

WINE CONSUMER BEHAVIOUR AND PSYCHOLOGICAL PRICING

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Abstract

In the introduction of this paper it has been explained that the main research question is to show if it is possible to find a modern retail chain in one of the world largest economies that uses exclusively psychological pricing to predominantly direct consumer behavior. In order to justify this goal different retail chains belonging to so call hard-discounters in Russia have been analyzed using the method of single price observation in wine sector. Data analysis has shown results of price observation in four major hard-discounters in Russia and according to the analysis it has been confirmed that only one retail chain have used exclusively psychological pricing as a source of competitive advantage. Future research can follow up with other sectors, such as food, beer, spirits, etc., and analyze if psychological pricing can be important factor of competitive advantage in other sectors of retail. Price is a way of communication, since it is the only quantitative element of marketing mix, or the only one that produces revenue. Having in mind that psychological pricing is based on communication and rationality, this is an extra element to confirm communicational characteristics of prices in general. This is especially important to understand for wine marketing, since wine quality is generally recognized to depend on subjective evaluations and cannot be precisely measured. It has been important in this paper to make overview of different retail chains in Russia, and to focus on hard-discounters, since they are predominantly using prices, as the most important element of their marketing mix, in order to attract final consumers. All other retail chains, besides prices, focus as well on their higher service, more educated staff, brand values, merchandising, etc., and do not attract consumers mainly on prices, which is on the opposite, strategy of hard-discounter chains in Russia, such as Pyaterochka, as part of X5 system, Magnit, Dixy and Monetka. Since most of those retail chains at certain extent use psychological pricings, it is challenge to find one chain that solely uses this price tactic. Psychological pricing has been analyzed at most of marketing and international business literature, therefore it is important to link this knowledge with modern consumer behavior at one of the most interesting and growing market, such as wine market of Russian Federation.

Key words: Retail, Price, Strategy, Discounter, Positioning

Introduction and Research Questions

This paper shall focus on price tactic in wine sector of selected country-Russian Federation (Russia). Price is a way of communication, since it is the only quantitative element of marketing mix, or the only one that makes revenue. Psychological pricing is a concept where prices are set to odd-numbered prices to stop bargains, or even numbered prices to imply quality (Lamb et al. 2012). Having in mind that psychological pricing is based on communication and rationality, this is an extra element to confirm communicational characteristics of prices in general. This is especially important to understand for wine marketing, since wine quality is, according to Oczkowski (2001) generally recognized to depend on subjective evaluations and cannot be precisely measured. The hypothesis of the paper is to show that is possible to find modern retail chain, hard-discounter, which completely focuses on psychological pricing as a main price tactic and positioning method in order to direct consumer behavior. Therefore, the goal is to check hypothesis if there is only one retail chain of such type which has a sole price tactic of psychological pricing in the wine sector.

It is important to make overview of different retail chains in Russia, and to focus on hard-discounters, since they are predominantly using prices, as the most important element of their marketing mix, in order to attract final consumers. All other retail chains, besides prices, focus as well on their higher service, more educated staff, brand values, merchandising, etc., and do not attract consumers mainly on prices, which is strategy of hard-discounter chains in Russia, such as Pyaterochka, as part of X5 system, Magnit, Dixy and Monetka. Since most of those retail chains at certain extent use psychological pricings, it is challenge to find one chain that solely uses this price tactic. If we are able to justify such goal, that should be defined as an important competitive factor of selected retail chain at the market of Russia. In order to justify our goal, we shall use in-person price retail observation and establish price reports in all analyzed retail chains. Our observation has been performed in Moscow, due to the fact that predominant part of wine trade has been achieved in the capital of the Russian Federation. Since psychological pricing has been analyzed at most of marketing and international business literature, we shall link this knowledge with modern consumer behavior at one of the most interesting and growing market, such is wine market of Russian Federation.

Literature review

From the early days, when William Applebaum in *Journal of Marketing*, published in 1950., wrote article *Studying Customer Behavior in Retail Stores*, customer and consumer behavior were in focus of marketing science. There were many articles covering topics of how wine consumers have been influenced by various factors at retail outlet. Lockhin and Hall (2003) have developed concept on wine involvement and its influence on behavior at a store in a process of wine purchasing. Hollebeek et al. (2007) explained purchase intention as a function of price, price discount and region. According to them, wine region has been much more important as a decision factor for high involvement consumers.

Ritchie et al. (2010) were examining price as an important factor in wine purchasing. They used method of focus groups in supermarkets of United Kingdom in order to understand the ability for wineries to attract consumers. Their interest was the low involvement, supermarket shopper, who ordinarily purchases wine like any other grocery item. The authors have found

that the way supermarkets communicated wine and their focus on price discounts have caused to have prices as central part of retailer's marketing program. Barber (2012) has analyzed connection between environmentally safe wines and the attitude towards wine purchasing. His article has proven that only small portion of wine population is willing to make decision towards purchase of those wines. On the other hand, literature covering topic of psychological pricings is very broad. In the international marketing management literature, authors like Lamb et al. (2012) have explained psychological pricing among other pricings tactics like discounts (quantity, cumulative and noncumulative, cash, functional, seasonal, promotional), value based, single price, price lining, leader pricing, price bundling and unbundling. Rakita (2005) argues that psychological pricings is very often used in trade of high developed countries. According to Lee and Carter (2012) consumer nowadays expect high quality at low prices. They also carry so called reference price that is their standard of price, or the price they believe to be fair.

Research provided in this article has focus on psychological pricing in Russia, and will highly relay on all previously mentioned literature.

Factors of Wine Consumer Behavior

At the very beginning of this part, we need to distinguish difference between the terms customer and consumer. Thought most of researchers tend to explain consumer behavior, many of them do not make different explanation between consumer and customer behavior. Therefore, we will focus on data regarding consumer behavior, regardless if the authors made any difference between those two terms, since this differentiation is beyond the scope of this paper. Consumers are different in their behavior in process of wine purchasing, based on the level of their involvement. If they are high involved, beside the price, which is inevitable part of most of decisions, consumer tend to look at brand, packaging, specially label design, country image, position at the shelf, winery owner and her/his prestige. Generally, consumers who are involved can be attracted by any of six Ps from wine marketing program (Wagner et al. 2011). Therefore, wine consumers react on product (perception of wine quality and previous organoleptic experience), price, placement (location), packaging (front label, back label, neck label, bottle and bottle shape, carton, extra package and awards), promotion (media, point of sales) and position (at the shelf and the space inside of the store).

According to Bashar (2012) there are many factors, besides the prices, which influence conversion of store visitors to consumers, such are: product quality and assortment, promotion, service, availability of products, and ambience of the store.

Shepherd and Sparks (1994) defined three groups of factors that influence consumer's choice: physical (geography, season, technology, economics); social (social, custom religion, social class, advertising, education); and physiological (heredity, allergy, acceptability, nutritional need). Even earlier, similar model has been created by Khan (1981), which includes seven categories influencing consumer's choice in food/beverage sector:

- 1) Personal factors such as influence of other persons, familiarity, and emotional meaning associated with food/beverages;
- 2) biological, physiological, and psychological factors such as age and gender;
- 3) extrinsic factors, such as advertising and seasonal variations;
- 4) intrinsic factors (of the food/beverages), such as appearance, odor, flavor, and texture;
- 5) cultural, religious and regional factors including geographic regions;

- 6) educational factors including nutrition education; and
- 7) socio economic factors such as income and the cost of food/beverages.

Since this paper has a focus on hard-discounters and the consumers who choose this type of retail, the most important factor which influences consumer behavior is, without doubt, a price, due to the fact that most of wine consumers in hard-discounter chains tend to be with low involvement in a process of wine purchasing.

Psychological Pricing and Other Tactics for Retail Chains

As stated earlier, psychological pricing is one of many tactics which modern companies, including retail chains, use in order to communicate with consumers. We shall briefly explain all of those tactics and focus on those used by retail chains:

- discounts (quantity, cumulative and noncumulative, cash, functional, seasonal, promotional),
- value based pricing,
- pricing products too low,
- single price,
- price lining,
- leader pricing,
- price bundling and unbundling,
- psychological pricing

Discounts: there are several different types of discounts, but the basic goal of any discount is to stimulate consumers to purchase the goods at irregular basis. Therefore, quantity discount is offered to consumers who purchases more than certain specified quantity (for examples in Russia it is common to offer 1 bottle of wine free, who orders 10 bottles, so in total buyer pays only for 9 bottles, or she/he received 10% of discount to base price). There are two basic types of quantity discounts, cumulative, which means that buyer gets discounts for all deliveries during certain period of time (month, quarter, per annum), and noncumulative which implies only to single order. The first type stimulates consumer loyalty, while the other type is only focused to get instant larger demand from the consumers. On the other hand, there are cash discounts which imply lower price if consumers pay in cash. Since modern chains use many loyalty cards that guarantee certain benefits, they are also motivated to grant discounts for cash in the situation when liquidity issues arise. Functional discount determines different prices for different trade partners, and it is typical for cash and carry systems, since retail chains want to stimulate loyalty of certain type of customer, such as restaurant, hotel, bank, etc. Seasonal discounts have function of stimulation of demand for products that are being sold in the period out of the season (for example to stimulate consumption of red wines during summer, or white during the winter). Seasonal discounts are important both for retail chains and producers in order to keep optimal stocks at the store during the whole year. Promotional pricing is certain allowance to retailer received from supplier in order to better position its product at retailer's shelves. It is usually used for secondary positions at shelves, and special advertisements in retailer's booklets.

Value-based pricing: the concept imply that retailer first looks at competitors and than set a price which is believed to be valued by its consumers as fair. Consumers are offered not just a price but to understand the value of the product. For example, in the USA Walmart's

competitors were using this approach in order to explain the customers that they are receiving more value by purchasing certain product at prices, which were more beneficial compared to Walmart. This concept is specially important in period of recession, such as recent global crisis, when many products were offered at same price but the package has been larger, with so called gratis goods, for example consumers paid for 5 kg of certain detergent, but received 5.5 kg, or 0.5 kg as gratis, which they have perceived as higher value.

Pricing Products Too Low: when a retailer wants to cover large market share in short period, it can maintain very low prices. However, this is only short-term strategy and cannot be profitable in a long run. New companies that have a goal to be acquired by larger retail chains can use this approach, and they are only focused to get more consumers, and larger market share, hoping to compensate all losses once acquisition has been concluded.

Single Price: this tactic sets all goods and services at one price such as concept “Buy everything for 1 dollar”. Idea behind this concept is to save time to consumers and to focus their attention to limited assortment. The largest problem that have retailers performing this tactic is how to maintain the costs, especially in case of inflation, which has been very important obstacle of economical development in Russia for the previous two decades.

Price Lining: the concept of price linings is to set few prices-lines of each product category and to determine all items within these categories. In this case all products belong to one of few price categories. For example, entry wines for 200 rubles, middle segment for 300 rubles, higher middle segment with price of 400 rubles, and luxury wines with price of 500 rubles. This tactic, although being simple for consumers and therefore saving their time, brings many possible problems. Retailers can always keep larger stock of products which they purchased at lower than average prices, or change line and its assortment, or they could even have very fixed lines and its structure, but to risk their long-term profitability, due to often increases of wine production costs, as result of specifics of every vintage.

Leader Pricing: the logic of this tactic is to set at very low level (sometimes below its costs, which can be illegal in Russia) prices of certain products, which should attract consumers in store, and than refocused their mind to completely another items, that are priced at level which brings sufficient profitability to retailer. Prices that are set low are always related to already established brands in order to easily attract consumers. This tactic is also called loss-leader pricing, because loss made at certain items has been compensated by profit from sales of another items.

Price Bundling: when two or more products are being sold and marketed as one SKU (stock keeping unit) it is the case of price bundling. For example, in wine sector it is common to sell item constituted of bottle of wine and a glass for red, white or sparkling wine. In many cases, consumers are offered not one bottle of wine, but the whole case of 6 or 12 bottles (in the USA and Canada standard case has 12 bottles). When products are sold in a bundle, it is harder for consumers to compare prices, and therefore they do not tend to have a belief that they receive lower value. Therefore, selling in a bundle could increase general demand of products. Completely opposite is tactic of unbundling, when consumers want to know the price of every item, previously sold in the bundle. This case usually happens in periods of economic downturns.

Psychological Pricing: this concept is also called odd-even pricing. Basic logic behind psychological pricing is influence of prices to consumer’s perception in order not to bargain,

which is result of odd prices, or to value the product as prestige quality, which is the result of even prices. When odd numbers are used, as we shall see in the results of price observations in Russia, prices are usually set 1 ruble lower than round figure (100,150, 170, 200, etc.) Consumers should position products with such prices as fairly defined, without any need to bargain. Consumers were positioning products' prices as better value when retail chains have used odd psychological pricings.

Overview of modern retail in Russia

There are four main types of modern retail in Russia:

- Supermarket chains
- Hypermarket chains
- Cash and carry
- Hard-discounters

Supermarket is a large form of the traditional grocery store, with self-service of food, beverage and household items. Supermarket is smaller and with limited assortment compared to hypermarket.

Hypermarket is covering more than 10,000 square meters and is combination of supermarket and department store. It has, under one roof, full assortment of food and beverage items, as well as other general merchandise. It is also called “big-box market”.

Cash and carry is a wholesale warehouse with focus on limited number of customers, which usually belong to any of these: shops, restaurants, professional users, caterers, institutional buyers, etc. Customers settle the invoice on the spot in cash, and carry the goods by themselves. They enter cash and carry center only after validation of their individual ID cards.

Hard-discounters have main focus on price, which should be low during whole year. Usually prices tend to be 20% lower than at supermarkets, but that depends of category of products. In Russia there are four retail chains belonging to this type, as shall be explained.

Importance of retail for total wine sales in Russia, according to data research group Euromonitor 2011, comes from the fact that off-trade counts for 93% of all wines sold in Russia.

Table 1:On-trade vs. off-trade in Russia sale ratio

| Off/On | Value Sales % | Volume Sales % |
|-----------|---------------|----------------|
| Off-trade | 83.5 | 92.7 |
| On-trade | 16.5 | 7.3 |
| Total | 100 | 100 |

Source: Euromonitor, 2011.

Among the following chains, if we exclude first four which are hard-discounters (they will be analyzed later) and fifth since it does not carry wines, specially four are important, and among them two are foreign based, Auchan (France) and Metro (Germany), and two are Russian based, O'Key and Lenta.

Table 2: Retail chains in Russia

| No | Retailer | Country of origin | Chains | Sales (RUB m) | Storecount |
|----|--------------------|-------------------|-------------|---------------|------------|
| 1 | X5 Retail Group | Russia | Pyaterochka | 283,948* | 2,525 |
| 2 | Tander | Russia | Magnit | 287,732 | 5,006 |
| 3 | Dixy Group | Russia | Dixy | 68,901 | 868 |
| 4 | Monetka | Russia | Monetka | 35,220 | 326 |
| 5 | Sistema RegionMart | Russia | Chibis | 13,421 | 121 |
| 6 | Auchan Group | France | Auchan | 205,147 | 48 |
| 7 | O'Key Group | Russia | O'Key | 93,134 | 42 |
| 8 | Metro Group | Germany | Real | 29,508 | 18 |
| 9 | Lenta | Russia | Lenta | 50,940 | 42 |
| 10 | COOP | Germany | Selgros | 4,284 | 5 |

Source: http://www.russiaretail.com/Russian_Retail_Data.shtml

German based Metro Group with its cash and carry format, as well as French hypermarket chain Auchan, have entered Russian market in 2002. Metro has been implemented its internationalisation strategy with focus to escape the oversaturation of its home market. Metro also owns the Real hypermarket and the Media Markt electronics chains, and consequently creates majority of its turnover outside its home country.

On the other hand, French based retail chain Auchan has been focused to position shopping experience as a more convenient version of a stroll around an outdoor market, with constantly positioning its optimal price-quality ratio. Auchan is also the principal initiator of the Mega Malls.

O'KEY Group launched its first hypermarket in St. Petersburg in 2002, very quickly it become the retail leader of that region. From that period, fast growing has been its strategy. The plan is to have its stores in all of 25 largest Russian cities by 2015.

Lenta is another hypermarket chain, which started its expansion in St.Peterburg from 1993. Lenta has strategy in providing customers with high quality goods, a large selection and the low by eliminating the middleman where possible. Today Lenta is present in 37 cities in Russia and has 16 hypermarkets.

The most important factor of success of retail chains in Russia, both domestic and foreign, has been their ability to frame profitability into a long-term perspective. This factor counts for all emerging markets.

We shall focus on discounters because we want to focus on pricing strategies, not brand, which is also important factor in consumer behavior. Consumers who shop at discounters are predominantly focused on low prices and therefore hard-discounter retail chains are the right laboratories for us to examine psychological pricings. The following are hard-discounters in Russia: Pyaterochka, Dixy, Monetka and Magnit. It is interesting to confirm that all existing hard-discounters are Russian based. Having in mind that foreign retail chains do posses higher level of know-how, based on their high level of internalization and consequently high level of transfer of knowledge, people, materials, money, as well as already established

brands, it has been reasonable that Russian based chains were creating their consumer strategy predominantly focusing at prices, in order to create competitive niche. On the other hand, government has protected this price-based strategy with high entry barriers, in the form of complicated title registration procedures for hard-discounters. Therefore, it can be concluded that foreign advantage in the hard-discount sector has not yet been achieved.

Data Analysis and Findings

In the following four tables we shall see results of in-person single price observations in hard-discounters in Russia, which have been performed in February of 2014. We have chosen one store from every of four retail chains belonging to type of hard-discounters. Since the policy of assortment varies very much among hard-discounters, having in mind their policy of limited assortment and focus on prices, we could not have the same number of wines observed. In order to eliminate brand bias, wines have been numerated, not described by the brand name. The goal is to check hypothesis if there is only one retail chain of such type which has a sole price tactics of psychological pricing in the wine sector. Psychological pricing, as explained earlier, in the case of odd numbers, and as we shall see in the results of price observations in Russia, means that prices were set precisely one ruble lower than round figure (100,150, 170, 200, etc.).

Table 3: Case of Dixy

| Type of wine | Retail shelf price in rubles |
|------------------|------------------------------|
| Red wine 1 | 340 |
| Red wine 2 | 161 |
| Red wine 3 | 279.70 |
| Red wine 4 | 323 |
| White wine 1 | 218 |
| White wine 2 | 234 |
| Sparkling wine 1 | 253 |

Source: In-person observation made in Moscow store, February 2014

The case of Dixy shows that company is not using psychological pricing as sole price tactic as per concept of psychological pricing that we have explained earlier, since prices were not set one ruble lower than round figures, but either higher or lower.

Table 4: Case of Magnit

| Type of wine | Retail shelf price in rubles |
|--------------|------------------------------|
| Red wine 1 | 217 |
| Red wine 2 | 409.10 |
| Red wine 3 | 349 |
| Red wine 4 | 114.90 |
| White wine 1 | 183.40 |

Source: In-person observation made in Moscow store, February 2014

Magnit, as shown in the Table 4, has been using psychological pricing, but not as a sole price tactic.

Table 5: Case of Pyatorochka

| Type of wine | Retail shelf price in rubles |
|------------------|------------------------------|
| Red wine 1 | 225 |
| Red wine 2 | 265 |
| Red wine 3 | 290 |
| Red wine 4 | 355 |
| White wine 1 | 297.15 |
| White wine 2 | 275 |
| Sparkling wine 1 | 265 |

Source: In-person observation made in Moscow store, February 2014

Pyatorochka does not use, as shown in Table 5, psychological pricing as its sole price tactic.

Table 6: Case of Monetka

| Type of wine | Retail shelf price in rubles |
|------------------|------------------------------|
| Red wine 1 | 189 |
| Red wine 2 | 249 |
| White wine 1 | 149 |
| Sparkling wine 1 | 129 |

Source: In-person observation made in Moscow store, February 2014

Since, as shown in the Table 6, we have checked most of the wine categories (red, white, sparkling) we can confirm that for all wines only psychological pricing has been utilized in hard-discounter chain Monetka. All prices were set just one ruble lower than round figures. This is very important aspect of competitive advantage of Monetka, and we believe that it is valuable for this retail chain to continue with such concept.

Conclusions and Recommendations

Russia is one of the largest markets globally. It is very important to understand that it is still growing market for most of the items, and wine has a special place and large potential. We have made analysis of utilization of single price tactic in one sector. Price observation made in all of four hard-discounters of Russia has shown that only Monetka is solely utilizing psychological pricing as its tactic. We can conclude that psychological pricing is therefore main price concept and important source of competitive advantage for Monetka. Therefore, we have confirmed hypothesis made in this paper that is possible to find modern retail chain, hard-discounter, which completely focuses on psychological pricing as a main price tactic and positioning method in order to direct consumer behavior.

Future research can follow up with other sectors, such as food, beer, spirits, etc., and analyze if psychological pricing can be important factor of competitive advantage in other sectors as well. On the other hand, we were focused on hard-discounters. Having in mind that Russia has in 2014 four major types of retail, one can make analysis of psychological pricing in supermarkets, hypermarkets or even cash and carry centers. Also, besides psychological pricing, we can make research of any other, previously discussed price tactics, for any of retail type, which have been defined and explained in this paper.

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