

Research Paper



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A STUDY OF PERCEPTION ON PSYCHOLOGICAL PRICING

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ABSTRACT

P psychological pricing has been used by marketers over the years to manipulate buying behaviour of consumers. Marketers often use psychological policy in pricing the products or services. In fact knowledge on the perception of retailers and consumers on psychological pricing can help marketers in framing vital marketing policies in terms of marketing communication and distribution. Hence a need was felt to know the perception of retailers and consumers on psychological pricing. This paper conducts a systematized study with the twin objectives of studying the overall consumer perception on psychological pricing and overall retailer perception on psychological pricing. It is an exploratory cum descriptive study with a sample size of 200 each for the retailers and consumers respectively.

The study found that psychological pricing attracts customer to have a look at the products. Secondly as psychological pricing increase the chances of selling products, it is a motivation for the sales people for selling such products. Thirdly since the figure ending with 99 give a good effect in the mind of the customers it is a good marketing strategy to bring more customers. Moreover marketers need to communicate and see that the products which have psychological price tags are equally better in quality compared to other normal products otherwise such kind of policy will not get a good market for the brand in the long run.

KEYWORDS: perception, psychology, odd pricing, stimuli

INTRODUCTION

The way a price of a product ends has an impact on the market. It is an important pricing policy that has been used by retailers over the past. The fashion seems to be useful considering how consumers respond especially to products with odd price endings. Since the matter is subjective that operates at the cognitive level, it is essential to understand the psychological impact of price ending on buyers, using the theory of perception. Psychological pricing has been used by marketers over the years to manipulate buying behaviour of consumers. Marketers often use psychological policy in pricing their product or service; sometimes unintentionally. Psychological pricing is the way of structuring and presenting prices to stimulate consumers' emotions and to influence the process in making decision (Pride and Ferrell, 1997). Practice of a pricing policy does not deal with only figures but an effort is made to play on the perception of consumers as well.

Often it is the customers' perception of price that motivates them to buy a product and not the actual money price. In many instances, the psychology of pricing and perception on price is more important than the actual monetary value of the product or service; and businesses that are well versed with the role psychology plays in the formulation of pricing policy can become more successful in the market. Price has multiple connotations on the psychology of a person and therefore in the process of producing a commodity, the critical question that is to be considered is about: "What price is to be charged on a product or service?" This is a question for introspection not only for the manufacturer but even wholesalers and retailers have to ponder over.

Psychological pricing goes to strategically price the products in the market so as to increase sales without any noteworthy reduction of prices. In the course of crafting a psychological pricing strategy marketers tries to get the best results. This practice is based on the notion that customers have a tendency to process a price from the left-most digit to



the right and as a result will be inclined to disregard the last few digits of a price. This consequence appears to be accentuated when the fractional portion of a price is printed in smaller font than the rest of a price. For instance the practice of setting the price of a laptop computer at Rs 29999 rather than Rs 30000 is an example of psychological pricing. This practice of pricing often prevails for consumer goods. A variation on the concept is to set prices at a higher level on the belief that buyers will give more importance to a product if the price is set at a premium level.

When buyers encounter a situation of accumulating more information on how to make a decision on the perceived value or quality of a product, price evolves as an important determinant of value. People process numbers differently, and they may never know what is in their minds when they consider prices and how this affects their behaviour. From the backdrop of conventional economic theory it is a notion that markets are efficient and participants are deemed to be rational. However, differences in the behavior of the consumers can be seen and sometimes even illogically when presented with a variety of stimuli. Therefore it is important to appreciate and acknowledge that perception has a larger role to play in customers' purchasing decisions. In an ideal market situation where suitable pricing policy is used for a product and such a policy is backed by firm promotional, placement and distribution programs, the firm boost sales and further business growth (Stivings, 1996). But an erroneous pricing policy can cost the business dearly. Different price strategies are often used by firms. And in fact a very popular way of pricing consumer goods across different categories of product in retail shops and newspaper advertisements is the price ending (odd-even) strategy.

There are certain rationales on the use of psychological pricing method. They are elucidated below in brief.

Price bands: If a customer is accessing information about product prices that are segregated into bands, the use of fractional pricing can shift the price of a product into a lower price band, where customers may be more likely to make a purchase. For instance, if a consumer contemplates of purchasing a HDTV that costs less than Rs 30,000, pricing a washing machine at Rs 29,999 will put it into the lower price band and will increase the probability of its sale.

Non-rational pricing: If customers are swayed by the incremental price reductions advocated under psychological pricing (which is a debatable premise) then sales should increase.

Control: It is much more difficult for an employee to create a fraudulent sales transaction and remove cash when product prices are set at fractional levels, since it is more difficult to calculate the amount of cash to steal. Conversely, it is easier to steal funds when prices are set at rounded dollar amounts.

Discount pricing: If a company is having a sale on selected goods, it can alter the ending digits of product prices to identify them as being on sale. Thus, any product ending with a ".98" price will receive a 20% discount at the checkout counter.

A key hypothetical issue on which psychologists are divided today is the degree to which perception depends directly on the information available in the stimulus. In the study of psychological pricing, buyers' sensory experience on the price of a product involves both the recognition and

the effect it has on them, and their willingness to buy the product. Some opine that perceptual processes are not direct, but depend on the perceiver's expectations and experience as well as the information available in the stimulus itself. So the process of formation of perception comprises of a series of steps in a sequence. It starts with the environment, leads to stimuli recognition and finally leads to a behaviour which is a reaction to the stimulus.

The logic behind the overwhelming use of psychological pricing makes it clear that, businesses are setting prices in this manner in order to compete with each other. Therefore setting a price with a fraction higher than the prices charged by competitors might indeed lead to an incremental drop in unit sales volume, so a company probably has to use psychological pricing in order to remain competitive.

LITERATURE REVIEW

Kumar and Pandey (2017) in their research work examined the role of psychological pricing on the buying behavior of consumers. The study identified some socio demographic factors like education, gender, age, income, family size, lifestyle, social roles, reference groups and status which have an impact on the buying behavior of consumers. The study also identified psychological variables like product availability and representativeness to have influence on the buying behavior of consumers. Additionally, the study found that consumers, who are more conscious to price are more prone to get attracted to prices that are nine-ending. The study also revealed that customers who are tilted towards hedonism, are more symbolical in nature, belongs to the lower income category, educationally low and are of the young age category are more likely to go for products and services that are prices with nine-ending digits.

Schindler, Parsa and Naipaul (2011) in their study found that the use of "just-below" pricing (such as pricing an item at \$6.99 or \$6.95, rather than \$7.00) has become common in some segments of the hospitality industry like quick-service and mid-scale dining. The results of a detailed study on the price-ending beliefs of hospitality managers show the belief of many that just-below pricing signify good value and round-number prices indicate high quality. Furthermore majority of the managers believe that consumers have a tendency to give lesser attention to the rightmost digits of a price.

Boyes, Allen, Lynch, and Mounts (2007) in their study are of the view that the observation of charging prices a few dollars or a few pennies below an even (whole) number is named as odd pricing. Scholars attempting to describe odd pricing use a logic that, in part depicts on the varying degrees of irrationality on the part of the consumer. The study provided a rationale for odd pricing by assuming consumers and businesses to be rational and informed. The study provides empirical proofs to support the view.

Ruffle and Shtudiner (2006) in their study found that, there exist many theories that make an effort to delve on the rule of 99 price policy. Most of these theories either do not hold up to inspection or hypothesize irrational consumers who serve as a money pump for firms to be fully rational. The study found that convergence to the policy of 99-cent equilibrium is more rapid and pervasive when firms are in a position to follow the pricing decisions of others. Competitors as was done previously.

Sehity, Hoelzl and Kirchler (2005) in their study found that retail managers in the process of using psychological pricing try to create impression that the prices of goods is just below a round number. The introduction of Euro in the year 2002, with varying rates of exchange, changed the traditional pattern of nominal price but at the same time could maintain real prices. Their research also tried to study consumer prices pre and post introduction of euro by using Benford's Law as a point of reference in the adjustment of price. The study revealed the genuine utility of this yardstick for identifying malpractices in prices and identified a new tendency towards psychological pricing after an initial minor hiccup due to the introduction of euro. Further the study revealed that the practice of using psychological prices led to the presence of varying rates of inflation.

Thomas and Morwitz (2005) in their research work stressed on the policy of pricing and tried to study how consumers interpret the distinction between prices ending in .00 or .99. The study which focuses on the left digit discovered that the distinction can be important to consumers. The study found that prices ending with nine may from time to time but not frequently be interpreted to be lower compared to a price which is tagged a cent higher. This observation is more likely to happen with the introducing of a pricing policy ending with nine which causes a change in the left-most digit. Their study in fact focuses on the left digit effect.

Bizer and Schndler (2005) through their research work was of the opinion that charging prices of products at a cent lower than a whole number (e.g., \$4.99 instead of \$5.00) can be a good strategy for stimulating the increase of purchases. This practice has been maintained for multiple objectives, but the most commonly associated reason is that consumers have a tendency to drift off or pay less interest to the rightmost two digits. This drift-off method has mobilised only meandering support as empirical research is very rare to find out this fact.

Ashworth, Heyndels and Smolders (2003) in their research work analysed the major hypothetical urgings where price points exist and their application in the public sector. The study puts forward the fact that psychological taxing gets disclosed by the employment of non-0 ending rates of tax. The study found that 308 Flemish Municipalities in the fiscal year 1998 charged income tax by use of tax rate endings which directly suggested the use of psychological taxing. The study also found that taxes ending on non-0 occur often in municipalities where public policy demand is more elastic (and in situations where the politicians gain more by fixing a tax just below a tax point).

Gedenk and Sattler (1999) in their study argued that the decisions of firms to adopt the policy of psychological pricing may be justified during times of uncertainty. The study found that the inaccuracy is deemed to be more severe, if the current price limits are not given due consideration with a general policy in pricing ending at digit 9 (nine). The study suggests that business organizations who suffer from the uncertainty on the behavior of consumers towards them are suggested to adopt a policy of odd-pricing.

Gedenk and Sattler (1999) in their study argued that the decisions of firms to adopt the policy of psychological pricing may be justified during times of uncertainty. The study found that the inaccuracy is deemed to be more severe, if existing

price thresholds are ignored than if non-existing price thresholds are considered with a general pricing strategy ending at digit 9. Thus, firms suffering from uncertainty about the behavior of consumers are better advised if they follow an odd-pricing strategy.

Blinder, Lebow and Rudd (1998) through their research work was of the view that conventionally, the theory of psychological pricing points is placed in the eight ranks out of twelve theories and the agreement index is by and large low in score. But the authors found the agreement index to be considerably strong for those firms who do for directly selling to consumers. Psychological pricing besides being regarded as a vital pricing strategy, is also regarded as a catalyst to asymmetry of price. It is in fact regarded as a barrier against further increase of price than as a common principle where every change in price denotes a shift in company policy towards customers.

Basu (1997) in his research work on psychological pricing suggested that rational consumers value their own time effort and calculation. Such consumers process the price from left to right and tend to mentally replace the last two digits of the price with an estimate of the mean "cent component" of all the goods in the market place. This implies that any individual seller can charge the largest possible "cent component" (i.e. 99) without significantly affecting the average of cent components and consequent has an affects on the behavior of the consumers.

NEED OF THE STUDY

Though the concept of psychological pricing is often used by marketers in practice as a pricing strategy to entice customers for products and services, study on the perception of retailers and consumers on psychological pricing in quite less. In fact knowledge on the perception of retailers and consumers on psychological pricing can help marketers in framing vital marketing policies in terms of marketing communication and distribution. Hence a need was felt to know the perception of retailers as well as consumers on psychological pricing.

OBJECTIVE OF THE STUDY

With the identified need, a systematized study was intended to be conducted with the twin objectives of studying the overall consumer perception on psychological pricing and overall retailer perception on psychological pricing.

METHODOLOGY

A. Basics

The study was conducted in the city of Guwahati in the state of Assam. Guwahati is the gateway of north east India. The study has been undertaken in the first quarter of 2017. The method of multi-staged sampling cum cross sectional study has been used for the collection of primary data. The sample size has been determined both by qualitative approach and quantitative approach. A sample size of 200 each was taken on the retailers and consumers respectively in total for a more representative study, as a sample size of 200 is common and minimum size prescribed for behavioural studies and based upon affordability. It also ensured the minimum size in each cell while doing the cross tabulation for the required statistical analysis (Sudman, 1976).

The outlets from which the respondents were selected for the survey are walking customers of the

departmental stores and retail chain of the Guwahati city. The stores include Vishal Mega Mart, Pantaloon Retail, De Cathlon, Big Bazar, Brand Factory, Reliance Trenz, Metro Bazar, Guwahati Bazar, Hub, India Bazar and Sohum Shoppe.

B. Questionnaire Construction

The questionnaire prepared comprises of a set of seven attitudinal statements related to the important determinants of retailer's perception on psychological pricings and ten attitudinal statements related to the important determinants of consumer's perception on psychological pricings. These statements are used to tap the perception of retailers and consumers on psychological pricing. The detailed questionnaire may be referred to in the Appendix.

C. Parameters used

Retailers selected for the survey includes those who deal with FMCG and Durables. Determinants of psychological pricings, comprises of seven identified determinants (or statements) and they are described in a 5 point Likert Scale where retailers are asked to rate their degree of agreement or disagreement in relation to each statement (where 5 denotes Highly Agree, 4 denotes Agree, 3 denotes Neither Agree nor Disagree, 2 denotes least Agree and 1 denotes Do not agree. The statements are (i) Chances of selling is more (ii) It attracts and forces customer to have a look (iii) The working level of salesman increases (iv) Opportunity for salesman to earn a good salesman credit point in the organisation (v) Retailers also gets a chance of offering the customers at discount

(vi) Does not have any effect on the retailers (vii) 99 gives a good effect in the mind of the customers.

At the same time the consumers includes the purchasers of both FMCG and Durable items. Determinants of psychological pricings, comprises of ten identified determinants (or statements) and they are described in a 5 point Likert Scale where consumers are asked to rate their degree of agreement or disagreement in relation to each statement (where 5 denotes Highly Agree, 4 denotes Agree, 3 denotes Neither Agree nor Disagree, 2 denotes least Agree and 1 denotes Do not agree. The statements are (i) It gives me the feeling that prices is low (ii) It is a good way of savings from tax (iii) It gives me the feeling of buying more (iv) 99 looks better than 100 (v) Seeing 99 motivates me to immediately buy the product (vi) By paying 99 it gives me a discount of Rs.1 (vii) A difference of Rs.1 will not give me any savings (viii) It is a Company's policy to attract customers (ix) It depends on the quality of a product (x) Influences to have a trial or try out other variety.

Cronbach's alpha has been applied to the 'determinants of psychological pricing' (as shown in Table 1.1 and 1.2 for retailers and consumers respectively). The reliability score of the scale has been found to be 0.82 and 0.87 (for Retailer's perception and Consumers perception respectively) which are acceptable as each of them is greater than 0.60 (Nunnally, 1976), hence it can be accepted that reliability of the determinants of psychological pricing can be used to carry out further analysis.

Table 1.1: Retailers Perception

Sl no	Statements	Cronbach's Alpha
S1	With such pricing the chances of selling is more	0.82
S2	It attracts and forces customer to have a look on products	
S3	The working level of salesman increases with such pricing	
S4	It is a chance for salesman to earn good salesman credit point	
S5	Retailers gets a chance of offering the customers at discount	
S6	Such pricing does not have any effect on the retailers	
S7	The tag of 99 gives a good effect in the mind of the customers	

Table 1.2: Consumers Perception

Sl no	Statements	Cronbach's Alpha
S1	It gives me the feeling that price of the product is low	0.87
S2	Such policy is a good way of savings from tax	
S3	It instills in me the motivation to buy more	
S4	The price tag of 99 looks better than the tag of 100	
S5	Seeing 99 makes me an impulse buyer of the product	
S6	By paying 99 it gives me a discount of Rs.1	
S7	A difference of Rs.1 will not give me any savings	
S8	It is a Company's policy to attract customers	
S9	It depends on the quality of a product	
S10	Such policy influence to have an trial or other variety	

D. Analysis technique used

Average value or mid-value is a single value within the range of the data that is used to represent all the values in a series (Croxtan and Cowden, 1952). Mid-value has been arrived at by summation of the ratings on a particular variable given by each respondent and then dividing the total value by the total number of respondents. In market research, the concept of mid-value is widely used for ranking a series of identified factors based on the degree of importance that customers attach on. These are thereby used to make comparison and take important marketing decisions.

ANALYSIS

Question no 1 (Part A) comprised of 7 statements which were given to the respective retailers to give appropriate ratings on their degree of agreement or disagreement to the statements. Details of the statements with the average (or mid) score is given in Table no 1.3 as given below. The average score of retailers for all the statements are also shown in the form of a bar diagram as shown in Figure no 2.1.

Table 1.3 showing the Average Score of Retailers for all the statements

Sl no	Statements	Average Score
S1	Chances of selling is more	4.35
S2	It attracts and forces customer to have a look	4.40
S3	The working level of salesman increases	4.02
S4	Opportunity for salesman to earn a good salesman credit point	4.27
S5	Retailers also gets a chance of offering the customers at discount	4.11
S6	Does not have any effect on the retailers	3.01
S7	99 gives a good effect in the mind of the customers	4.34

On the Analysis of the rating of the Statements, it has been found that Statement 2 (It attracts and forces customer to have a look) has got the highest mean score which is 4.4. The second highest rating is received by Statement 1

(Chances of selling is more) which is 4.35. The Statement no 7 (99 gives a good effect in the mind of the customers) has recorded the third highest rating which is 4.34.



Figure no 2.1 showing the Average Score of Retailers for all the statement

FINDINGS

On the analysis of the perception of psychological pricing from the retailer’s point of view it has been found that firstly retailers think that it attracts and forces customer to have a look on the product. Secondly retailers think that the chances of selling is more when there is psychological pricing and thirdly they view that the price tag of Rs 99 gives a good or positive effect in the mind of the customers towards the product. Lastly it motivates the salesman for earning good credit point in the organization.

Marketing Implications

Psychological pricing attracts and forces customer to have a look at the products. Therefore marketers can use this as an opportunity to bring customers attention towards the product, entice them and finally pursue them to purchase

the products. Secondly as psychological pricing increase the chances of selling products, it is a motivation for the sales people for selling such products. Thirdly since the figure 99 give a good effect in the mind of the customers it is a good marketing strategy to bring more customers and inspire retailers to promote the products of the company.

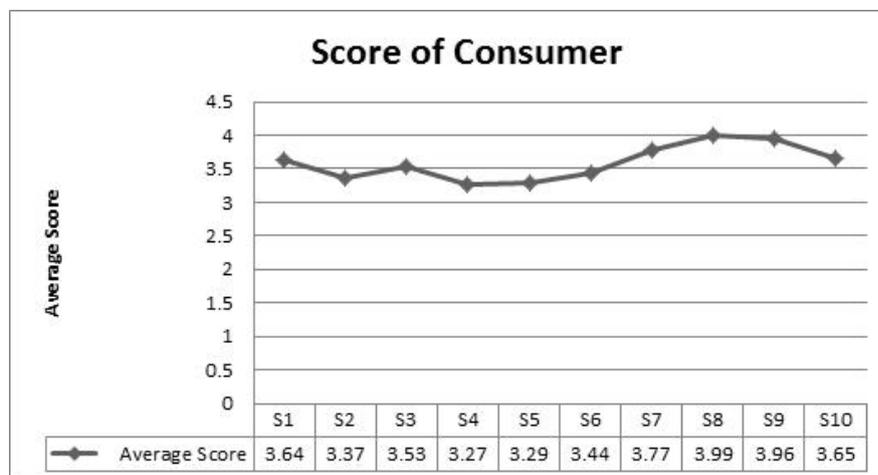
Question no 2 (Part B) comprised of 10 statements which were given to the respective consumers to give appropriate ratings on their degree of agreement or disagreement to the statements. Details of the statements with the average (or mid) score is given in Table no 1.4 as given below. The average score of consumers for all the statements are also shown in the form of a bar diagram as shown in Figure no 2.2.

Table 1.4 showing the Average Score of Consumer for all the statements

Sl. No	Statements	Average Score
S1	It gives me the feeling that price is low	3.64
S2	It is a good way of savings from tax	3.37
S3	It gives me the feeling of buying more	3.53
S4	99 looks better than 100	3.27
S5	Seeing 99 motivates me to immediately buy the product	3.29
S6	By paying 99 it gives me a discount of Rs.1	3.44
S7	A difference of Rs.1 will not give me any savings	3.77
S8	It is a Company's policy to attract customers	3.99
S9	It depends on the quality of a product	3.96
S10	Influence to have a trial or try out other variety	3.65

On the Analysis of the rating of the Statements, it has been found that Statement 8 (It is a Company's policy to attract customers) has got the highest average mean score which is 3.99. The second highest rating is received by

Statement 9 (It depends on the quality of a product) which is 3.96. The statement no.7 (A difference of Rs.1 will not give me any savings) has recorded the third highest rating which is 3.77.

**Graph 2.2 showing the Average Score of Consumer for all the statements**

Findings

On the analysis of perception on psychological pricing from the consumer's point of view it has been found that consumers: firstly view it is a Company's policy to attract customers. Secondly consumers perceive that a difference of Rs.1 will not give customers any profit and thirdly consumers feel that psychological pricing depends on the quality or quantity of the product. Lastly it influences to have a trial or other variety of the product.

Marketing Implications

It is the task of the marketer to grab attention and educate the customer on the products that such pricing policy is an opportunity for customers to purchase and save money in purchases. Secondly company can communicate that products with such pricing policy is equally good in quality compared to other normal products otherwise such kind of policy will not get a good market for the brand in the long run. Thirdly offering discounts to customers is a company policy for increasing goodwill of the company.

CONCLUSION

In today's competitive world psychological pricing plays a major role in the market. Since from retailer perception it has been found that through psychological pricing there is a chance of increase in sales and it will also benefit the retailers

to earn a good salesman credit point in the organization. Retailers can also attract and induce consumer to have a look or trial by displaying the products that are psychologically priced.

SCOPE FOR FUTURE RESEARCH

Future research can be done to study the perception of consumers on psychological pricing related to specific product categories like apparels, electronic goods, shoes and the like as this report is limited to studying the overall perception of consumer and retailer in shopping malls in all product categories.

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Authors' bio-sketch

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At present working as an Assistant Professor at Assam Institute of Management (A Professional Management Institute under the Government of Assam Society Act); has been in Academics and Industry for a total of fifteen years; a first class MBA and PhD holder from Gauhati University; recipient of the 'Best Student Research Paper Award' at the 5th Annual International Conference Biz-Strategy 2015 at Singapore; recipient of the University Gold Medal in MA (DE) from IGNOU; Interested areas of research are Service Marketing, Consumer Behaviour, Retailing and Rural Marketing.

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ANNEXURE

PART A

Questionnaire (for Retailers)

Question1. Indicate the degree of your agreement to the following statements

Sl no	Statements	Degree of Agreement				
		5	4	3	2	1
1	Chances of selling is more					
2	It attracts and forces customer to have a look					
3	The working level of salesman increases					
4	Opportunity for salesman to earn a good salesman credit point					
5	Retailers also gets a chance of offering the customers at discount					
6	Does not have any effect on the retailers					
7	99 gives a good effect in the mind of the customers					

(5 - Highly Agree 4 - Agree 3 - Cannot say 2 - Least Agree 1 - Do not Agree)

PART B

Questionnaire (for Consumer)

Question2. Indicate the degree of your agreement to the following statements

Sl no	Statements	Degree of Agreement				
		5	4	3	2	1
1	It gives me the feeling that price is low					
2	It is a good way of savings from tax					
3	It gives me the feeling of buying more					
4	99 looks better than100					
5	Seeing 99 motivates me to immediately buy the product					
6	By paying 99 it gives me a discount of Rs.1					
7	A difference of Rs.1 will not give me any savings					
8	It is a Company's policy to attract customers					
9	It depends on the quality of a product					
10	Influence to have a trial or other variety					

(5 - Highly Agree 4 - Agree 3 - Cannot say 2 - Least Agree 1 - Do not Agree)

