



MARKETING

TESTING PRICING STRATEGIES FOR MARKET SEGMENTATION IN DEVELOPING COUNTRIES

**PAOLA ABIGAIL
CEJA
BALANDRÁN**

UNIVERSIDAD DE COLIMA FACULTAD DE CONTABILIDAD Y ADMINISTRACIÓN TECOMÁN

**JESÚS MARTÍN
SANTOS VIRGEN**

UNIVERSIDAD DE COLIMA FACULTAD DE CONTABILIDAD Y ADMINISTRACIÓN TECOMÁN

**STEPHANI
YOVANA
NICOLÁS
FARIÁS**

UNIVERSIDAD DE COLIMA FACULTAD DE CONTABILIDAD Y ADMINISTRACIÓN TECOMÁN

**ALFREDO
SALVADOR
CÁRDENAS
VILLALPANDO**

UNIVERSIDAD DE COLIMA FACULTAD DE CONTABILIDAD Y ADMINISTRACIÓN TECOMÁN

**VICTOR
APARICIO
ROSAS**

UNIVERSIDAD DE COLIMA FACULTAD DE CONTABILIDAD Y ADMINISTRACIÓN TECOMÁN

ABSTRACT Customers usually consider price as the leader variable for making buying decisions, therefore small enterprises, when facing market competition, need to manage this variable with strategies for pricing that allows them better profit performance. On this context customer's perception of prices can be subjective and pricing psychology plays a role in successfully tailoring prices. A study was made for researching pricing strategies for market segmentation in developing countries in Latin America. In conclusion was found that pricing psychology for low income people not necessarily follows price rules for economy and market models in developed countries.

KEYWORDS : Pricing psychology, Market segmentation, Marketing manage

INTRODUCTION

The most common pricing psychology provides insights that may be applicable to pricers in several countries. Hosken and Reiffen (2004) expressed concerns with the inability of economic models to explain retail pricing behaviors. One reason that observed prices may not be consistent with economics is that some firms may be following pricing principles from psychology (Larson, 2014). Every customer wants to think he or she is getting a good deal, and a price change as a little as one cent can have a huge impact on the willingness to pay (WTP). Understand what affects a person's WTP can help companies better pricing its services or products. Understanding the various factors that influence customers' willingness to pay is a good start when it comes to developing pricing strategies. As companies become more pricing focused, they are taking care for better understanding of psychology and especially for what motivates customers to make favorable buying decisions. However, on several competitive market contexts, very few organizations have adequately equipped their decision makers to respond to market feedback with new promotions and price changes. The basis for companies is to consider gain-loss framing when pricing their products. The fundamentals of pricing according to Michel (2009), are data, information and knowledge of economics, pricing management as well as psychology (Fig. 1). After that it is possible to precise a value-based pricing for company profit.

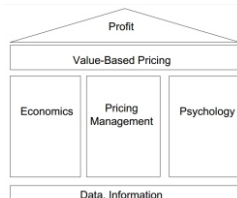


Figure 1: The House of Pricing

Source: Michel (2009)

Some authors have reviewed several pricing psychology principles - that may help firms enhance the results from their pricing decisions - grouped into four categories: framing, congruency, context, and signaling (Larson, 2014), for example, offering free units (e.g., buy one get one free or BOGO) tends to generate a greater response than providing an equivalent price discount (Muller, 2012; McKechnie et al., 2012). An expensive product with a free gift tends to generate more sales than a price discount (Nicolau, 2012). Multiple-unit pricing (e.g., two for a dollar instead of 50-cents each) can boost sales. Customers with a prevention-focus (e.g., avoid negative outcomes) are motivated by demand-based scarcity (e.g., high popularity), while this seems the rule for developed countries, it doesn't seem to work as well for countries with most population in the low income international segment. Several studies in developed countries concluded that scarcity works best with relatively high-priced, high-quality products.

APPLICATIONS OF PRICING STRATEGIES AND TACTICS Development countries

There are numerous price strategies used in developed countries by businesses to take advantage of customer pricing psychology. For example packages usually communicate important, and sometimes surprising, marketing messages, for instance consumers associate heavier wine bottles with higher expected prices (Piqueras-Fizman & Spence, 2012). Small variations in package height, in package shape, in label layout, in how the package and its contents are shown, and in a photo's perspective can change the perceived volume and value (Van Rompay et al., 2012).

There are lots of examples about tactics and strategies of pricing

psychology, a few of them are mentioned as follows:

1. Letting customers touch the contents can change perceived valuations of items with material attributes. Therefore, achieving congruency between the packaging and other marketing messages may shift demand.
2. When customers are given a choice between three items that they can rank, they often choose the middle option.
3. Listing a competitor's price can boost sales, even if the competing price is slightly lower (Trifts, Huang & Haubl, 2013).
4. Price thresholds exist when price changes above or below a specific level result in large changes. In laboratory experiments, people were exposed to low or high price information before or while they were reviewing household products. In lower-priced contexts, they believed the items were more expensive (Adaval & Wyer, 2011).
5. Including charges in lower-quality product prices may be beneficial (Love, 2012).
6. The variety of quality options presented to prospective buyers can influence their willingness-to-pay. Bertini, Wathieu, and Iyengar (2012) found that greater assortment increased willingness-to-pay for high-quality products.
7. Varying individual item prices to change bundle attractiveness (decoy pricing) can encourage people to buy a bundle and spend more than they would have without the bundle (Schwartz & Cohen, 1999).
8. Changing font sizes and using terms (e.g., high versus low) that are congruent or incongruent with the price magnitude (i.e., larger fonts and "high" suggest higher prices) can affect value perceptions and purchase likelihoods (Coulter & Coulter, 2005).

CASE STUDY

In the present study, based on Mexico & Latin America pricing survey in low cost web stores, named Mercado Libre, it was found that several prices apply for the same product and even when the economic cost of goods at close locations is the same, consumers favor different pricing strategies of that recommended for markets in developed countries. This was particularly true in commerce through social network for retail products sell for example in facebook, suggesting alternative psychological strategies for local culture. For example, psychology pricing recommends cards payments to motive customers, but in poor areas in Latin America most people use cash for buying, and promotions as monthly payments without interest usually do not increases sells volume as expected in developed countries. Besides that small enterprises have to surcharge for credit card purchases for avoiding loss because of bank commission, which promote the use of cash instead of credit card, getting into a vicious cycle of less use of credit card which goes against international flow of psychology pricing.

The example of the perceived value of consumer goods in Latin America is influenced by its location, and income segment, both in particular commerce C2C as well as with B2C goods. Almost there are not buyers willing to pay higher prices in more upscale locations, even for the exact same products. In our research, several workers (men and women) were asked how much they would be willing to pay for a pair of Nike tennis and in most cases the price was around \$20 US dollars in Mexico, with very few exceptions with higher quality of the product, because the location was a low income region. This suggests that -even when branding comes into play- pricing consumer goods can rely on income location variable.

In low income regions in Latin America consumers are driven by price evaluations, and are more motivated to change stores or brands when there are savings in absolute terms of the price. In our study, people were more likely to visit another store for a \$1 savings. The payoff for switching stores or brands is small or negative in time, effort and transportation, though perhaps not absolute, savings for the less expensive product.

In developed countries as well, buyers don't want to pay too much, yet they don't want the least expensive product either, according to this brands that offer a mid-range product would capture the larger portion of the market, as many consumers' behavioral pattern in developed countries is trading up to a higher-priced product that is perceived as a better value. While in developed countries psychology tends to keep them in the middle of price extremes, in low income countries most of customers need a low price to incentive their WTP behavior.

Most people when questioned about the price preferred the option product with the lowest price and expected a utilitarian quality. They also tend to satisfy their hedonic choices with the cheapest products they could afford by their income. But what happened with expensive products? Installment payments was the successful strategy for marketing more expensive products, even do this payment is usually in cash.

CONCLUSIONS

Based on evidence that economic models of competition are not consistent with most observations about grocery retailer pricing and marketing behaviors, several authors concluded that one reason is that some firms are following pricing principles from psychology. As result, a price change as small as one cent (or even a fraction of a cent) can deliver in additional profit. The key is knowing the price the customer is willing to pay.

A recommendation for the future is that maintaining price leadership over time requires an in-depth knowledge of the market – and investments in systems and human resources for understanding customers' pricing psychology.

Optimizing pricing will require investing in processes and systems that are able to analyze effectiveness, and to continuously adapt pricing for success with profits in low income regions.

The adequate resources for that are people with pricing expertise, as well as automated processes that capture and analyze data, and technology, for example, an integrated pricing system.

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