THE VALIDITY OF ODD PRICING

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ABSTRACT

Odd pricing refers to the practice of pricing goods just below the nearest round figure, for example, $9.99 instead of $10.00, or $1,995 instead of $2,000, to produce higher than expected demand at the price level concerned. Although the practice of odd pricing is prevalent in retailing, there is a lack of empirical evidence to verify the effectiveness of odd pricing as a strategy to increase demand.

This thesis reports the findings of a study designed to test the assumption that odd pricing produces higher than expected demand resulting in a "kinked" demand curve. That is, a demand curve which is inconsistent with the traditional law of demand. Purchase probabilities, used to measure estimated demand for six household products at four price levels, were obtained from a sample of 300 consumers. For each product, showcards featuring two prices, one slightly above an even price point and one slightly below the same price point, were presented to all 300 consumers. These prices served the purpose of creating top and bottom "anchor" points of the demand curve for the product concerned. The sample was further divided into three subsamples of 100 consumers who each viewed either an appropriate even or odd "test" price. This process produced 300 purchase probabilities for each top and bottom "anchor" price and 100 purchase probabilities for each even and odd "test" price, for each of the six products. A demand curve for each product was then produced to examine whether greater than expected demand had occurred at the odd price points.

A noticeable trend of greater than expected demand at odd price points occurred for all products tested. This finding offers strong support for the odd pricing assumption. In particular, greater than expected demand for grocery items occurred in response to odd prices. No difference was detected between the odd pricing effect for 95 and 99 cent endings, indicating that, where practical, 99 cent endings achieve the highest gross profit margin obtainable from pricing below the nearest round figure.

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