The way buyers perceive price and the emotions their perceptions evoke affect purchase decisions more than the exact price.

This is evident from the doctoral dissertation written by Outi Somervuori, M.Sc. (Econ.) for the Aalto University School of Business. In her dissertation, Somervuori examines the psychological aspects of buyers' behaviour in relation to pricing and aims to interpret the consumers' sometimes seemingly irrational choices and the factors that affect their decisions in purchase situations.

Companies often assume that customers know the exact prices of the products they evaluate and that they compare the prices to what they gain from the product. However, research indicates that consumers rarely remember the price of a recent purchase and that their price recall is poor. Such results have surprised researchers and companies alike. Research findings have led to doubts about the importance of price in purchase situations and the ability of consumers to make rational purchase decisions.

According to Somervuori, sellers are wrong in assuming that buyers compare prices to what they gain from products. Instead, buyers compare their perception of the price to their internal reference price. Reference price is the price consumers use to compare the offered prices of a product or service. Whether or not a buyer decides to purchase a product depends on the emotions the perceived price evokes in comparison to the reference price.
Consumers remember good deals, not exact prices

Research indicates that the reason why customers forget the prices of recent purchases is not simply that they do not pay attention to price when making purchase decisions. In fact, the situation seems to be quite the opposite: consumers usually know exactly whether their recent purchases were expensive or not. Forgetting prices is a result of our memory processes. The long-term memory does not always store information of the exact price but instead the result of the evaluation process: whether the consumer considers the purchase to be a good deal or not.

Somervuori’s dissertation focuses particularly on how the reference price affects decision-making in purchase situations and what role emotional and motivational factors play in the process. Somervuori studied the effect of emotional and motivational factors using psychophysiological indicators. The psychological processes related to the different stages of making the purchase decision were studied measuring facial muscle activity (i.e. electromyography, EMG), skin conductance (i.e. electrodermal activity, EDA), and the electrical activity of the brain (i.e. electroencephalography, EEG). The next phase of research will focus more closely on how companies can affect buyers' perceptions of price.

Provided by Aalto University

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