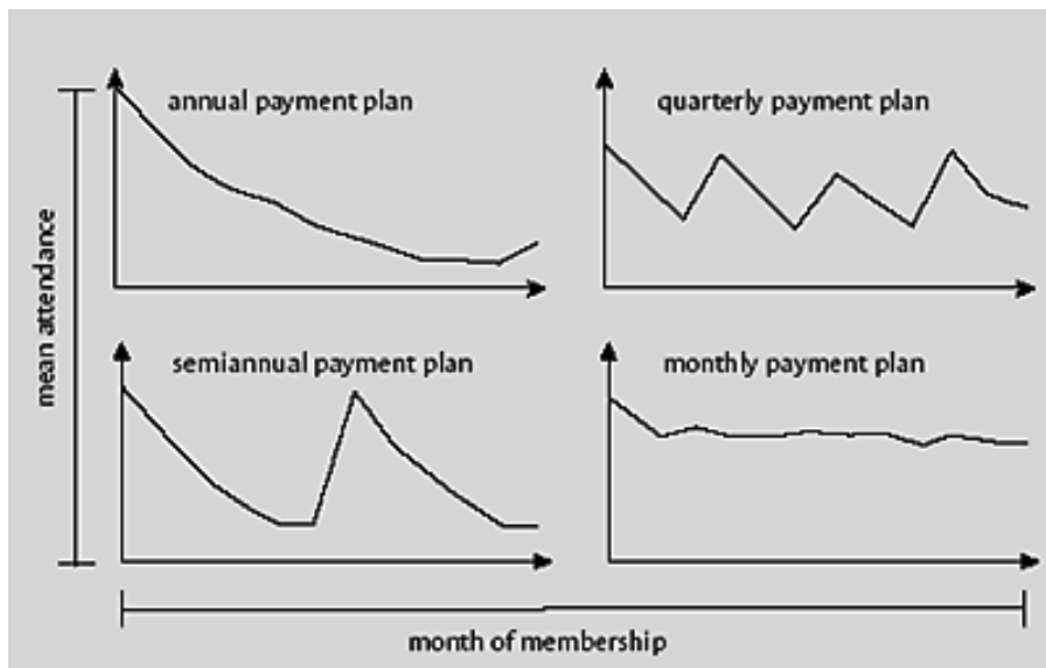


Figure 3. Embedded from Gourville and Soman (2002)

### 3.0 Control effort trade-off

Wang, Beck & Yuan (2021) conducted a study in which they come to the conclusion that although consumers prefer more influence over pricing, they are discouraged by the time and effort required to make a decision. Due to the effort required, strategies like *pay what you want* may, in turn, cause a decrease in purchasing intentions. *Pick your price* choices, which lets customers select from a small range of prices, are an example of a strategy that increases feelings of control while reducing perceived effort, and it may improve pricing outcomes.

Wang, Beck & Yuan (2021) state that pick your price generally outperforms pay what you want. However, when consumers are actively looking to save money (e.g. holiday season) pay what you want is a better option. In turn, when consumers are trying to get done with something, like shopping, pick your price is the dominant strategy of these two. However, it is important to note that pick your price is effective when buying a single product. Otherwise effort will increase.

It is rare to face situations in real life where one is allowed to pay what they want or even pick the price they prefer. However, it is interesting to know how consumers behave when the choice is available. In addition, Wang, Beck & Yuan (2021) mention that in this context first-price auctions are comparable to pick your price and pay what you want. The lowest starting bid and maximum "buy it now" pricing options for items posted on eBay provide a framework for potential purchasers to choose the ultimate price. These alternatives are similar to pick your price, which achieves a compromise or balance in the control-effort trade-off.



## 4.0 Taking advantage of a situation outside of a firm's control

Yuan & Han (2011) demonstrate that while higher prices in the present era encourage customers to seek for other options, people who saw higher prices in the past develop greater price expectations, become more gloomy, and search less for other options. The authors also demonstrate that consumers search more in response to price increases brought on by a rise in marginal costs, which results in higher prices and an immediate price adjustment. Sellers may react by dropping their prices just enough to temper consumers' search impulses when costs reduce, as a result of the fact that consumer search activities decline when prices fall.

The situation introduced by Yuan & Han (2011) can be taken advantage of by companies with limited effort. The example can be converted to many industries. For companies this, of course, means grown profits without introducing any new strategies or tactics. For consumers, it means reduced prices from the high-point but higher prices from the low-point.

## 5.0 Relation to consumer decision-making

Each strategy and aspect that should be taken into account in pricing clearly affects the way consumers make decisions whether to purchase a product or not. As can be seen from the research in the field, when trying to maximize profits a business should try to affect consumers' decision making in a way that is favorable to the business.

As an example, when deciding whether to implement a strategy where consumers pay for a service on an annual or monthly basis one should look at the probability for a renewed purchase after the current subscription runs out. It comes down to the decision a consumer makes and this decision can be affected by implementing an optimal strategy - in this case requiring a monthly payment instead of an annual one as demonstrated by Gourville & Soman (2002).

As can be shown based on this thesis, pricing has an impact on consumer decision making. From market entering pricing strategies to the way price is displayed, pricing plays an important role in the sales of a product. The decisions consumers make have an effect on a company's profitability and, therefore, it is crucial to implement a fitting pricing strategy.

## 6.0 Discussion

In this thesis, I have introduced various different pricing strategies and explained when it is advised for companies to utilize them. I have also introduced examples on how to do it and introduced situations where implementing certain strategies will not produce the optimal outcome. I have analyzed the subject through the research questions stated in the introduction.

Each pricing strategy clearly has its own factor(s) that companies should consider that cause a change in consumers' decision-making, such as the ending of the price (9-ending or zero ending). Situations varying from how a brand wants to be viewed to a situation where a firm wants to meet the demand at the right price, as the case of utilizing algorithms often is, require different strategies. These strategies can cause a change in consumers' decision-making, for example, whether to walk or take a taxi home. From a company's perspective it is important to have an understanding on how to utilize these strategies. In this thesis, there are examples and analyses of real-life different situations that provide insight into the practical implementation of these strategies.

How pricing affects consumers' decision-making is a difficult subject to cover because of its many aspects and the fact that different consumers tend to view the same pricing tactics very differently. As shown in this thesis, pricing strategies should be treated as a core function in a business' strategy. However, as Ingenbleek & van der Lans (2013) show, some businesses choose not to follow any of the price theory-indicated strategies, some businesses engage in practices for unclear strategic purposes, and some businesses do not engage in necessary practices to carry out their strategic decisions.

There are different strategies for different situations. When a company is looking to launch a new product it will need to use a different strategy compared to a situation where its goal is to sell a service that consumers will use on a monthly basis. The image a business is trying to sell, in other words, branding, affects the way it should

price its products as well. There are many factors to pricing a product or a service and in this thesis they are analyzed.

## 6.1 Theoretical implications

Academics have been interested in pricing methods for a very long time. Therefore, there is a lot of material on the subject. While not providing an answer to every specific pricing problem, there are studies conducted for a very wide variety of situations and these can be altered to fit one's needs.

Generally speaking it seems like studies do not have conflicts with each other. Even so, researchers tend to have different opinions on 9-ending prices. Some say ending a price with a nine is optimal while some researchers disagree. However, Tripathi & Pandey (2018) have a great take on this with their study that concludes that consumers favor odd endings for low-priced and utilitarian products, but zero endings for green and pleasure-motivated products.

## 6.2 Managerial implications

As mentioned, businesses often lack the ability or willingness to utilize effective or correct pricing strategies and tactics. However, the literature provides clear guidelines which can be implemented with limited effort. In some cases it is even possible to reach superior returns by doing very little. That is the case presented in section "Taking advantage of a situation outside of a firm's control."

It is clear that by understanding how consumers make decisions a business can improve their profitability. In addition, a company might be able to gain competitive advantage by having a better understanding on pricing strategies than its competitors do. Therefore, managers should understand pricing better.

### 6.3 Limitations and further research

As pricing strategies have been discussed for a long time within the academic world the basic strategies are quite well covered. However, as utilizing algorithms in pricing is quite a new strategy it has not been researched very thoroughly yet. That is a subject that needs more coverage especially since as a relatively new strategy it's popularity might grow in the near future.

In addition to research on algorithms, in the future research could focus on the 9-ending prices. Although a widely researched subject, it seems like the 9-ending prices is quite a controversial subject and needs research for academics to gain a deeper understanding of the strategy.

There is surprisingly little research done on penetration pricing and, therefore, it should be studied more. Control effort trade off and taking advantage of a situation that is outside of a company's control are also subjects that have not been researched enough. The lack of research in these fields is a limitation of this thesis but it also creates opportunities for new research.

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