

Analysis of the psychology of price and its application in marketing

Summary

This article seeks to illustrate the importance of price psychology and its application, taking into account that price is one of the determining variables when the buyer decides to make the purchase of a good or service effective. The analysis of the article is based on the study of price as a determining factor for companies and their permanence in the market, all this is done through a bibliographic review of articles, magazines, books, etc.

Most buyers judge prices comparatively, that is, the reference price conditions their judgment, generating concepts of acceptance or rejection when purchasing the product, this process is influenced by the competition and the methods used to establish prices in each industrial sector, but in the end the most important and influential factor when defining the parameters and bases for establishing prices are consumers.

Keywords: purchase, consumer, marketing, price, psychology

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Introduction

Pricing is the most difficult and important issue in marketing, from the critic's point of view, price is a controllable variable that differs from the other three elements of the marketing mix (product, place, and promotion) in that produces income; the other elements generate costs.^{1,2} Therefore, it is of vital importance that businessmen, marketers and people involved with the commercial area of a company or organization know what the definition of price is from a marketing perspective.³ The decisions that a person makes when purchasing a good or service are not always made consciously, so there are many factors that condition the purchase decision when the customer is not sure about purchasing a product or in many cases of make him change his mind. Psychological prices refer to the different aspects that influence the customer's perception of the image based on the product.⁴

The functional visual representation treated by Albert Joseph in 1979 and the importance of color in it, is another instrument widely used in the communication of products from the corresponding associations in non-verbal messages. Therefore, if a consumer perceives certain symbols in the advertising of a green brand, it must communicate the environmentally friendly characteristics of said product or service.⁵

There is a way to influence buyers in relation to the offer of a product through the symbolic dimension of consumption, using figures and representations that affect the buyer's decision from the recognition of interest to interpret the cognitive and symbolic processes of people and their behavior in front of to the deliberately set environment.⁶ Many times consumers feel identified with the personality of the brand and with its behaviors, arousing an emotional reaction that is normally positive, defenders of these practices highlight the validity of establishing an emotional bond, trying to ignore unsatisfactory aspects with respect to it, and diverting the pricing as a barrier for the consumer to purchase the product.⁷

In many cases it is established as an element of comparison between products and brands, often being the only information that the buyer has about the product or service.⁸ Decisions made about prices should be based on those that contribute to the achievement of the objectives pursued, be it profitability, introduction, penetration,

competition or promotion.⁹ Psychological pricing strategies establish how buyers perceive prices and influence the image of the products and services they get based on their price.¹⁰

The price that the customer receives for the good or service is what the customer is willing to pay, considering that the quality of a product is directly related to its purchasing power, that is, low prices are directly associated with low quality product.¹¹ This encourages organizations that still do not offer a quality product to establish relatively high prices so that customers conditioned by this idea become enthusiastic and buy the service offered.¹²

Currently, large, medium and small companies have been affected by their error in the pricing policy, this is due to the fact that customers compare taking into account pricing strategies that condition their judgment, the most common errors when carrying out this activity are directly related to costs, the price is not reviewed frequently enough to establish changes taking into account the demand and supply of products, likewise, the psychological aspect of prices must be studied when designing and proposing policies that allow develop ideas that seek to carry out pricing methods based on demand as the main factor in determining them.¹³ This is why it is important to study the phenomenon of psychological prices, on many occasions companies do not give importance to it, which brings serious consequences in relation to their permanence in the market, likewise, the role played by consumers is important to exemplify the way in which information regarding a price is obtained, how they retain it in their memory and how they use it when purchasing a product.¹⁴

This article analyzes the importance of price psychology in the price-consumer relationship and its application in marketing as a determinant in the acquisition of goods or services. This paper investigates and identifies the different strategies implemented to establish prices and analyze the price. Impact of psychological pricing on the relationship between price and consumer.¹⁵ Identify the most common aspects that companies take into account when setting the price of a product.¹⁶ This research is of a theoretical-reflexive type, because it faces and examines a problem with different authors as reference, it is documentary and descriptive, based both on specialized texts and on reports, books and articles extracted from scientific journals, it is based on a study price as a determining factor for companies and their permanence in the market.

In most retail and wholesale businesses, pricing decisions are the most difficult and important marketing problem.¹⁷ Even more so, when certain differences are usually introduced between the products of each establishment based on the characteristics of the local markets (cost of transportation, operation and implementation, image, competition and others).¹⁸ “Price can be defined as the amount of money required to purchase a product”.¹⁹ Within marketing, this is the only element that produces income, since it indicates the potential benefits that are acquired at the time of receiving the product.²⁰

On the other hand, for Porter, author of the book “Being Competitive”, the concept of price in the strict sense reflects the amount of money charged for a product or service and therefore in broader terms, the price is the sum of the values that consumers give up in exchange for the benefits of having or using the product or service.²¹ Along with another definition that indicates that the buyer can also judge the price of the product depending on the quality or benefit that was obtained by using the product or service, but to achieve this the buyer would have to have bought the product at least once in a risky way.²²

According to Aguilera Díaz Anailys²³ Prices are cost indicators of a good or service; however, empirical evidence and psychological analysis show that price transcends the borders of the economic and includes a psychological element represented by perception, which makes its analysis more complex. While consumers weigh the alienable attributes of the product differently compared to the non-alienable ones, depending on whether they are oriented to what they want to acquire.²⁴

The foregoing is directly related to the discussions we have in our day-to-day when purchasing a product, we judge and devalue the value of the item taking the experiences lived as a reference.²⁵ In the document Pricing Policies, he explains the different strategies that companies can use to adequately set their prices, establishes that cost-based prices are the most objective and fair methods because they have strong cultural and social roots, they consist fundamentally of determine the total cost of producing a good or providing a service and on this basis establish the sale price.²⁶

Costs are understood as all the necessary resources that are required from the conception of the product or service to the after-sales service.²⁷ At present, pricing has become one of the most important and complicated decisions that must be made in companies, given the constant changes in market conditions and increasingly strong competition,²⁸ in many Sometimes companies do not give importance to it. Which has serious consequences in relation to its permanence in the market.²⁹ The traditional theory of pricing is based on the existence of customers who are well informed about price levels. However, in practice this sentence is not necessarily fulfilled, due to the effects of product differentiation, the proliferation of brands with the same products, but with differentiated prices, the existence of packages with different contents that make comparison difficult, the products that they present multiple dimensions and attributes, brand loyalty, inflationary processes, among others.³⁰

On the other hand, it is also important to study perception, which is the categorization process of buyers, who tend to locate new experiences in the existing classification of familiar experiences, this is due to empirical work, consumers have difficulty evaluating the quality of a product, so they tend to consider that the highest-priced products are usually also the highest-quality ones.³¹ If buyers are faced with a different price than they thought, they will need to decide whether or not the difference between the new and old prices is significant. If the difference is negligible, they will classify the prices

(new and old) as similar and will not change their behavior pattern. If the difference is significant, they will change their purchasing behavior and classify the new price in a new product category: price.³²

The response that occurs before a stimulus is always determined by the relationships that exist between said stimulus and the preceding ones”, which are considered as the level of adaptation. This level of adaptation is called the reference price.³³ Recent research indicates that consumer purchasing decisions depend on whether a product is perceived as a bargain or too expensive, “still, the question remains the same; How do consumers evaluate sales prices? The standard approach in economics, psychology, and marketing suggests that consumer estimates are best described by an attribute-based or piecewise strategy that integrates product information in a linear and additive fashion, that is, according to the number of attributes and positive benefits that can be obtained at a lower price compared to another, the decision to buy or not is made.³⁴ To create a product penetration campaign, a large budget is not necessary, but it is necessary to offer a price that can be considerable, as we also remember what it makes us feel, what arouses some emotion.³⁵

Another method used has to do with emotional marketing that uses the sensations derived from feelings and sensory traits that provide the consumer with a set of feelings.³⁶ This induces an affective bond with the brand. The aforementioned situations connect psychically with people, allowing them to create an incidence of cognitive attitudes and feelings in consumers, privileging aspects of product quality over the emotional aspects of the brand, causing a positive response in the consumer.

For³⁷ Pricing Strategies (EFP) continue to be the most efficient mechanism used by companies to recover the costs incurred and ensure a certain profitability, that is, it is a means to capture value, as long as these companies have been able to generate it.³⁸ The different tools that a company uses to estimate the value of a product require a main objective to which the organization will be directed, these can be directly related to establishing a fair price, maximizing long-term benefits, stabilizing the market, maintaining the leadership in prices and even make the product visible.³⁹

The financial policy of an organization has a decisive influence on the type of product, needs and income that will undoubtedly have an impact on the final price of the same, in the same way the personnel policy, the company’s product portfolio and the marketing channels are aspects relevant when it comes to giving value to the product, the latter radically affects the price, since in own marketing where the structures are controlled by the manufacturer, the margins tend to be tighter and therefore the prices are more low, the same way. The commercialization of others represents the margins that in the end double the value of the product in origin.

Regarding the external factors that directly affect pricing in an organization, current legislation can be mentioned, since it allows freedom of pricing and prohibits companies from agreeing to avoid competition between them. In Colombia, Law 1340 of 2009 increased the value of the maximum fine for violations of free competition from 2,000 minimum wages to the maximum between 100,000 minimum wages and 150% of the value of the utility derived from the conduct.⁴⁰ Likewise, the competition and substitute products will define the frame of reference from which we can move to set the final price and, finally, it is the customers who determine and establish the maximum value for which they are willing to buy the product.

Emphasizing a very important aspect: each price forms a different level of demand, therefore, the price-demand relationship can be

influenced by the changes that have directly affected any of the variables, that is, the price rise translates into a decrease in demand and vice versa.⁴¹ Once the factors involved in pricing have been described, it is important to present the different parameters that a company has when setting values for its products; According to Boute & Zhang⁴² this basic factor to consider in pricing is directly related to customers, competition, and costs.

Clemptner⁴³ indicates that cost-based prices determine the total cost of producing a good or service and on this basis set a sale price, cost-based prices are the most objective and fair because they have a strong social and cultural adaptation. Likewise, prices based on competition are directly related to the supply and demand of the product, this tool can be used to conquer the market with low prices and large sales volumes. A year ago, the same author indicated that the trends shown by the variables that must be considered when choosing between one or another pricing strategy are the following: economic growth, inflation, the economic cycle and consumer confidence represent.⁴⁴

From the consumer's point of view, the psychology of pricing exposes why customers waste money, first giving credence to hard-worked sales tactics to manipulate buyers through price tag modifications and promotions. Special, while in marketing there are numerous designs to attract the buyer's attention to a product, service, store, etc., among these are the use of the word free.⁴⁵ Another investigation in which they determined that if sellers have the habit of using odd prices, consumers will perceive them as the real and usual price, while with respect to even prices they will perceive them negatively.⁴⁶

The theory of consumer behavior affirms that it is of vital importance for the creation and application of strategies to know the process by which consumers make their decisions when buying, for this reason it must be analyzed to understand their perceptions and mental processes through through which they are made. Spend when making a purchase. For example, analyzing the degree of involvement is relevant to the importance that consumers give to the purchase and also the time it takes to analyze a price. Purchases with a high and low level of involvement are described here: Purchases with a high level of involvement. They are those that do not carry economic, social or psychological risks and therefore it is not worth the consumer investing time and effort in searching for relevant information about the brands and products in the market.⁴⁷

The decision making analyzed comprises four types of consumer buying processes; In the first instance, there is the complex decision-making process, which occurs when the level of involvement is high, for example; When buying a car or real estate, consumers tend to take the time to research information and carefully analyze the purchase to be made. On the other hand, there is limited decision-making, this occurs when the level of involvement is low, however, they go through a decision process when they have no experience with the product. In limited decision-making, because they do not have a high degree of involvement, the consumer changes brands without much problem, either out of boredom or simple variety, and does not plan the purchase in advance, making the decision at the point of sale.⁴⁸

In accordance with the above, it is relevant to highlight that the decision processes are related to the consumer, rather than to the product, since the degree of involvement with the product depends on each individual and their attitude towards it and not on its characteristics.⁴⁹ Consumer engagement and complex decision making begin with the participation and processing of information. According to consumer studies, involvement and complex decision-making are closely linked, since the higher the level of involvement,

the greater the search for information about the product and this is defined as informational thinking.⁵⁰

Thrane et al.,⁵¹ indicate that the processing of price information consists of three basic stages: cognitive stage that encodes the objective price and storage of the psychological price, affective stage that is the attitude towards the psychological price and the Behavior Stage: Price Response. Next, the person stores said price, being aware of it and having the ability to remember it, thus forming an attitude towards the psychological price. Finally, after this information process, the person will decide whether or not to purchase the good or service.

Through these stages of information processing, companies can obtain an idea of the way in which the prices of their products affect the decisions of customers, for this reason it should be considered that through psychological prices it is possible to achieve a greater emotional impact. consumer reactions and stimulate purchase.⁵² In this way complements by saying that psychological prices seek to orient themselves towards the emotional side of customers, so what is important in this regard is to know the needs of the market, along with its characteristics and conditions. Target audience, along with the acceptable price level at which they would be willing to purchase a good or service;^{53,54} Therefore, if companies are able to know these elements, they will be able to obtain the desired brand impression without the need to significantly modify the product.

Conclusion

When talking about psychological prices, we are faced with a daily reality experienced by managers of large, medium and small companies. According to the literature analyzed, there are different methodologies and strategies that seek to influence the buyer so that they choose a certain product or service according to their thoughts and needs. Therefore, the study of this field generates a great influence on the competition in each industrial sector, but in the end, those who define the parameters and bases to establish the prices are the consumers. Thus corroborating the importance of studying the psychology of price in the price-consumer relationship.

One of the strategies most used by the consumer when choosing a product is the term of reference, in a few words, the price comparison between different brands, because there is a relationship between the level of consumer involvement with the product versus the level of acceptance or rejection of psychological pricing strategies, establishing that the higher the level of involvement with the purchase, the higher the level of rejection of promotions, since it implies social, economic, labor and sentimental risks that the consumer does not agree with. in assuming, and Because of this.

Therefore, the general conclusion reached by different authors is that buyers judge prices comparatively, that is, the reference price conditions their judgments. From the point of view of marketing, the aspects necessary to work effectively based on perceptual understanding are broad and affect the four traditional variables: the relevant aspects related to the brand are image transmission, logo development, etc. In relation to the packaging, its character as a silent seller or the conception of the perceived risk derived from the perceived insecurity of the consumer.

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Conflicts of interest

There is no conflict of interest.

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