

# PRICE-CUT AND CONSUMER BEHAVIOR

A Qualitative Study of Buying Power in the Indonesian Market

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*The growing phenomena of price-cut reflect a reality that Indonesian consumers are very sensitive toward price (price-sensitive). On the contrary, there may have been pessimism that the pricing policy could potentially damage product quality as well as minimizing the benefit of core product in various consumer-oriented perspectives. This study intends to describe the phenomena of price-cut to explain arguments that the low level of buying power within the context of market in Indonesia could be questioning. The study uses focus group discussion among students at PTS "X" in Surabaya.*



*Keywords: price-cut, consumer behavior*

**Abstract**

Price-cut is still relevant in today's competitive market and has become an effective way to give attention to the existing customers as well as finding the prospective ones. The following is an illustration how price cut policy remains popular in the way to be placed as part of promotional efforts.

Packaged-goods firms spend some \$70 billion a year on various promotions. These include giving away new products and doling out extra quantities of detergent or peanut butter. But the most common ploy—roughly half of all promotions in, say, Britain—are simply to cut the price for a few weeks. Back in 1992 Procter & Gamble abandoned “trade promotions”, the discounts it gave retailers to subsidise the special offers they use to lure customers, largely because stores were abusing the system. Among marketing men, however, price cuts remained as popular as ever. It is an article of faith that they both reward loyal customers and woo new ones. (The Economist, 1988:67)

Chen et al. (2006) stated in his research how Marlboro's permanent price-cut policy taken by Phillip Morris in 1993 was effective in encouraging consumers to break their purchasing habits and experiment with unfamiliar brands.

Within Indonesian context, the discounted pricing strategy for consumer products has been positively accepted by market. Shopping centers in several big cities have become favorite places to go because of pricing-cut policies in various forms. The

pricing-cut can be made directly by lowering market price, or by “confusing” perception toward price through market education. In other way the pricing-cut can also be made indirectly by “cutting” the core benefit of the product. As stated by Kotler (2000) in the way he mentioned “level of product” that this policy is made by decreasing the number of levels of the product.

Within business perspective, the pricing cut policy is considered as an effort to give surprising shock. This will be a common phenomenon that is easily found in today's trend of mobile phone operator advertisement. The psychological war to find the best place in the mind of customer has been easily made through the logical game of price and that the game attracts the customer in the way to find their own best and “appropriate” price.

In the context of consumer market in Indonesia this phenomenon of price-cut is very interesting to discuss. Pricing cut policy is very relevant within the issues of the “poor” buying power here. On the contrary there is an argument that Indonesian consumer could be a prestige-seeking consumer who realistically looking for higher price instead of the lower one.

The study intends to rationalize problems whether price-cut in the form of discounted pricing policy is necessary within the complexity characteristic of consumer market in Indonesia. Three key issues introduced in this study are price-cut and lowering the core benefit (Problem-1),

price-cut and consumer buying power (Problem-2), and price-cut and prestige-seeking consumer (Problem-3).

### Theoretical Background

Volckner (2008) made research on the role of price and consumers' reactions. There are two effects of price (dual role price) that will have relation with consumers' reactions. First, the sacrifice effect of price, which stems from classic economic theory, represents the consumers' evaluation of the amount of money he or she must sacrifice to satisfy his or her consumption needs. In this respect, price generates disutility and negatively affects purchase probabilities. However, consumers do not always choose the lowest priced product in a category, even when the products are otherwise similar. One explanation for this behavior argues that consumers infer quality information from price, such that higher prices indicate higher quality and thus increase perceived utility (and vice versa), which results in a positive price response of demand. There are two drivers in the sacrifice effect of price, namely allocative effects, and transaction utility. Secondly, the informational effect of price may extend to favorable price perceptions, because higher prices can convey the prominence and status of the purchaser to other people. There three drivers in informational effect, namely price-quality beliefs, prestige effect, and hedonistic effects.

Research conducted by Grewal et al (1998) found that price discount had positive effect on buyers' perceived value with t value

accounted for 34.55. The influence of price discounts on perceived value is very strong.

The ineffective ways of price-cut that might potentially have little or even “unprofitable” impact to stakeholder are that perception of incentives other than price.

Price-cut also appears to have little lasting effect on sales volumes. In an unpublished study, a team at Purdue University led by Doug Bowman spent eight years scrutinising how almost 1,600 households in America bought a typical household product such as detergent. The study found that consumers exposed to repeated price-cuts learn to ignore the “usual” price. Instead they wait for the next discount and then stockpile the product. They also tend to become discount junkies, stimulated into buying only by ever steeper discounts. As Bowman explains, price promotions not only cut margins, but also leave manufacturers to cope with costly fluctuations in stocks. (The Economist, 1998:67)

Price resembles the quality. The perception of price could be an indicator of product quality (i.e. the higher the price, the higher the perceived quality of the product).

Perceived product value has been described as a trade-off between the product's perceived benefits (or quality) and the perceived sacrifice required to acquire it.

A number of research studies support the view that consumers rely on price as an indicator of product quality. Several studies

have shown that consumers attribute different qualities to identical products that carry different price labels. Other studies suggest that consumers using a price/quality relationship are actually relying on a well-known (and hence more expensive) brand name as an indicator of quality, without actually relying directly on price per se. (Schiffman & Kanuk, 1997:179)

Belief component refers to the accumulated feelings and priorities that individuals have about things and possessions. Beliefs consist of the very large number of mental or verbal statements that reflect a person's particular knowledge and assessment of something. (Schiffman & Kanuk, 1997:406)

Attitude is a learned predisposition to behave in a consistently favorable or unfavorable way with respect to a given object. Attitudes relevant to purchase behavior are formed as a result of direct experience with the product, information acquired from others, or exposure to mass media advertising and various forms of direct marketing. As learned predispositions, attitudes have a motivational quality; that is, they might propel a consumer toward a particular behavior or repel the consumer away from a particular behavior. (Schiffman & Kanuk, 1997:236-237)

The attitude-change strategies that are available to them are: (1) changing the basic motivational functional, (2) Associating the product with a special group, event, or cause, (3) Resolving two conflicting attitudes, (4) Altering components of

the multi attribute model, (5) Changing beliefs about competitors' brands, (6) The elaboration likelihood model. (Schiffman & Kanuk, 1997:262-271)

In economic perspective, pricing reflects the monetary sacrifice a consumer makes to acquire a product or service (Stigler, 1987). For rational man he has to sacrifice his resources to get utility from certain product or service.

From the standpoint of the firm, price is supposed to *capture* rather than *shape* value. Consistent with this view, marketing tools for estimating consumer preferences, generally treat price as if it has no influence on how a product's benefits are perceived. (Bertini and Wathieu, 2006:2-3)

In conjoint analysis (Green and Rao 1971; Green and Srinivasan 1990), for example, rank order preferences are computed from a multivariate utility function in which price is a separate profile attribute (Bradlow 2005) that has only a main (negative) effect on preferences.

Recent behavioral research, however, suggests that shifts in preferences could be determined by the way prices are framed (Krishna et al. 2002; Winer 1988, 2005). Russo (1977), for example, demonstrated that consumer expenditure is affected by whether unit prices are shown as separate tags or ordered lists.

Other researchers have found that firms can benefit from communicating prices in

percentages rather than absolute terms (Heath et al. 1995), reframing an expense into a series of ongoing charges (Gourville 1998), adding plausible comparative price information to an advertising message (Urbany, Bearden, and Weilbaker 1988), and even setting prices one cent below the nearest dollar value (Anderson and Simester 2003; Thomas and Morwitz 2005).

According to Chen et al. (2006) Marlboro's policy on permanent price-cut was effective in making consumers focus on quality. Here is the summary of major findings regarding Marlboro's policy on permanent price-cut:

1. Consumers are found to reside in "habit persistent" and "variety seeking" states. The price-cut induce consumers to transit to the variety-seeking states.
2. The new pricing policy shifts consumer preference in the long-run. Consumers become more quality sensitive and less-price sensitive.
3. The shift of consumer preference allows consumers to experiment with unfamiliar premium brands, which translates into gradual reduction of quality uncertainty.
4. The new pricing policy has a bigger impact on the prior price-sensitive consumers.
5. Consumers are more likely to purchase Marlboro because of higher quality sensitivity, lower quality uncertainty, and permanently lowered prices.

### Methodology

A convenience sample of 34 university

students at PTS "X" in Surabaya participated in this study. The research uses combination of quantitative and qualitative approach to elaborate as whether price-cut can significantly have relation to the key issues of lowering product's core benefit within the various consumer-oriented perspectives, issues of consumer buying power, and issues of prestige-seeking consumer.

Qualitative approach is mainly used to support and develop the hypotheses. The writer conducted focus group interview (Berg, 2001:111) to learn through discussion related to psychological aspect of price and price-cut among 2 (two) groups. First group is those who have the opinion that price should be relevant with product quality. While the second group is those who have the opinion that lower price should not be perceived as low quality.

Quantitative approach is used to test the hypotheses. The study uses causal-comparative method. Causal-comparative method attempts to determine the cause, or reason, for existing differences in the behavior or status of groups of individuals (Gay and Diehl, 1992:359).

There are four variables that are used in quantitative approach. They are favorable response related to price and beliefs (V1), unfavorable response related to price and beliefs (V2), favorable response related to price and attitude (V3), unfavorable response related to price and attitude (V4).

Using Pearson correlation, most of all items in

the questionnaire are significantly valid at the 0.01 level, while Cronbach Alpha values for the reliability are accounted for 0.5452 (V1), 0,6245 (V2), 0,5833 (V3), and 0,3910 (V4).

The study uses the following framework to discuss price-cut and impact to consumer behavior:

Figure 1: Framework: price-cut and impact to consumer behavior (1)

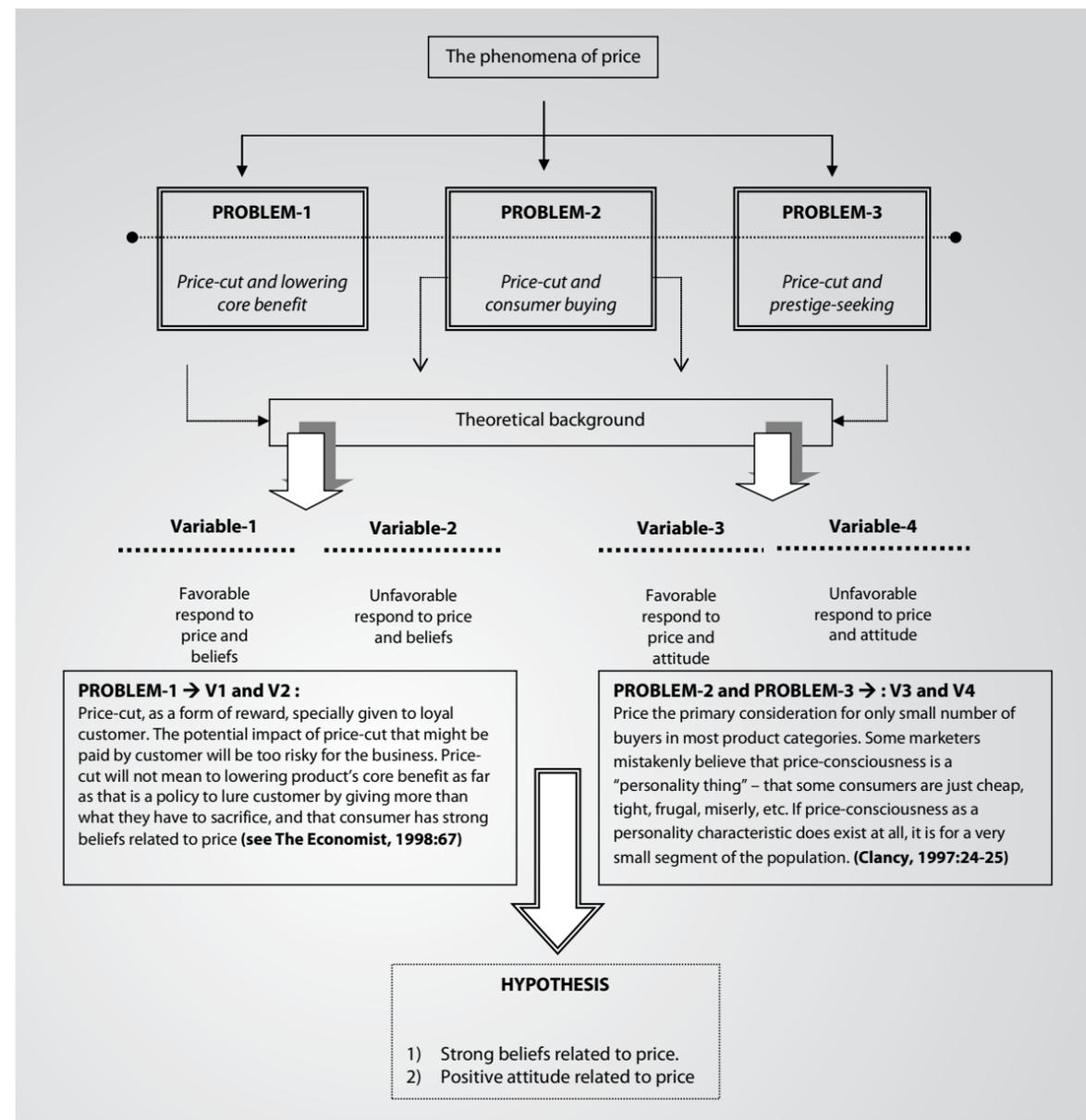
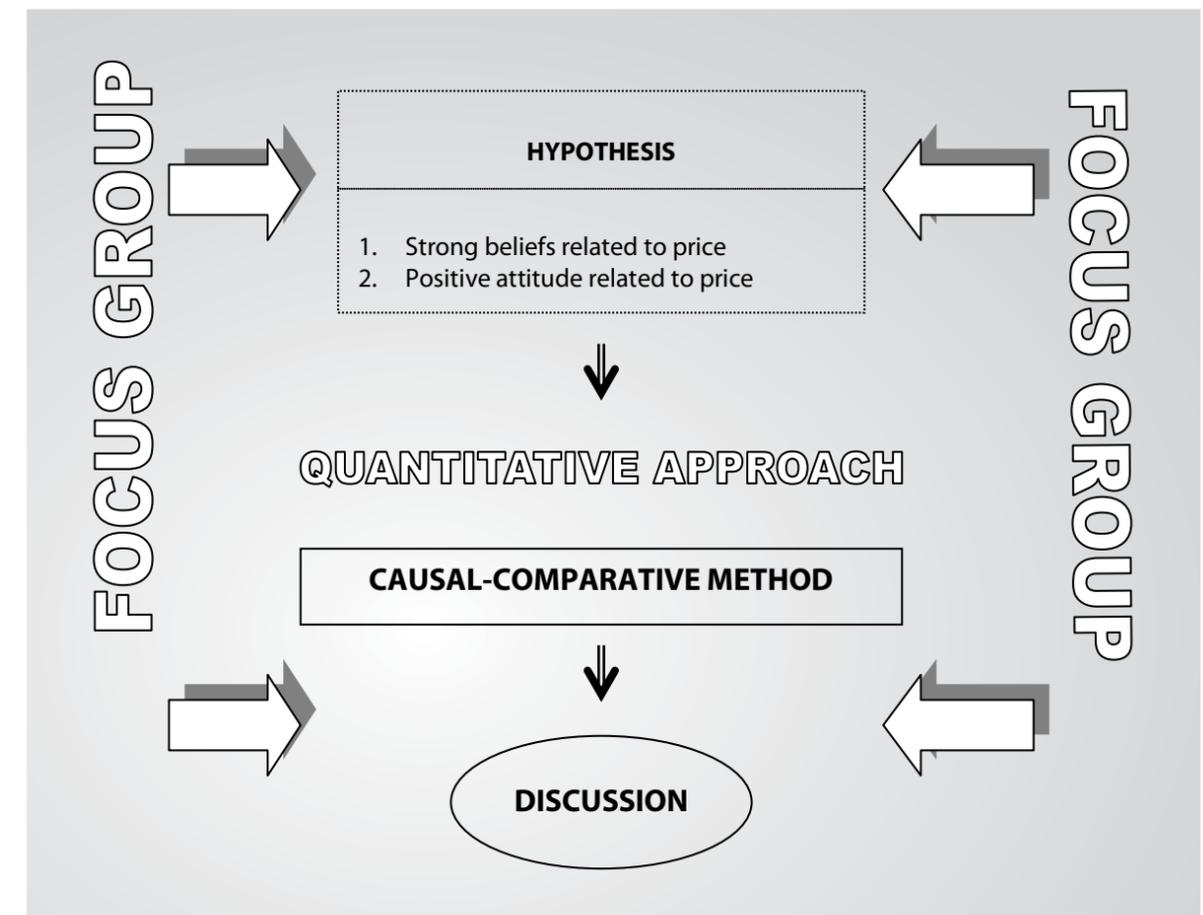


Figure 2: Framework: price-cut and impact to consumer behavior (2)



**The Findings**

1. **H1:** There is difference between FAVORABLE RESPONSE to price and beliefs and UNFAVORABLE RESPONSE to price and beliefs. (t = 6.162 with p value < 0.01)

**T-Test**

**Paired Samples Statistics**

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 V1	14.88	34	2.10	.36
V2	10.74	34	2.29	.39

**Paired Samples Correlations**

	N	Correlations	Sig
Pair 1 V1 & V2	34	-.600	.000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error	95% Confidence of the Difference				
					Lower	Upper			
Pair 1	V1-V2	4.15	3.92	.67	2.78	5.52	6.162	33	.000

2. **H2:** There is difference between FAVORABLE RESPONSE to price and attitude and UNFAVORABLE RESPONSE to price and attitude. (t = 3.276 with p value < 0.01)

T-Test

Paired Samples Statistics

Pair		Mean	N	Std. Deviation	Std. Error Mean
1	V3	12.85	34	2.10	.31
	V4	11.32	34	2.29	.24

Paired Samples Correlations

Pair 1	V3 & V4	N	Correlations	Sig
		34	-.436	.010

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error	95% Confidence of the Difference				
					Lower	Upper			
Pair 1	V3-V4	1.53	2.72	.47	.58	2.42	3.276	33	.002

3. **H3:** There is strong beliefs that price related to the value (t = 1.768 with p value > 0.05). There is no difference between the beliefs that high price reflects high value (V1.3) and the intention to buy high priced product for the reason of high quality (V3.4). The result can be presented as follows:

T-Test

Paired Samples Statistics

Pair		Mean	N	Std. Deviation	Std. Error Mean
1	V13	2.68	34	.70	.13
	V34	2.38	34	.60	.10

Paired Samples Correlations

Pair 1	V13 & V34	N	Correlations	Sig
		34	.013	.940

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error	95% Confidence of the Difference				
					Lower	Upper			
Pair 1	V13-V34	.29	.97	.17	-4.44E-02	.63	1.768	33	.086

4. **H4:** There is significant difference in perception that price becomes primary judgment (V1.2) prior to buy and the beliefs that high price reflects high value (V1.3) with t value accounted for 3.644 and p < 0.01. The result can be presented as follows:

T-Test

Paired Samples Statistics

Pair		Mean	N	Std. Deviation	Std. Error Mean
1	V12	3.24	34	.61	.10
	V13	2.68	34	.77	.13

Paired Samples Correlations

Pair 1	V12 & V13	N	Correlations	Sig
		34	.169	.340

Paired Samples Test

		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	V12-V13	.056	.089	.15	.25	.87	3.644	33	.001

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
V12	34	3.24	.61	.10
V13	34	2.68	.77	.13

One-Sample Test

		Paired Differences					
		t	df	Sig. (2-tailed)	Mean Difference	95% Confidence of the Difference	
						Lower	Upper
V13		2.264	33	.030	.24	2.39E-02	.45
V34		-2.458	33	.019	-.32	-.59	-5.57E-02

Though price becomes the primary judgment prior to buy, there has no relation with the beliefs that high price reflects high value. In one-sample test V1.2 has mean difference 0.24 with t value 2.264 and p value > 0.01, while V1.3 has mean difference -0.32 with t value -2.458 and p value > 0.01. The perception that price becomes primary judgment prior to buy and beliefs that high price reflects high value are relatively strong (close to the value of 3 which means "agree").

5) **H5:** There is a difference between the idea that price becomes primary judgment prior to buy (V1.2) and the idea that price does not become primary judgment prior to buy (V2.2). The following results indicate that respondents are consistent with the idea that price has become major consideration before they buy something (t value 6.066 and p < 0.01). 61.8% of the respondents do not agree that price does not become primary judgment prior to buy (V2.2).

T-Test

Paired Samples Statistics

Pair		Mean	N	Std. Deviation	Std. Error Mean
1	V12	3.24	34	.61	.10
	V22	1.94	34	.81	.14

Paired Samples Correlations

Pair		N	Correlations	Sig
Pair 1	V12 & V22	34	-.524	.001

Paired Samples Test

		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	V12-V22	1.29	1.24	.21	.86	1.73	6.066	33	.000

V22

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	9	26.5	26.5	26.5
	2	21	61.8	61.8	88.2
	3	1	2.9	2.9	91.2
	4	3	8.8	8.8	100.0
	Total	34	100.0	100.0	

Discussion

**Price and lowering core benefit.** Price reflects a value in the condition that consumer could see as a guarantee of assurance, a form of assurance that product could have maximum utility. Therefore, price-cut policy should give additional

utility and that the consumer could satisfy their needs. There should be undeniable fact that the price-cut policy will lower the core benefit of product (Problem-1). There is a significant difference between favorable respond of price and beliefs and unfavorable respond of price and beliefs

with p value < 0.01. It means that price has important role to describe the core benefit which lay inside that policy. The significant difference between V-1 and V-2 reveals that price can develop beliefs.

**Price and consumer buying power.** In case that lowering or price-cutting are well-perceived as a very important factor, it will then be argued that market has low buying power. It means that the market could only respond positively when the pricing policy could be perceived as a cost of sacrifice.

Price-sensitive consumers will buy goods or services due to price pressure or that they have concern much on the price. The hypothesis will then be able to make that market in Indonesia is considered as a very prestige-seeking. If that hypothesis is supported, the prestige-seeking characteristic will not cause price-sensitive. Prestige-seeking market will not be sensitive toward price but tend to find the higher price.

The strong beliefs and attitude toward price could show positive beliefs and attitude toward price. The strong beliefs could mean that consumers agree to pay in various range of price for certain product without having problem in consumer buying power. (Problem-2)

**Price cut and prestige-seeking consumer.** Prestige-seeking consumers tend to focus on price and prestige. High price becomes an object or key motivation for this consumers as high price could socially reside themselves in high social class. With regard to certain condition this motivation will later have no concern on purchasing power. It means that prestige as an object should be achieved without concerning on how much prices should be taken. (Problem-3)

### Conclusion

Problem concerning on price has been an interesting topic specifically when it is related to the consumer's internal problems (motivation, beliefs, attitude, etc.). Within the business perspective those consumer's internal problems have become major information to achieve effective strategic marketing. The phenomenon of price-cut within the context of market in Indonesia has been very relevant with macro problems such as consumer purchasing power and prestige-seeking consumer.

Price-cut is also still relevant without having "suspicious" in lowering product's core benefit. From the context of consumer buying power price-cut is in a very positive response. While from the context of prestige-seeking consumer price cut is a little bit in a conditional situation. ■

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