

Effects of price endings on demand and pricing

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Abstract

Empirical product prices often show certain price endings, i.e., values after the digit, more often than others. The question arises whether price endings non-linearly affect the purchase decisions of consumers and whether firms consider these reactions in pricing. This study is the first that provides a holistic market perspective of consumer demand and firms' pricing to answer this question. At an example of real-world sales of a fast moving consumer good, the study introduces an approach that considers heterogeneity of consumers' reactions - in particular towards price - and at the same time explores in the full range of possible price endings potential non-linearities of the effect. This approach allows us, for example, to differentiate between consumer segments that are differently responsive to price endings.

Keywords: Price endings; Random coefficient logit; Store-level aggregate data; Panel data; Structural model; Simultaneous demand and supply.