An Empirical Analysis of Odd Pricing Using PSM Data

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Abstract
It is evident in our daily lives that most consumer goods are not sold at the just price, but rather at the just-below price. To examine the effect of odd pricing, including just-below pricing, numerous empirical studies have been conducted. In spite of these efforts, a consistent conclusion has not been obtained so far.

The goals of this research are: (1) to examine the existence of the effect of odd pricing on consumers’ price acceptance using PSM analysis, and (2) to examine the mechanisms of the effect: the level and image effects. To do so, questionnaire data for PSM are used.

INTRODUCTION

It is evident in our daily lives that most consumer goods are sold not at the just price but at the just-below price. Store managers believe that odd pricing makes the price level appear lower than it actually is, and influences consumer behaviors such as purchase, preference, and price recall. This is why they apply odd pricing to their offering. To examine the effect of odd pricing, many empirical studies have been conducted (Ginzberg 1936; Schindler and Wiman 1989; Schindler and Kirby 1997; Gendall et al. 1997, 1998; Simmons and Schindler 2003; Guéguen and Legoherel 2004; Suri et al. 2004; Coulter 2007; Coulter and Coulter 2007; Harris and Bray 2007; Nguyen et al. 2007; Stiving and Winer 2007; Schindler 2006, 2009; Franz et al. 2010; Choi and Coulter 2012; Kinard et al. 2013; Choi et al. 2014; Wadhwa and Zhang 2015). However, in spite of these efforts, no consistent conclusion has been obtained so far. Therefore, although price ending is one of the most important issues for managers, the effect of odd pricing on consumer behavior is still inconclusive.

The goals of this research are: (1) to examine the existence of the effect of odd pricing on consumers’ price acceptance, and (2) to examine the mechanisms of the effect: the level and image effects. To do so, a questionnaire survey including Price Sensitivity Meter (PSM) items is conducted, and PSM and binomial logistic regression analyses are applied to the obtained data.

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THEORETICAL BACKGROUND

Examination of the effect of odd pricing on consumer behavior

Many empirical studies have been conducted (Ginzberg 1936; Schindler and Wiman 1989; Schindler and Kirby 1997; Gendall et al. 1997, 1998; Simmons and Schindler 2003; Guéguen and Legoherel 2004; Suri et al. 2004; Coulter 2007; Coulter and Coulter 2007; Harris and Bray 2007; Nguyen et al. 2007; Stiving and Winer 2007; Schindler 2006, 2009; Franz et al. 2010; Kinard et al. 2013) to examine the effect of odd pricing.

Gedenk and Sattler (1999) reviewed the studies, as shown in Table 1. It is clear that earlier research does not reach a consistent conclusion about the effect of odd pricing.

Table 1
Review about existent research on odd pricing

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Negative Effect of 9-Ending Prices</th>
<th>No Effect of 9-Ending Prices</th>
<th>Positive Effect of 9-Ending Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td>Ginzberg (1936)</td>
<td>Ginzberg (1936)</td>
<td>Ginzberg (1936)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Wadhwa and Zhang (2015)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Schindler and Wiman (1989)</td>
</tr>
</tbody>
</table>
Mechanisms of the effect of odd pricing

Some of the former studies related to odd pricing attempted to illustrate not only its effectiveness, but also the mechanisms of its effect. Most of those studies explain that the effect of odd pricing is caused by the level effect and by the image effect.

The level effect is the effect of the leftmost digit of the price on consumers’ price perception. It is said to be caused by the consumer’s tendency to read multiple-digit numbers from left to right (Poltrock and Schwartz 1984) or by his/her limited memory capacity (Schindler and Kibarian 1996; Guéguen and Legoherel 2004; Thomas and Morwitz 2005). The consumer compares prices from left to right, and the leftmost digit is easy to keep in his/her memory because it is more important than the rightmost one.

The image effect is the effect of price on the consumer’s image for product evaluation. It is said that there are two types of image effect: price image effect and quality image effect. The price image effect is due to consumers viewing the rightmost digit of the price as a signal of a price discount. For example, the ending of “8” in “¥98” makes consumers perceive the offering as being “on sale.” Sometimes, the consumer’s culture is related to the effectiveness of the price image effect. For example, Schindler (2009) pointed out that the number “8” is more effective than “9” in Japan, because it is associated with happiness.

On the other hand, the quality image effect is due to consumers viewing the rightmost digit of the price as a signal of inferior quality. Therefore, odd pricing for luxury brands may have a negative effect on the quality image, though for commodity goods, it may have a positive effect.

Figure 1
Mechanisms of the effect of odd pricing

\[ ¥980 \]

Level effect
- Consumers round price down.
- Consumers compare prices from left to right.
- Consumers have limited memory capacity.

Image effect
- Price Image effect: Consumers view 9-ending prices as a signal of a price discount.
- Quality Image effect: Consumers view 9-ending prices as a signal of inferior quality.
Some of the empirical studies on the mechanisms of odd pricing attempted to clarify the existence of both level and image effects. For example, Stiving and Winer (1997), who attempted to examine the two effects, applied a binomial logit model to the scanner panel data for supermarket items (tuna and ketchup), and confirmed their existence.

**STUDY 1**

**Method**

The purpose of study 1 is to confirm the effect of the price ending from the PSM analysis. Some field studies (Kalyanam and Shively 1998; Anderson and Simester 2003) have found evidence for demand-curve peaks or “spikes” at places ending in “9.” Dazai (2008) claims that PSM analysis is suitable in examining the existence of an odd pricing effect. Therefore, a PSM analysis was conducted first in this research.

**PSM**

PSM (Price Sensitivity Meter or Price Sensitivity Measurement) is one of the most popular price research methods. Developed by van Westendorp for estimating consumers’ acceptable price range, it requires asking respondents only four questions (as shown in APPENDIX).

By cumulating responses by price for each of the questions, PSM estimates consumers’ acceptable price range. Because it is quite easy to collect and analyze such data, PSM is widely used for marketing management, particularly for pricing decisions.

**Results**

The results of PSM for the four categories are shown in figures 2 through 5. They show that there are some acceptance boundaries before the just price. Therefore, there are effects of just-below pricing on consumers’ price acceptance, though they are not tested statistically.
Figure 2
PSM: yogurt

Figure 3
PSM: snack
Figure 4
PSM: shampoo

Figure 5
PSM: jeans
Discussion

From the results of study 1, the effect of price ending was confirmed through PSM analysis in all categories. However, the results are tentative, as they are not tested statistically.

STUDY 2

Methods

The purpose of study 2 is to examine the existence of two price-ending mechanisms mentioned in other studies. To examine them in this research, binomial logistic regression analyses were conducted, in which the consumer’s price acceptance was used as the dependent variable.

Model estimation

Stiving and Winer (1997), who attempted to examine the two mechanisms, applied the binomial logit model to the scanner panel data and confirmed the existence of both level and image effects. The utility function in their model is the following:

\[ U = U_{\text{base}} + \gamma_2 \times \text{dime} + \gamma_3 \times \text{penny} + \gamma_4 \times \delta \times \text{penny} + \gamma_5 \times \text{zero} + \gamma_6 \times \text{nine} \]

In this model, \( \delta \) is defined as a dummy variable that takes on the value of 1 only when the dime variables of the two brands under consideration are equal; otherwise, it is 0. Variables \( \text{zero} \) and \( \text{nine} \) take on the value of 1 if the rightmost digit of the price is 0 or 9, respectively.

Based on Stiving and Winer’s (1997) model, a binomial logistic regression was conducted in this research as well, in order to confirm the level and image effects. The model was constructed as follows:

\[
Pr(\text{Acceptance} = 1|x) = \beta_0 + \beta_1 \times \text{PRICE} + \beta_2 \times \text{RIGHTDIGIT} + \beta_3 \times \text{RIGHTNINE} + \beta_4 \\
\times \text{RIGHTZERO} + \beta_5 \times \text{LEFTDIGIT} + \beta_6 \times \text{LEFTONE} + \beta_7 \times \text{LEFTNINE}
\]

Essentially, the same data used in Study 1 was also used in study 2. To apply the PSM data to the logistic regression, the original results were transformed into 0-1 dummy variables to be used as dependent variables. In short, considering that Q2 (very low but barely acceptable) and Q3 (very expensive but barely acceptable) are regarded as acceptable prices, and Q1 (too low to be acceptable) and Q4 (too expensive to be acceptable) as not acceptable prices, the variables take on the value of 1 for acceptable prices, and 0 for unacceptable prices, as answered by subjects. For the parameter estimation, the function \texttt{glm} in the statistical package R was used.
### Table 2
**Logistic Regression: Yogurt**

| Category: Yogurt | Coefficients: | Estimate | Std. Error | z value | Pr(>|z|) |
|------------------|---------------|----------|------------|---------|---------|
| (Intercept)      | 1.1116        | 0.1828   | 6.0800     | 1.2E-09 *** |
| PRICE            | -0.0021       | 0.0007   | -2.9380    | 3.3E-03 **  |
| RIGHTDIGIT       | 0.1227        | 0.0269   | 4.5570     | 5.2E-06 *** |
| RIGHTNINE        | n.s.          |          |            |         |
| RIGHTZERO        | n.s.          |          |            |         |
| LEFTDIGIT        | -0.3350       | 0.0392   | -8.5420    | 2.0E-16 *** |
| LEFTONE          | n.s.          |          |            |         |
| LEFTNINE         | 1.8163        | 0.3758   | 4.8330     | 1.3E-06 *** |

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Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Null deviance: 1103.49 on 795 degrees of freedom
Residual deviance: 989.54 on 791 degrees of freedom
AIC: 999.54

Number of Fisher Scoring iterations: 4

### Table 3
**Logistic Regression: Shampoo**

| Category: Shampoo | Coefficients: | Estimate | Std. Error | z value | Pr(>|z|) |
|-------------------|---------------|----------|------------|---------|---------|
| (Intercept)       | 1.0640        | 0.2125   | 5.0040     | 5.6E-07 *** |
| PRICE             | -0.0002       | 0.0001   | -2.7180    | 6.6E-03 **  |
| RIGHTDIGIT        | n.s.          |          |            |         |
| RIGHTNINE         | -1.6060       | 0.5888   | -2.7280    | 6.4E-03 **  |
| RIGHTZERO         | -0.7771       | 0.2187   | -3.5520    | 3.8E-04 *** |
| LEFTDIGIT         | n.s.          |          |            |         |
| LEFTONE           | -0.8298       | 0.1654   | -5.0180    | 5.2E-07 *** |
| LEFTNINE          | n.s.          |          |            |         |

---

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Null deviance: 1114.6 on 803 degrees of freedom
Residual deviance: 1064.3 on 799 degrees of freedom
AIC: 1074.3

Number of Fisher Scoring iterations: 4
### Table 4
Logistic Regression: snack

Category: Snack

| Coefficients: | Estimate | Std. Error | z value | Pr(>|z|) |
|---------------|----------|------------|---------|----------|
| (Intercept)   | -1.4497  | 0.2400     | -6.0410 | 1.5E-09 *** |
| PRICE         | n.s.     |            |         |          |
| RIGHTDIGIT    | 0.1077   | 0.0328     | 3.2860  | 1.0E-03 ** |
| RIGHTNINE     | n.s.     |            |         |          |
| RIGHTZERO     | n.s.     |            |         |          |
| LEFTDIGIT     | 0.1981   | 0.0478     | 4.1410  | 3.5E-05 *** |
| LEFTONE       | 1.9645   | 0.2413     | 8.1400  | 3.9E-16 *** |
| LEFTNINE      | 1.0923   | 0.5925     | 1.8440  | 6.5E-02 . |

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Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1

Null deviance: 1092.40 on 787 degrees of freedom
Residual deviance: 981.52 on 783 degrees of freedom
AIC: 991.52

### Table 5
Logistic Regression: jeans

Category: Jeans

| Coefficients: | Estimate | Std. Error | z value | Pr(>|z|) |
|---------------|----------|------------|---------|----------|
| (Intercept)   | 0.4030   | 0.1157     | 3.4820  | 0.00050 *** |
| PRICE         | -0.00003 | 0.0000     | -3.4210 | 0.00063 *** |
| RIGHTDIGIT    | n.s.     |            |         |          |
| RIGHTNINE     | n.s.     |            |         |          |
| RIGHTZERO     | n.s.     |            |         |          |
| LEFTDIGIT     | n.s.     |            |         |          |
| LEFTONE       | -0.4077  | 0.1544     | -2.6400 | 0.00830 ** |
| LEFTNINE      | -0.5761  | 0.2933     | -1.9650 | 0.04947 *  |

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Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Null deviance: 1086.9 on 783 degrees of freedom
Residual deviance: 1066.4 on 780 degrees of freedom
AIC: 1074.4

Number of Fisher Scoring iterations: 4
Table 6: 
Results of logistic regression analyses

<table>
<thead>
<tr>
<th>Categories: Hypothesis (sign)</th>
<th>(Intercept)</th>
<th>PRICE</th>
<th>IMAGE EFFECT</th>
<th>LEVEL EFFECT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>RIGHT DIGIT</td>
<td>RIGHT NINE</td>
</tr>
<tr>
<td>Yogurt</td>
<td>***</td>
<td>**</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Snack</td>
<td>***</td>
<td>**</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Shampoo</td>
<td>***</td>
<td>**</td>
<td>***</td>
<td>***</td>
</tr>
<tr>
<td>Jeans</td>
<td>***</td>
<td>**</td>
<td>***</td>
<td>***</td>
</tr>
</tbody>
</table>

Results

All the results of the binomial regression analyses are shown in Tables 2 through 5. Table 6 shows the summary of all analyses. In this last table, the dark gray cells indicate that the hypothesis was supported statistically, while the light gray cells indicate that the opposite hypothesis was obtained in the logistic regression analysis.

In all categories, the level effect, related to the variables \(\text{LEFTDIGIT}, \text{LEFTONE}, \text{and LEFTNINE}\), was almost confirmed, though some unexpected signs were obtained. On the other hand, the image effect, related to the variables \(\text{RIGHTDIGIT, RIGHTNINE, and RIGHTZERO}\), was confirmed in only one category, namely shampoo.

Discussion

In study 2, which examined the mechanisms of the odd pricing effect, the level effect was confirmed in all categories, while the image effect was confirmed in only one category and some of the signs were opposite to the hypotheses.

GENERAL DISCUSSION

Conclusions

In study 1, which examined the existence of the effect of odd pricing, the effect was confirmed, though it was not tested statistically.

In study 2, which examined the existence of the level and image effects, the level effect was confirmed in all categories, and the image effect was confirmed in only one category. Therefore, the result is weak to support the existence of the image effect.

Limitations

The findings of this research are tentative, because there are at least two limitations. First, no statistical test was conducted in study 1. Second, it might not be appropriate to use PSM data in
study 2. In essence, PSM data is collected not to examine the effectiveness of odd pricing, but rather to estimate consumers’ acceptable price range. Therefore, research with appropriate data for the purpose should be performed in the future.

DATA COLLECTION INFORMATION

To collect data for this research, a questionnaire survey was conducted through the monitor panel website of Macro Mill Inc. in March 2013. The four PSM items were included in the questionnaire survey. The product categories were shampoo, yogurt, jeans, and snack. They were chosen because they were also used in other studies. The sample size was 155 for each category. Data over 3 S.D. were considered outliers and deleted.

APPENDIX: PSM ITEMS

The PSM (Price Sensitivity Meter) suggested by van Westendorp (1976) consists of four items, as follows:

Q1. At what price would you consider this [product and/or brand] to be so inexpensive that you would have doubts about its quality? (too low to accept)
Q2. At what price would you still feel this product is inexpensive yet have no doubts as to its quality? (very low but barely accept)
Q3. At what price would you begin to feel this product is expensive but still worth buying because of its quality? (very expensive but barely accept)
Q4. At what price would you feel that the product is so expensive that, regardless of its quality, it is not worth buying? (too expensive to accept)
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