



# Price Sensitivity: Consumer Behavior and Decision Making Process

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## **Abstract**

*Currently consumer behavior changes dynamically and likely to lead to the consumptive nature. This is due to the increasing number of companies are able to create innovative products with very competitive prices and technological advances even easier for consumers to search for information. Consumer behavior is increasingly consumerist will form a variety of other behaviors, one of which is the behavior of consumers who are increasingly sensitive to price. Price sensitivity of consumers to occur in certain circumstances, but this time the price sensitivity occurs in almost all conditions, both for cheap or expensive items, often purchased or rarely purchased, have substitute goods or not. Consumer behavior that is sensitive to the price has become a "nightmare" for the industry. Consumers are no longer only demand quality and variety of goods on offer, but also the ease of obtaining goods at more competitive prices. Therefore, the company began to explore ways to sell not only through offline methods but also online as currently sell online methods believed to be able to reach all levels of society regardless of time and place.*

**Keywords:** *price sensitivity, consumer behavior and decision making process.*

## **Introduction**

Today consumer attitudes and behavior change quite rapidly and significantly, particularly in terms of spending money. In line with the weakening of the economy, followed by increasingly high prices of goods and the high cost of living then the people's purchasing power was declining. But the phenomenon that occurs in contrast to the situation, where the purchasing power is supposed to decline even increased. Public consumption on particular products that support the lifestyle be greater. People living in the middle and upper middle level and considered give the largest contribution to the increase in the purchasing power, but did not rule society level make a major contribution, where happen a shift from want become basic need that must be fulfilled. One of the more product preferably to meet lifestyle needs of society today are mobile phone, bags, shoes, accessories as well as snacks. This situation became an opportunity for many manufacturers and sellers to compete to produce many innovative products, cheap and sell products with a fairly tight price competition. Price competition and product variety are one of the reasons why a society more consumptive. Consumptive behavior will form a variety of other behaviors, one of which is the behavior of consumers who are increasingly sensitive to price.

Sensitivity of consumers at a price according to Kotler & Keller (2008) is usually the case for goods that have a high price, many have substitutes and often consumed. Although it is theoretically Kotler & Keller (2008) has argued that the price sensitivity of consumers to occur in certain circumstances, yet the price sensitivity occurs in almost all conditions,



whether for cheap goods and expensive, often purchased or rarely purchased, have substitute goods or not. It is back again as the consumer attempts to still be able to buy things they want but in an increasingly difficult economic conditions. This condition will directly affected consumer behavior in his decision to spend money on shopping. If earlier a consumer is not too concerned about how much of money they have to spend to purchase a product, but this time due to the increasingly difficult conditions but the need and desire remain high, they make an effort that ultimately shape their behavior in shopping. Such efforts include the start by paying attention to the difference in price of goods offered by one place to another. If at first they were not too concerned with a small difference in price, but this today consumers begin to think about the accumulation of "small difference of price" which will increasingly larger.

Consumer behavior more sensitive to the price has become a "nightmare" for the industry. Consumers are no longer only demand quality and variation of goods on offer, but a lower price. The Company becoming a difficult to conduct business when occur a shift in consumer behavior and the high competition. Kotler & Keller (2008) suggests that sellers do not like buyers are too sensitive to price because buyers are sensitive to price then the higher the intention to find the information needed so that ultimately will limit the space in decision making.

This study will focus on how the comparison level of consumer sensitivity to pricing and decision-making to buy in offline and online. According to Kotler & Keller (2008), consumer sensitivity through the Internet or online purchasing more higher than offline purchasing. This is because consumers can easily search for information and compare prices online. Consumers can look for the lowest price without having to waste a lot of time to go to the store physically (offline). Therefore many online sellers do a variety of ways to attract and achieve customer loyalty through various deals so that the level of consumer sensitivity to the price can be reduced as low as possible. This study wanted to see between buying method (online and offline) which are more affect the level of sensitivity of consumers to a price fixing. Furthermore, this study also wanted to know whether the consumer with a sensitivity' high level or low will tend to be more frequent shopping behavior changes such as canceling a purchase, look for similar products at a cheaper price or look for products with different shopping methods.

### **Price**

Price is a strategy that must be owned by a company. Pricing become one of the most difficult decisions the company because if the price is too low then it may not be able to cover production costs and provide a profit, but if the price is too high can make consumers never be the consumers who actually buy or pay. (Lipovetsky *et al.*, 2011).

Price is one of the variables in the marketing mix both for products and services. According to Kotler & Keller (2008), the price is one part of the marketing mix that has benefits for communicating the value of products or services, whereby if the resulting product has a good value then it certainly will give you a good price and profit.

### **Price Sensitivity**

Kotler & Keller (2008) explains that there are several factors that affect the sensitivity of the price for consumers as follows: prices are cheap, easy to obtain replacement goods, consumer ignores higher prices and slower in changing the buying habits and have the

assumption that the price is high enough to justified according to ability in the management and use of such products. Furthermore, Kotler & Keller (2008) explains that companies loves consumers who are not overly sensitive to price.

Munnukka (2005) suggested that price sensitivity is one of the key factors in determining the selection of pricing in a company. According to Shankar (1999), there are two issues regarding the importance of price sensitivity are Price Importance and Price Search. Price Importance is the level of importance of a pricing that is relative to affect decision making to buy while Price Search is consumer propensity to search better prices.

### **Consumer Behavior**

In general, the behavior refers to the behavior of a person or group of people who usually measured through cultural norms while consumer behavior refers to the custom of a person or group of people in making a purchase to make ends meet.

Consumer behavior according to Kotler & Keller (2008) is a study of how an individual or group of people can use the goods and services to meet their wants and needs. Consumer buying behavior, according to Kotler & Keller (2008) influenced by cultural factors (class culture, sub-culture, and social), social (reference groups, family, and social roles), and personal (age and stage of life cycle buyers, jobs and economic circumstances, personality and self-concept, as well as lifestyle and value).

According to Peter & Olson (2005), consumer behavior is a dynamic interaction between affection and cognition, behavior and the environment in which human beings do to each other in the exchange of life. Peter & Olson (2005) also divide the definition of consumer behavior as follows.

- a. Consumer behavior is dynamic, means the thoughts, feelings and actions of individual consumers and community groups are constantly largely unchanged.
- b. Consumer behavior is the interaction, means the interaction between thoughts, feelings and actions as well as the environment.
- c. Consumer behavior is exchanges, means exchange between people, in other words someone gives something of value to others and receive something else in return.

### **Decision Making to Buy**

Boonlertvanich (2009) explains that one way to understand the consumer is to study how they behave in the decision. Furthermore Boonlertvanich (2009) argued that an extensive understanding of decision making to buy can lead us to develop more effective marketing strategies where through this strategy can be adapted with consumer situation and condition while using information to make decision making. Gollwitzer & Sheeran (2009) suggest that one can control the influence in decision-making through self-regulatory strategies. This strategy enables someone to plan to first how to respond who will be they show in decision making. Kotler & Keller (2008) explain situation and psychological condition affect consumers in making purchasing decisions. Kotler & Keller (2008) also developed a model level purchase decision process as identification of problem, information search, evaluation of alternatives, purchase and post-purchase evaluation.

Consumer decision-making process starts from the introduction of consumer issues. In this stage, the consumer must understand and know very well the needs and desires that must be met in order to understand the problems they want to find a solution. After knowing very well the problems that arise, the consumer can start searching for needed



information. After gathering the required information, consumers begin to sort out the information available in order to get the appropriate information to answer the problem. After getting the required information, consumers can use the information as a basis for making decisions. After making a purchase, consumers will enter the stage of post-purchase behavior, which in these stage consumers evaluate the performance of the products, goods or services consumed. At this stage it would also appear two attitudes in self of consumers that if consumers feel satisfied and happy on products, goods or services, the consumer will make repeat purchases and will ultimately build customer loyalty in themselves, but on the contrary if consumers are not satisfied or disappointed then consumers will not use the product back and allows the consumer to provide negative information in the future.

### Research Framework

This research comes from Marketing theory and some research references. The main focus of this study was to determine the sensitivity of consumers in online and offline purchase. This study also wanted to see the online and offline method which more affect to consumer sensitivity in price fixing. Furthermore, this study also wanted to know whether the consumer with a sensitivity' high level or low who will tend to be doing shopping behavior changes such as canceling a purchase, look for similar products at a cheaper price or look for products with different shopping methods.

Kotler & Keller (2008) suggests that the Internet may increase the sensitivity of the price because consumers can easily gather information and compare prices so that consumers who shop online have the effect of a stronger price negotiation. In this time, online shopping is more pleasant and convenient for consumers (Shankar *et al.*, 1999). Consumers can easily search for desired products and were able to compare prices quickly. This is why can be happen of competition lowest price. However, according to some research, Kotler & Keller (2008) also explained that consumers do not always have enough time and willingness to perform a variety of information gathering via the Internet and therefore the company should still pay attention to the consumers who shop Offline. Based on research conducted by Soba & Aydin (2012) obtained results that when consumers have a high level of income, the price sensitivity becomes low. This situation is related to the perception of consumers where consumers who high income level will prefer products with a higher price while consumer who have lower income levels would choose products with lower prices and tend to be more sensitive to price.

This study was designed using a survey method. The sample used in this study is a community in Bandung who shop both offline and online. The number of sample taken was 100 respondents.

### Result and Discussion

Table I

Category	Amount
<b>Offline shopping consumer activity within the past year.</b>	
Yes	100
No	0

Source: raw data

Table I shows that respondents who totaled 100 people have been and still perform offline shopping within the past year. This shows that consumers, especially in Indonesia is quite active in consumer shopping activity and consume.

**Table II**

<b>Category</b>	<b>Amount</b>
<b>Online shopping consumer activity within the past year.</b>	
Yes	100
No	0

*Source: raw data*

Table II illustrates that respondents who totaled 100 people have been and still doing shopping online within the past year. This shows that consumers, especially in Indonesia besides active in offline shopping is also quite shown great interest in online shopping. Consumer behavior is shifting from the traditional shopping way become online transactions due to the rapid advancement of technology as well as various conveniences and promotions offered online transactions. Consumers are increasingly spoiled by the easy access to the Internet and get a choice of Internet data packets from various operators. Moreover the growing level of consumer mobility is higher make the transaction online became very easy for consumers to be able to shop where and whenever the product selection, quality, price and promotions offered.

**Table III**

<b>Category</b>	<b>Amount</b>
<b>Offline products of the most commonly purchased by consumers.</b>	
Mobile phone	4
Vehicles (Car, Motorcycle, bicycle, etc)	3
Others	4
Food and Beverages	61
Clothes, Accessories and Shoes	14
Top Up (mobile phone)	1
House	1
Soap, Shampoo, Make Up, etc	12

*Source: raw data*

Table III shows that products are most often purchased by consumers are food and beverages. Kotler & Keller (2008) split the classification of products or consumer goods into four parts, namely convenience goods, shopping goods, specialty goods and unsought goods. Food and beverage products including convenience goods category as food and drink become a basic need and must be met daily by everyone in general, so that consumers will never escape from the shopping behavior of consumers towards food products and beverages. The second product category most consumers purchased offline is clothing, accessories and shoes. This is due to clothing products, accessories and additional goods and shoes are still includes goods that consumers generally need everyday. The third

category of most products purchased by consumers in the offline store is soap, shampoo, makeup, and the like. The third product category is still the same and similar to the product category first and second choice of the most frequently purchased consumer. The next category, namely mobile phones, vehicles, top up (mobile phone), homes and others into additional categories of consumer choice in consumption. This is because products such as mobile phones, vehicles, top up (mobile phone), the house is not the stuff that needs to be filled every day by consumers. Consumers indeed need these products, but there is a period when the consumer will purchase repeatedly that this product so that this product category not be the first choice of consumers to buy.

**Table IV**

<b>Category</b>	<b>Amount</b>
<b>Online products of the most commonly purchased by consumers.</b>	
Insurance	2
Mobile phone	5
Camera	1
Vehicles (Car, Motorcycle, bicycle, etc)	2
Computer	2
Others	10
Toys	3
Food and Beverages	9
Clothes, Accessories and Shoes	52
Top Up (mobile phone)	8
Soap, Shampoo, Make Up, etc	6

**Source: raw data**

Table IV shows that the category of products that become the first choice of consumers purchasing online are clothes, accessories and shoes. This is because these product categories are consumer products commonly used and has the variety of product choice, quality and prices offered. This product category is also not an item that must be met every day such as food and beverage so that elections for the product categories of clothing, accessories and shoes heavily influenced by each individual just as behavioral preferences, interests, lifestyles and cultural references as well as community groups.

A variety of options offered in online is very easy for the consumer to choose the product that suits needs, desires and purchasing power of consumers. Consumers can choose the clothes, accessories and shoes that they need whenever and wherever without having to be physically present. Consumers are now looking for, selecting and utilizing social media such as Facebook, Instagram, Twitter, Path, and others.

In this case the consumer is more likely to choose to buy a product with a price category that is not too high because consumer confidence level in online transactions is still quite low in Indonesia. Consumer distrust is also caused because of frequent fraud is done online so that consumers still feel insecure if shopping or transacting online for product categories that have a high enough price such as homes, mobile phones and electronic goods.



**Table V**

<b>Category</b>	<b>Amount</b>
<b>Consumer reaction to changes or improved product pricing purchased offline.</b>	
Yes	72
No	28

*Source: raw data*

Table V shows that the consumer reaction to a change or an increase in the price of products online is as much as 56 respondents (56 percent) will make the shift to online store. This is due to the diversity of products, quality, price and promotions offered online stores and consumers to easily move from one store online to another store online. Consumers tend to feel not waste time when it should be looking for another online store selling cheaper goods.

Consumers tend to excited when can explore other online stores and compare prices of similar products. However, as many as 44 respondents (44 percent) still choose the same online store although there is a change or an increase in price. The level of trust and good name of the online store as "trusted seller" became a major consideration for consumer to a loyal. Therefore it is very important for stores or online sellers to be able to sustain confidence and improve service to the consumer.

**Table VI**

<b>Category</b>	<b>Amount</b>
<b>The level of sensitivity (sensitivity) toward change or Enhanced Consumer Product Pricing</b>	
Yes	72
No	28

*Source: raw data*

Table VI shows that as many as 72 respondents (72 percent) stated quite sensitive or sensitive to changes in the price of the products they buy. This may happen because if it is associated with more respondent's woman who became the sample in this study then becomes something that naturally happened. Woman was considered likely to be more sensitive than the man because Woman tends to use the affective system than the system of cognition. Usually Woman more detail in the estimate observes and feels the changes that occur in their lives. This affects woman more sensitive to make decisions to buy.

**Tabel VII**

<b>Category</b>	<b>Amount</b>
<b>Consumer Consideration level toward Difference Prices of products purchased Offline and Online</b>	
Yes	74
No	26

*Source: raw data*

Table VII illustrates that as many as 74 respondents (74 percent) stated taking into account the difference in price both products are purchased offline or online. This is in line with the results in Table VI where as many as 72 respondents (72 percent) stated quite sensitive or sensitive to changes in the price of the products they buy. Consumers are quite sensitive to changes in addition to price. Consumers are also strongly considering the price difference. Currently consumers enough to understand that if you buy products in large quantities or buying goods for daily needs then the difference or the slightest difference in price will be very give meaning.

**Tabel VIII**

<b>Category</b>	<b>Amount</b>
<b>The level of price changes is most often done by Offline or Online Store</b>	
<i>OFFLINE</i>	52
<i>ONLINE</i>	48

**Source: raw data**

Table VIII shows that as many as 52 respondents (52 percent) stated that offline stores are the most often make sudden price changes. Consumer assume that offline store often make sudden price changes because consumer intensity in visit offline store not as often online store.

## **Conclusion**

Based on the results of data processing can be concluded that consumers, especially in Indonesia is quite sensitive to price changes that occur both online and offline transactions. Products are often purchased by consumers' offline and online are convenience goods such as food, beverages, clothing, accessories and shoes. This is because of convenience goods are goods of daily needs that are often consumed by consumers and the consumables.

By contrast, the purchase of house, vehicles or electronic goods purchases a specific period and no consumables so that consumers rarely to make purchases both offline and online. Consumers also tend to have low confidence against the security of online store. Consumers have fears that their online transaction will be experienced something they do not want such as fraud, items that do not fit as well as damage to goods in transit. Consumers felt that wasted time and funds will be greater for higher priced items in case of unwanted problems.

The data collected showed that consumers also noticed differences that occur both offline and online. Consumers also choose the offline store as most often sudden changes in comparison shop online. However, it can be assumed because consumers rarely make purchases or visit the store offline so that when there is a change in price in stores offline then consumers consider that such changes often occur.



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