Provide an example for five of the ten price sensitivity effects

Business, Marketing

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Running head: marketing Provide an example for five of the ten “ Price Sensitivity Effects”. Perceived substitute effect: Price is a significant deciding factor in any purchase. If consumers perceive the price of a specific product to be higher compared to its possible substitutes, then they will opt for the substitutes than the main product. For example, pharmaceutical products are usually highly priced. When specific group of medicines are introduced into the market, they are highly priced. However, with changes in treatment approaches, competitors’ invasion and other factors, substitutes to such medicines usually enter with modified price levels. Eventually, consumers tend to opt for these substitutes, which will affect the sales of main product.

Expenditure Effect:

Expenditure effect causes consumers to choose alternative options because of high price that might be unaffordable. For example, car brands like Mercedes Benz or BMW offer a prestigious image and quality, but are highly priced. Consumers that are unwilling to spend majority of their income on products like these tend to choose alternative options that provide similar luxury and feel. In such case, price becomes the ultimate deciding factor.

Price-Quality Effect:

Products with unique value tend to accompany price-quality effect. In such cases, price becomes the deciding factor for value creation of the product. This also creates a psychological effect on the consumers through value attained over time. For example, if fast-food brand like McDonald’s alters or raises its product price, consumers would still continue to opt for its products for their quality.

Shared-cost Effect:

This factor refers to the availability of external financial help to buy a specific product that otherwise would seem highly expensive for the consumer. For example, purchasing a house would require huge amount of money. If the consumer is able to procure loan for the purchase, then the price will be less significant as the deciding factor in the purchase.

Inventory effect:

Inventory effect occurs when sellers anticipate price rise. This allows the sellers to hold the stock till price rise and sell the same at increased price, which will in turn give higher profits. This situation is more often seen in retail markets for pharmaceuticals, petroleum products, groceries etc. When the wholesalers anticipate price rise due to market fluctuation, they tend to buy huge amounts of product stock in advance and hold it as inventory. After price rise, they sell the products at increased prices to consumers, thereby making more profits than otherwise.

References

Kolassa, E. M. (1997). Elements of pharmaceutical pricing. Routledge, New York.