

Beware the left-digit effect: Price gimmicks may affect choice

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When shopping, we often find ourselves choosing between lower- and higher-cost items. But most people make a choice based on the first digit they see, according to a new study in the *Journal of Consumer Research*.

"Shoppers pay a disproportionate amount of attention to the leftmost digits in prices and these leftmost digits impact whether a product's price is perceived to be relatively affordable or expensive," write authors Kenneth C. Manning (Colorado State University) and David E. Sprott (Washington State University).

In one experiment, Manning and Sprott asked participants to consider two pens, one priced at \$2.00 and the other at \$4.00. A penny decrease in the price of either pen lowered the price's leftmost digit. The researcher manipulated the prices and found that when the pens were priced at \$2.00 and \$3.99, 44 percent of the participants selected the higher-priced pen. But when the pens were priced at \$1.99 and \$4.00, only 18 percent of the participants chose the higher-priced pen.

"The larger perceived price difference between the pens when they are priced at \$1.99 and \$4.00 led people to focus on how much they were spending and ultimately resulted in a strong tendency to select the cheaper alternative."

The researchers went on to study the impact of two "round prices" (such as \$30.00 and \$40.00) and two "just-below prices" (\$29.99 and \$39.99). "When we showed people these sets of prices, most perceived the two

round prices to be more similar to one another than the two just-below prices. Based on the perceived price differences, we predicted that people would focus less on how much they were spending when presented with round prices, and as a result, a relatively large percentage of people would opt for the \$40.00 option." The experiment supported their expectation. However, when buying a gift for a very close friend or when a purchase only involves a few dollars, the authors found that rounding or just-below pricing had no impact on choice.

"Consumers should be aware of the subconscious tendency to focus on the leftmost digits of prices and how this tendency might bias their decision-making," write the authors."

More information: Kenneth C. Manning and David E. Sprott. "Price Endings, Left-Digit Effects, and Choice." *Journal of Consumer Research*: August 2009.

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