

Pricing Categories and their Effects on Consumer Buying Decision

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Abstract—Consumer buying decisions (CBD) are affected by many factors and pricing is among them. However, to understand how pricing affects the buying decision of consumers, researchers found that it is necessary to clarify pricing categories. The objective of this study is to see how each pricing category affects CBD. Since there are few studies regarding the impact of pricing categories on CBD especially in Iraq, researchers investigated the impact of fair price, fixed price, and relative price on CBD. A questionnaire was distributed randomly on consumers who were willing to respond, 132 valid questionnaire were gathered and analyzed by SMART PLS3 to arrive at the study's findings. Moreover, the results showed that the fixed price and fair price had a positive effect on the CBD.

Keywords—Consumer buying decision, Fair price, Fixed price, Pricing categories, Relative price.

I. INTRODUCTION

Companies are currently battling to acquire customers to compete effectively in an environment where competition is growing by the day (Raewf et al., 2021a). However, consumers are linking quality, performance, features, and pricing with a product before making a buying decision. As a result, marketers find it challenging to forecast how customers will purchase a product.

Price has always been considered one of the key elements in determining consumer behaviors. A consumer's perception of the average price of a service in comparison to competitors' is known as "perceived pricing." The nature of the competitive pricing method drives the idea of perceived price. Such idea is based on customers' concerns about being charged above or below competitors' prices. According to Vogel and Watchravesringkan (2017), the price has an influence on purchasing decisions, and this effect applies equally to poor and developing countries. The price image is a broad and subjective expression that encompasses the emotional aspects of products and services. As a result of this intricate process, a consumer's perception of pricing is shaped, which may or may not reflect the real price of a service or product. For that reason, there may be a substantial disparity between the true price and buyers' price perceptions.

A product's price is categorized as follows: The relative price, the fixed price, and the fair price. Therefore, the study is being done to determine the impact of each pricing category on customers' buying decisions. Respondents in the study were customers randomly picked according to their willingness to cooperate.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A. Consumer Behavior

Consumer behavior is the process and behaviors that individuals participate in while looking for, choosing, acquiring, experiencing, reviewing, and disposing of products that meet their needs and wants. Customer behavior is the process through which a consumer makes a buying decision and also utilizes and disposes of acquired products or services. It also involves purchase decisions and product usage (Raewf et al., 2021b; Massoudi, 2018).

B. Consumer Buying Decision (CBD)

Studying customer behavior in target markets is an essential challenge in marketing management based on marketing principles (Kotler et al., 2014). Consumers' purchasing attitudes become extremely important since the

target market is impacted by the consumer's strengths, which is an external variable to a corporation.

The firm's proper price of an item or service will supply the most by generating some net revenue and profits. If the corporation concentrates on price competitiveness, it will have two options: Make price adjustments or respond to price changes made by rivals. A price that is set too high will result in a lower profit. In this instance, the purchaser will be less interested, as well as the value of sales will be lower (Massoudi, 2020; Amerta et al; 2017).

C. Pricing and Consumer Buying Decision

The product's price has a notable impact on consumers' decisions to buy it. Buyers' price perceptions convey a message about a product and assign value to it (Kotler and Keller, 2016).

According to Raewf and Thabit (2015), the objective price, which is the amount that the service actually costs and which customers seldom recall, and the perceived price, which is different for each individual and is the outcome of the objective price after a person's evaluation, are the two sorts of pricing. Customers then encode the perceived price, which generally takes the form of a non-numerical value. For more expensive products, the objective price is usually memorized (Raewf and Thabit, 2015).

Indications from studies on the specific effect of price on choice and evidence from absolute and differential price threshold research indicate that we know relatively little about how price influences a buyer's perceptions of other purchase offers and how these perceptions influence their reaction.

In addition, there are three categories of pricing a product: The fixed price, the relative price, and the fair price (Safitri, 2018). "Fair pricing" refers to the adjustment of a price that provides a balance of quality and appropriate services at a

reasonable price. A fixed price is a price that is the same for everyone who buys something. Relative pricing is the price established in relation to the seller's quality and service. Therefore, we hypothesize the following:

H1: The fair price has a positive and significant impact on CBD.

H2: The fixed price has a positive and significant impact on CBD.

H3: The relative price has a positive and significant impact on CBD.

III. METHODOLOGY

In this study, the main purpose was to find the impact of pricing categories (the fair price, the fixed price, and the relative price) on CBD as clarified in Fig. 1. Therefore, a quantitative method was used and researchers gathered both primary and secondary data to reach the study objectives. However, secondary data were gathered from previously published researches and were used to build the theoretical part of the study. In addition, primary data were gathered by distributing questionnaire on customers according to their willing to answer. Researchers distributed 175 questionnaires, while 132 were valid only. Furthermore, constructs measuring scales were fully adopted from other researchers as shown in Table I.

Furthermore, SMART PLS3 was utilized to analyze the gathered data and measure the relations between the constructs that have been examined. On the other hand, to do the analysis using SMART PLS, two steps are required; the first step is to assess the measurement model, while the second step is to assess the structural model as following (Karem et al., 2022).

A. Assessing the Measurement Model

This assessment is conducted to guarantee the reliability and validity of items which were used to present the

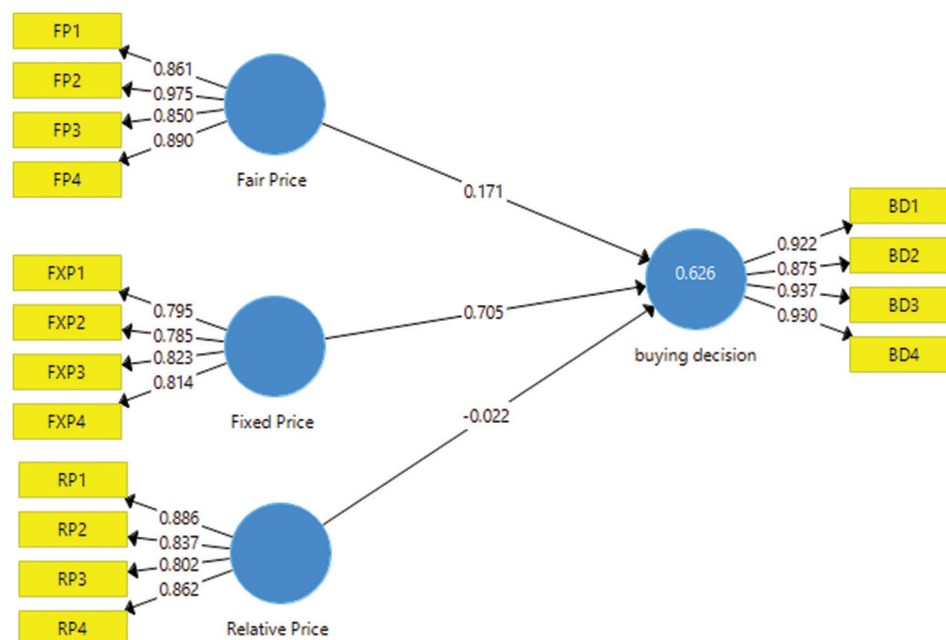


Fig. 1: Conceptual framework.

constructs. Furthermore, to be done with this assessment, it is requiring convergent validity and discriminate validity to be established as following:

Convergent validity

To verify the convergent validity of our research constructs, researchers have to determine Cronbach's Alpha, which should be more than 0.70, as well as composite reliability, which should also be greater than 0.70. Finally, researchers determined the extracted (AVE) average variance, which should be more than 0.50 (Hair et al., 2017).

Although the Cronbach's Alpha for all constructs was more than 0.70, indicating that individual item reliability was established, as shown in Table II. Moreover, since the values were more than 0.70, the composite reliability of all constructs was established. Furthermore, the extracted average variance values were greater than 0.50. As a result, the study's convergent validity was demonstrated.

Discriminate validity

Researchers investigated cross loading as well as a first assessment for discriminate validity, to ensure that discriminating validity was established. However, as demonstrated in Table III, item loading was high on their own constructs in the model (Hair et al., 2017).

The second conducted assessment is the HTMT (heterotrait-monotrait) correlation ratio, which has to be <0.90 and was used to test the discriminant validity (Gold et al., 2001). All of the values in Table IV were <0.90 , showing that the data did not have any discriminant validity issues.

B. Assessing the Structural Model

SMART PLS3 was used to evaluate the structural model as a second step to determine the relationship between the constructs, as well as to test hypotheses by finding out R^2 , Q^2 , and path coefficient.

The R^2 was used to show how much of the variance in an endogenous variable might be explained by exogenous variables. R^2 result for our study is shown in Fig. 1, which is 0.626, which is deemed a good level (Chin, 2010).

The Q^2 indicated the entire effect of an endogenous variable, and the value of Q^2 to be accepted, it must be higher than zero (Sander and Teh, 2014). This study's Q^2 was 0.510, which was deemed acceptable.

Hair et al. (2017), on the other hand, claim that if the $P < 0.05$, the relationship is established, and if the T value is more than 1.96, the relationship is significant. Yet, as clarified in Table V, due to the positive value of β (0.171) and the $P = 0.002$, which is <0.05 , and the T value of 3.164, which is greater than 1.96, the first hypothesis (the fair price has a positive and significant impact on CBD) was accepted. Furthermore, the second hypothesis (the fixed price has a positive and significant impact on CBD) is accepted due to a positive value of β (0.705), a p value of 0.000, and a T value of 16.714. Finally, the third hypothesis (the relative price has a positive and significant impact on CBD) was rejected since the $P = 0.714$, which is more than 0.05, and the T value was 0.366, which is < 1.96 .

TABLE I
CONSTRUCTS MEASURING SCALES

Construct	Number of items	Source
Fair price	4	(Safitri, 2018)
Fixed price	4	(Safitri, 2018)
Relative price	4	(Safitri, 2018)
Buying decision	4	(Raewf et al., 2021)

TABLE II
MEASUREMENT MODEL RESULTS - CONVERGENT VALIDITY

Item	Factor loading	Cronbach's alpha	Composite reliability	Average variance extracted (AVE)
Fair price				
FP1	0.861	0.916	0.942	0.802
FP2	0.975			
FP3	0.85			
FP4	0.89			
Fixed price				
FXP1	0.795	0.824	0.88	0.647
FXP2	0.785			
FXP3	0.823			
FXP4	0.814			
Relative price				
RP1	0.886	0.875	0.91	0.718
RP2	0.837			
RP3	0.802			
RP4	0.862			
Buying decision				
BD1	0.922	0.937	0.954	0.84
BD2	0.875			
BD3	0.937			
BD4	0.93			

TABLE III
CROSS LOADING

	Fair price	Fixed price	Relative price	Buying decision
FP1	0.861	0.373	-0.132	0.374
FP2	0.975	0.416	-0.179	0.468
FP3	0.85	0.31	-0.181	0.395
FP4	0.89	0.322	-0.102	0.387
FXP1	0.372	0.795	-0.081	0.72
FXP2	0.225	0.785	-0.003	0.449
FXP3	0.341	0.823	-0.063	0.533
FXP4	0.315	0.814	0.004	0.704
RP1	-0.158	-0.004	0.886	-0.052
RP2	-0.104	-0.051	0.837	-0.049
RP3	-0.149	-0.054	0.802	-0.095
RP4	-0.142	-0.038	0.862	-0.064
BD1	0.386	0.667	-0.062	0.922
BD2	0.283	0.618	-0.11	0.875
BD3	0.481	0.781	-0.06	0.937
BD4	0.489	0.752	-0.08	0.93

TABLE IV
HTMT CORRELATION RATIO

	Fair price	Fixed price	Relative price	Buying decision
Fair price				
Fixed price	0.445			
Relative price	0.18	0.086		
Buying decision	0.481	0.841	0.086	

TABLE V
PATH COEFFICIENT OF RESEARCH HYPOTHESES

	β	Sample mean	Standard deviation	T statistics	P values	Decision
Fair Price → buying decision	0.171	0.169	0.054	3.164	0.002	Accepted
Fixed Price → buying decision	0.705	0.709	0.042	16.714	0.000	Accepted
Relative Price → buying decision	-0.022	-0.031	0.059	0.366	0.714	Rejected

IV. DISCUSSION AND FUTURE WORK

The study's aim was to look at the pricing categories that might have an influence on CBD. The study provided empirical data about random customers in Iraq. The PLS-SEM approach was used to examine the suggested model.

The empirical results indicated that fixed pricing and fair price factors had a significant impact on CBD. As a consequence, decision-makers must focus on the primary factors driving CBD pricing methods, which may increase their sales. The data were only gathered from one province in Iraq's Kurdistan Region, which is a limitation. As a result, the findings may not apply to other Iraqi provinces.

More research is needed in the other provinces to uncover the similarities and variations across jurisdictions in terms of the proposed model.

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