

Article Title

Hospitality managers' price-ending beliefs: a survey and applications

Citation

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Abstract

The use of "just-below" pricing (such as pricing an item at \$6.99 or \$6.95, rather than \$7.00) has been common in some segments of the hospitality industry (such as quick-service and mid-scale dining). The results of a detailed survey of the price-ending beliefs of hospitality managers show that many believe that just-below prices connote good value and roundnumber prices connote high quality. Furthermore, the majority of these managers believe that consumers tend to drop off or otherwise give insufficient consideration to a price's rightmost digits. Although one might expect this drop-off belief among those managers who use just-below price endings, it is found also in a majority of those managers who do not use just-below price endings. The survey results suggest that managers who decline the benefits of a consumer dropoff tendency do so because they also believe in one or more possible negative consequences of using just-below price endings. These include the beliefs that just-below endings (1) impair perceptions of high quality, (2) work against an upscale image, (3) give an impression of not being fully honest or straightforward, and (4) involve inconvenience in calculating or communicating the price or in making change.

Methods

To test the research questions, they analyzed data from a survey of restaurant managers that was carried out as part of a larger study of consumer–manager pricing interactions.

Results

The respondents' answers to the question about the price ending that their restaurant most often used were grouped into two categories, round or just-below. Respondents who reported most often using 00, 50, or a 5-ending price other than 95 were classified as using a round ending. Respondents who reported most often using 99, 95, or any two-digit sequence ending in 9 were classified as using a just-below ending. A price change of a given size matters more when the leftmost digit changes than when it does not (the three items in the first factor all referred to that). This implies belief that the rightmost digits are given insufficient consideration compared to the leftmost digits (insufficient even recognizing that cents digits are less important than dollar digits), but does not require believing that these digits are entirely ignored. Almost two-thirds of respondents, 62.5 percent, agreed (i.e., responded either agree or strongly agree) with the statement that the 99 ending increases consumers' perception of overall high value.

Conclusion

An important finding of this study is that belief in the dropoff mechanism of price-ending effects is widespread among hospitality managers. More than four of five managers agreed with at least two of the basic drop-off belief items, and almost all of the managers surveyed agreed with at least one statement expressing the drop-off mechanism. This result helps clarify the Blinder group's findings, and it demonstrates the extensive belief in the drop-off mechanism among business managers whose companies sell to consumers. Furthermore, the results of this study indicate widespread managerial belief in the meaning mechanism of price-ending effects. Most managers expressed belief that 99 endings increase the consumer's perception of value and many agreed that 00 endings increase the consumer's perception of high quality. With regard to price-ending effects, these results concerning managerial beliefs complement the existing laboratory data supporting the drop-off mechanism (Bizer and Schindler 2005; Manning and Sprott 2009; Schindler and Wiman 1989; Thomas and Morwitz 2005) and the meaning mechanism (Naipaul and Parsa 2001; Schindler and Kibarian 2001). Although the laboratory studies were conducted under rigorous experimental conditions, their generality to an actual business environment has not been established. By contrast, our findings reflect the beliefs of a large number of experienced managers, from a diverse variety of restaurants located all over the United States. The widespread belief in the drop-off and meaning mechanisms found in our survey adds important support for these from the real world, because we attribute much wisdom to the collective intuitions of people who have long-term everyday contact with the buying public. Although the data for this study come only from restaurant managers, these results provide the most detailed look to date at managerial price-ending beliefs. Our results add support to other research evidence for the existence of two important mechanisms by which price endings may influence consumer behavior, and they suggest some areas for future research. Furthermore, these results suggest the possibility of negative consequences of using just-below price endings. This reminds the hospitality manager that, rather than being an easy, "nothing to lose proposition," the decision about whether to use just-below price endings is one worthy of careful deliberation.