

Study explains how consumers react to prices ending in 99

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Have you ever wondered why prices do not often end in simple round numbers? Decades of research have focused on the issue of pricing and a new study published in the June 2005 issue of the *Journal of Consumer Research* analyzes how consumers perceive the difference between prices ending in .00 or .99. This study which focuses on the left digit, rather than cents, finds that the difference can be important to consumers.

"We show that nine ending prices may sometimes but not always be perceived to be lower than a price one cent higher. This perception is more likely to occur when introducing a nine ending in the price causes a change in the left-most digit. Further, this perception is more likely when the nine ending price is perceived to be close to the comparison standard price," conclude Manoj Thomas and Vicki Morwitz (New York University).

Their study focuses on the left digit effect. This effect refers to the change in price that occurs when reduced by one cent from, for example, \$3.00 to \$2.99--the far left digit changes from three to two.

Traditionally, explain the researchers, it was assumed that the nominal difference was inconsequential. However, this study reveals that the minor difference has the potential to have major effects.

"This research adds further evidence to the view echoed by previous researchers that the decision whether or not to use nine ending prices is an important one and deserves due attention," they explain. "Importantly,

we show that nine ending prices may sometimes but not always be perceived to be lower than a price one cent higher. This perception is more likely to occur when introducing a nine ending in the price causes a change in the left-most digit. Further, this perception is more likely when the nine ending price is perceived to be close to the comparison standard price."

Source: University of Chicago Press Journals

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