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Compromise pricing in luxury

Purpose:

Going beyond odd and even prices, this article explores the rationale behind the widespread practice of setting prices ending in “50” or “80” in the luxury industry. We argue that when they set such prices, managers agree to reduce their profit margin to limit the anticipated guilt luxury consumers associate with luxury shopping, while also protecting their brand luxury. We label these prices *compromise prices* and formally define compromise pricing as *the practice of choosing a price’s ending so that the price falls below (but not just below) a round number to boost sales without damaging brand luxury*.

Design/methodology/approach:

Following the observation of the overrepresentation of prices ending in “50” and “80” in the luxury clothing category, an experiment explores the impact of compromise prices on anticipated guilt and brand luxury in the luxury watch category. Then, to identify when luxury pricing managers typically favor compromise prices, multinomial regressions investigate prices collected on two online luxury fashion retailers for the luxury clothing and handbag categories.

Findings:

Compromise prices reduce the anticipated guilt luxury consumers associate with luxury shopping compared with even prices, while enhancing brand luxury compared with odd prices and interestingly, with even prices also. This finding gives rationale to luxury managers’ preference for compromise prices in the ninth hundred (i.e., €X950, €X980), especially for higher-priced products, i.e., when the potential for price underestimation and/or the risk of damaging brand luxury are more important.

Originality:

This research contributes to the field of luxury pricing by providing evidence to an original price-ending practice, coined *compromise pricing*, which consists in agreeing to a slight reduction in prices and unit margin to protect brand luxury.

Key words: Compromise pricing, price endings, anticipated guilt, brand luxury

Introduction

Worth €217 billion worldwide in 2020, the market for personal luxury goods is the “core of the core” of luxury segments according to Bain&Co¹. Across product categories, entry-price items gained in relevance, reaching more than 50% of volumes sold in 2020. As an addition, the share of purchases made online nearly doubled from 12% in 2019 to 23% in 2020. This context clearly makes prices more salient and impactful in luxury consumers’ behavior (Gastaldi, 2012; Parguel *et al.*, 2016). Following, luxury managers should pay more attention to pricing decisions to facilitate sales without damaging brand luxury, including non-personal-oriented perceptions of luxury brands (i.e., perceived quality, perceived uniqueness, and perceived conspicuousness) that are especially price-driven (Vigneron and Johnson, 1999).

Facing this dilemma, the literature on luxury pricing is quite scarce, which could be explained by two facts: 1/ luxury consumers are supposedly not sensitive to price (Bagwell and Bernheim, 1996); 2/ luxury brands are usually advised not to display prices for their products (Parguel *et al.*, 2016). For the most part, the literature would suggest setting the highest prices possible and favoring even over odd prices to protect brand luxury (Schindler, 1991, 2001; Schindler and Kibarian, 2001; Kapferer and Bastien, 2012), but these solutions are not likely to facilitate sales, hence do not answer the luxury pricing managers’ dilemma. Interestingly however, price endings – defined in a luxury context as the two rightmost digits of an integer price (Aiello *et al.*, 2018; Fraccaro and Macé, 2014, 2020; Fraccaro *et al.*, 2019) – could be further explored.

A quick exploratory study conducted in December 2019 on the five luxury brands offering the largest product range available on Net-a-porter² (i.e., Balenciaga, Gucci, Miu Miu, Prada and Saint Laurent) for luxury clothing (e.g., blouses, jackets, pants, etc.) reveals four clear peaks at “00”, “50”, “80” and “90” (see Appendix 1). The latter category (35%) corresponds to odd prices. Prices ending in “00” (26%) can be identified as even prices. Two other price endings are widely used in

¹ Bain&Co (2021). The future of luxury: bouncing back from Covid-19, by C. D’Arpizio, F. Levato, F. Prete, C. Gault, and J. de Montgolfier, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/> (accessed on 2021 March 21st).

² Net-a-porter is the world’s premier online luxury fashion retailer and reported to align its prices to those recommended by brands (<https://www.businessoffashion.com/articles/opinion/the-trouble-with-yoox-net-a-porter>, accessed on 2021 March 21st).

the apparel category – “50” (23%) and “80” (9%) – and appear as the most frequent endings when considering only the ninth hundred (23% and 50% respectively).

In this article, we argue that luxury pricing managers use prices ending in “50” or “80” to benefit from their high potential for price underestimation while avoiding the over-obvious cheap and low-quality image associated with odd prices. In return, they agree to reduce their unit profit margin by €10 or €40 (compared with the margin they would make with an odd price). As such, prices ending in “50” or “80” appear as a particular form of below pricing that we propose to label *compromise pricing*. To better understand this original pricing strategy in the luxury industry, this paper explores how luxury consumers respond to compromise prices and the circumstances in which they are more likely to be observed.

Building on the literature on price endings, we formulate hypotheses regarding compromise pricing, which we test empirically using two studies. An experiment shows that among luxury consumers, compromise prices raise less anticipated guilt than even prices and induce stronger brand luxury than odd prices. A second study, based on scraped price observations from two online luxury fashion retailers, shows that luxury pricing managers favor compromise prices in the ninth hundred and for higher-priced products, providing support to the idea that compromise prices specifically aim at benefitting from price underestimation without risking to damage brand luxury. Altogether, our findings lead to identify the original practice of compromise pricing and to define it as *the practice of choosing a price’s ending so that the price falls below (but not just below) a round number to boost sales without damaging brand luxury*. As an addition, exploring its antecedents and consequences, we advance the literature on this pricing practice, which had never been discussed before. We finally formulate recommendations for luxury pricing managers.

Conceptual framework

Price endings, i.e., the rightmost digits of prices, have been vastly investigated with particular attention paid to odd pricing, i.e., “the practice of choosing a price’s ending so that the price falls just below a round number” (Schindler and Wiman, 1989: 165). However, research has mostly focused on Fast Moving Consumer Goods (FMCG) and the hospitality industry (e.g., Anderson and Simester, 2003; Schindler *et al.*, 2011), and largely ignored the luxury industry so far. Few exceptions appear (i.e., Aiello *et al.*, 2018; Fraccaro and Macé, 2014, 2020; Fraccaro *et al.*, 2019).

Drawing on previous literature on price endings, our conceptual framework explores luxury consumers' response to compromise prices and the circumstances leading pricing managers to use them in a luxury context.

Odd versus even prices

Odd prices communicate at the same time a high-value-for-money and low-quality connotations to consumers (Schindler, 1991, 2001; Schindler and Kibarian, 2001). In the FMCG industry, this general finding is based on two different effects, i.e., the *underestimation* and the *image effects* (Stiving and Winer, 1997; Schindler *et al.*, 2011). First, odd prices are underestimated by consumers due to the drop-off mechanism (Thomas and Morwitz, 2005), i.e., the fact that “consumers drop off, ignore, presume, or in some way give insufficient consideration to a price’s rightmost digits” (Schindler *et al.*, 2011: 422). This underestimation effect results from consumers rounding down prices (e.g., 49 euros is perceived as “40-something euros”), processing price information from left to right, or only remembering the leftmost digits because they carry greater monetary value than rightmost digits and because of limited memory capacity (Coulter, 2001; Stiving and Winer, 1997). Overall, previous research has repeatedly shown that odd prices boost sales (Anderson and Simester 2003; Schindler and Kibarian, 1996). Second, odd prices connote low, reduced or discount prices (i.e., price image effect), and low-quality products (i.e., quality image effect) (Schindler, 2001; Schindler and Kibarian, 2001). This image effect results from the rightmost digits of prices, which convey meanings, bringing to the consumers’ mind “information or thoughts about the price or about a non-price attribute of the product or retailer” (Schindler, 1991: 794). From repeated exposure to specific digits as the rightmost digits of prices (Schindler, 2006), consumers have learned that price-endings signify something meaningful about the products’ value proposition (Naipaul and Parsa, 2001), regardless of whether the connotations accurately reflect the relative levels of prices in the marketplace (Schindler, 2001).

In a luxury context, previous research observes a widespread use of prices ending up to 10 units below any given hundred (Aiello *et al.*, 2018; Fraccaro and Macé, 2014, 2020; Fraccaro *et al.*, 2019) and highlights the paradox of using odd prices in the luxury industry. Considering their low-price and low-quality connotations, odd prices would clearly be inappropriate and counterproductive in a luxury context, where managers are advised to set “a rather high price to suggest high quality or high status” (Perreault and McCarthy, 1999: 506). Luxury consumers enjoy

acquiring higher-priced products (Leibenstein, 1950) and look for superior quality (e.g., Vigneron and Johnson, 2004; Wiedmann *et al.*, 2009). As such, even prices, which have been associated with higher prices and superior quality (Schindler, 1991; Stiving, 2000), would appear more relevant. In the meantime, odd prices allow an underestimation effect that may alleviate the anticipated guilt consumers associate with luxury shopping (Dahl *et al.*, 2003; Ki *et al.*, 2017; Kivetz and Simonson, 2002). As an illustration, Choi *et al.* (2014) find that odd prices reduce the anticipated guilt consumers might experience when they choose a hedonic over a utilitarian laptop. Fraccaro *et al.* (2019) suggest, without showing it, that this Odd-ending Price Justification Effect (OPJE) could extend to luxury shopping. To sum up, previous research on price ending in the luxury industry interestingly shed light on potential mechanisms at play but fail to discuss any other pricing strategies beyond odd and even pricing despite the recurrent use of prices ending in “50” or “80”. We propose to label these prices *compromise prices*.

Luxury consumers’ response to compromise pricing

Compromise prices fall below a round number and therefore, in the same way as odd prices, they may benefit from the underestimation effect, which in turn may alleviate the anticipated guilt associated with luxury shopping. However, unlike odd prices, there is no reason to believe that compromise prices would communicate a high-value-for-money and low-quality connotations to consumers, nor that they would appear as the typical over-obvious promotional pricing technique often observed in the FMCG (Schindler, 1991, 2001; Schindler and Kibarian, 2001). Furthermore, potentially appearing less artificial than odd prices, they might convey the idea that they have been more accurately calculated (Schindler, 1991). As such, they could also enhance brand luxury. As a matter of fact, the perception by consumers that everything concerning the product has been executed with care and precision, including price setting, is supposed to enhance brand luxury (Kapferer and Bastien, 2012). Considering what precedes, we formulate H1 and H2:

- H1: When shopping for luxury goods, compromise prices raise less anticipated guilt than even prices.
- H2: When shopping for luxury goods, compromise prices induce stronger brand luxury perceptions than odd prices.

Luxury pricing managers’ practice of compromise pricing

If prices were determined with a cost-plus markup method, then each price ending would be equally likely to occur and we would therefore observe each in approximately 1% of the cases, following a uniform distribution (El Sehity *et al.*, 2005). This is not what happens (Dholakia, 2018), including in a luxury context: as shown by literature (i.e., Aiello *et al.*, 2018; Fraccaro and Macé, 2014, 2020; Fraccaro *et al.*, 2019) and our introductory study, luxury pricing managers make explicit choices. They prefer some price endings over others. We now investigate the circumstances that might drive them to enhance or moderate their practice of compromise pricing.

As previously argued, luxury brand managers could be willing to set compromise prices to avoid odd prices. As such, they would play on the favorable underestimation effect to facilitate sales without activating the unfavorable image effect, i.e., the low-quality connotation. Consequently, they might set more compromise prices when there is a high potential for underestimation (i.e., when the price can be perceived as much lower than it is; Schindler and Kirby, 1997) and/or when they face a higher risk to damage brand luxury. In this research, we investigate two specific circumstances: when the price digit in the hundreds place is a “9” (e.g., €29XX, because this is where the underestimation potential is at its highest) and for the highest-priced products, because this is where the use of odd prices might damage brand luxury the most.

A higher potential for underestimation (Schindler and Kirby, 1997) occurs in situations where setting a price causes the leftmost digit of the price to drop by one unit (Thomas and Morwitz, 2005), with the so-called left-digit effect. As an illustration, 199€ is only one euro short of 200€, so the price level is practically equivalent, but by reducing the price by one euro, the left-most digit goes from 2 to 1. In this case, we might expect some consumers to have the impression of spending “100 and something euros”, instead of processing the price thoroughly and realizing that they are spending practically 200 euros (Schindler and Kirby, 1997). As such, the ninth hundred displays the highest potential for underestimation. Consequently, we expect luxury pricing managers to favor compromise prices when the digit in the hundreds place is a “9” (e.g., 950€/980€ or 1950€/1980€ instead of 1000€ or 2000€ respectively) and formulate H3 as follows:

H3: The probability of setting compromise prices (versus odd prices) for luxury products is higher when the digit in the hundreds place is a “9”.

Luxury pricing managers might be extremely cautious with the pricing of the most expensive items. Macé (2012) shows that odd prices are particularly dangerous for the most expensive products in the range. Opting for compromise prices (e.g., €1380 versus €1400), managers would protect brand luxury, while also benefiting from the underestimation effect and its boosting effect on sales (Stiving, 2000). In other words, they would benefit from the advantages of odd prices, without incurring any negative image effect. We therefore formulate H4 as follows:

H4: The probability of setting compromise prices (versus odd prices) for luxury products is higher for the highest-priced products.

Finally, we contend that luxury pricing managers might favor compromise prices over odd prices in the ninth hundred, but even more so for the highest-priced products. Relatively accessible luxury products target consumers known as excursionists of luxury (Dubois and Laurent, 1996), who engage in luxury occasionally and, because of their limited financial resources, might experience more guilt when spending money on something that is not necessary. As such, more accessible luxury products call for a guilt reduction mechanism more than less accessible luxury products. As already mentioned, odd prices reduce anticipated guilt through the underestimation effect and low-price connotations. They can therefore communicate to excursionists that the product is somewhat accessible. However, as far as more expensive products are concerned, the use of over-obvious odd pricing (e.g., €3990 instead of €4000) might attract excessive and negative attention to the price cue for more affluent consumers, who would otherwise spend freely and might not pay much attention to it (Han *et al.*, 2010). We therefore formulate H5 as follows:

H5: The probability of setting compromise prices (versus odd prices) for luxury products when the digit in the hundreds place is a “9” is higher for the highest-priced products.

Study 1 – Test of H1 and H2

To explore luxury consumers’ response to compromise prices, we used an online experiment presented as a survey on product perceptions in the luxury watch industry. Watches have the advantage of being a non-gender-specific product category (Parguel *et al.*, 2016).

Design

Using a between-subjects design, we compared three price endings for a fictitious brand: a compromise price ending (€1980), an odd price ending (€1990) and an even price ending (€2000). Testing a fictitious brand, in line with previous studies (e.g., DelVecchio and Puligadda, 2012; Janssen *et al.*, 2014), avoids any effects of prior brand familiarity. We kept the three prices at a constant 10-euro difference, following stimulus construction by Baumgartner and Steiner (2007). This price level is consistent with that used on certain models by some brands best known to the general public such as Omega, Breitling, Baume & Mercier, Jaeger-LeCoultre, Cartier or Bell & Ross and even appear for other luxury brands not specialized in watchmaking such as Dior, Chanel or Chopard. Manipulation checks confirmed respondents' recall of the displayed price.

Protocol

In line with Kapferer and Laurent (2016), we first measured respondents' luxury consumption as a score ranging from 0 to 8 that we computed as the sum of 8 items regarding respondents' consumption of specific luxury products over the past five years (e.g., a watch over €1,500, sunglasses over €400, a jewelry over €2500). We measured involvement in the luxury market (Dubois and Laurent, 1994), gender, and age, and provided respondents with a short cover story, in which they were asked to imagine themselves shopping in Paris. Respondents were then shown the picture of a real in-store product display presenting two watches—one white and one black (see Figure 1)—made by one of the most famous watch brands, supposedly founded over a century ago, offering worldwide very high-end watchmaking products manufactured in its factory in Switzerland.

The reason for displaying a white watch and a black watch was that these colors could motivate both female and male respondents' involvement in the survey. A pretest carried out on a convenience sample showed that the white watch and the black watch were perceived, respectively, as a woman's watch and a man's watch (perceived femininity of 5.85 vs. 3.21 out of 7, $t(122) = 15.24, p < .01$).

Figure 1 Illustration of the experimental stimuli



To measure brand luxury, the study used five items among the most frequently used in the literature to measure non-personal-oriented perceptions of brand luxury (Christodoulides *et al.*, 2009; Conejo *et al.*, 2020): “Not luxurious – Luxurious”, “Poor quality – Best quality”, “Popular – Elitist”, “Everywhere – Exclusive” and “Inferior – Superior”. According to Vigneron and Johnson (1999), non-personal-oriented perceptions of luxury brands (i.e., perceived quality, perceived uniqueness, and perceived conspicuousness) are price-driven, while personal-oriented perceptions of luxury brands (i.e., perceived extended-self and perceived hedonism) are consumer-driven, explaining why we concentrated on the former. To measure anticipated guilt, we borrowed three items from Lee-Wingate and Corfman’s (2010) scale (e.g., “How guilty / uneasy / hesitant would you feel about spending money on purchasing one of these watches?”).

Appendix 2 displays all the items that we measured using 7-point scales (1 = not at all; 7 = extremely). Cronbach’s alphas were greater than .70. The mean of the items was used for analysis.

Sample

The test sample consisted of 157 respondents (60% women, mean age 48) recruited from an online professional panel. To ensure that our respondents matched the target customers for such luxury goods, we only surveyed consumers with a net (after taxes) monthly household income of more than €4,500. Wealthy individuals were considered an appropriate sample of respondents, as income has always been a relevant proxy for identifying experienced consumers of luxury goods (Dubois and Duquesne, 1993; Kapferer and Laurent, 2016). Respondents that did not declare any luxury consumption at all were eliminated from the sample.

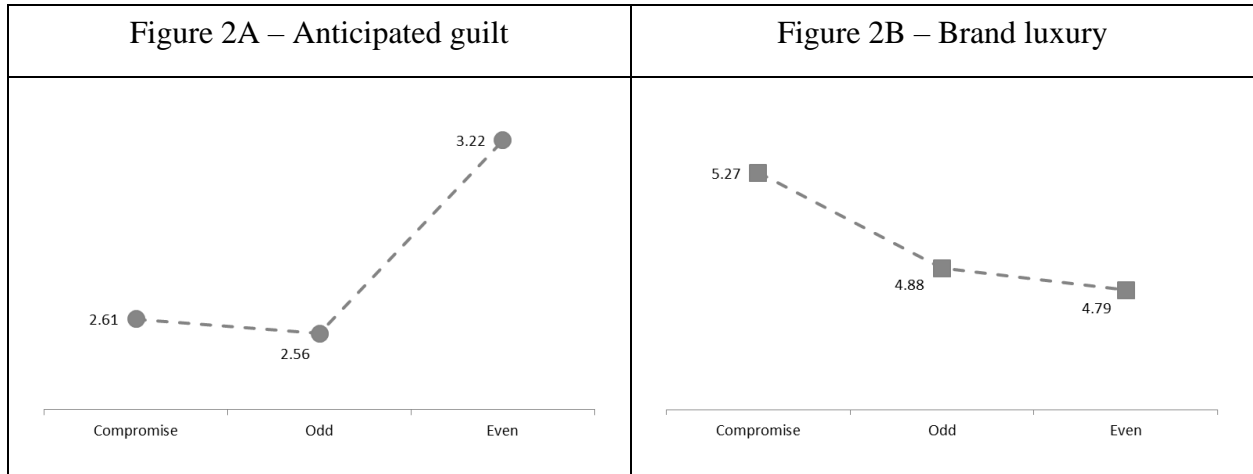
Respondents were randomly assigned to one of the three treatments. Preliminary analyses showed that the three sub-samples were homogeneous in terms of gender ($\chi(1) = .002, p > 0.99$), age ($F(1, 154) = .954, p > 0.38$), involvement in luxury ($F(1, 154) = .342, p > 0.71$) and luxury consumption ($F(1, 154) = .131, p > 0.87$).

Results

A first ANCOVA controlling for luxury consumption reveals a significant effect of price ending on anticipated guilt ($F(2, 153) = 4.921, p < .01$). Corroborating H1, luxury consumers anticipate more guilt when they face an even price ($M_{even} = 3.22$) than an odd ($M_{odd} = 2.56, F(1, 106) = 7.630, p < .01$) or a compromise ($M_{compromise} = 2.61, F(1, 103) = 6.157, p < .05$) price (see Figure 2A). No significant difference in anticipated guilt appears between the odd and the compromise prices ($F(1, 96) = .002, p > .96$). The analysis also reveals a significant negative effect of luxury consumption ($F(1, 153) = 14.208, p < .01$) on anticipated guilt.

A second ANCOVA reveals a significant effect of price ending ($F(2, 153) = 3.049, p < .05$), but not of luxury consumption ($F(1, 153) = .027, p > .86$) on non-personal-oriented perceptions of brand luxury. Precisely, the compromise price enhances the non-personal-oriented perception of brand luxury ($M_{compromise} = 5.27$) compared with both the odd ($M_{odd} = 4.88, F(1, 96) = 3.621, p < .05$) and the even ($M_{even} = 4.79, F(1, 103) = 5.910, p < .05$) prices (see Figure 2B). No significant difference in non-personal-oriented perception of brand luxury appears between the odd and the even prices ($F(1, 96) = .002, p > 0.96$). These results corroborate H2.

Figure 2 Anticipated guilt and brand luxury depending on price



Study 2 – Test of H3, H4 and H5

To investigate the circumstances where luxury pricing managers favor compromise prices, directly questioning pricing managers from the luxury industry, as proposed by previous research (e.g., Blinder *et al.*, 1998; Schindler *et al.*, 2011), would appear difficult. Pricing managers, especially in the luxury industry, are discreet about their pricing practices. Following Stiving (2000), we therefore chose to observe price-ending practices in the luxury industry.

Data

In January 2021, we scraped data from two luxury e-commerce platforms, Net-a-porter.fr and Mytheresa.fr, which are among the biggest go-to luxury e-commerce platforms. Net-a-porter was valued at €5.1bn at Richemont’s takeover in 2019, Mytheresa at \$3bn in January 2021 after an initial public offering. Both are luxury multi-brand online stores, listing seasonal collections from designers including Chloe, Marc Jacobs, Bottega Veneta, Stella McCartney, Gucci, Alexander McQueen, or Saint Laurent. Using the software Scrapestorm, we scraped prices in two product categories, clothing and handbag, before the sales season to consider the regular prices only and avoid the season discount prices. We only kept brands offering an articulate product range (at least 100 items listed on the platform) and excluded items displaying a price lower than €500. Table 1 reports the descriptive statistics for the four resulting datasets. The clothing category covers more

brands than the handbag category, resulting in a higher number of observations. Also, the assortments and prices depend on the platforms: on average, we found less and higher-priced items on Net-a-porter than on Mytheresa.

Table 1 Descriptive statistics for the four datasets

Platform	Product	# of brands	# of observations	Avg price €	Std dev.	% of items with a price ending in			
						“00”	“50”	“80”	“90”
Net-a-porter	Clothing	8 ^(a)	1202	1823.3	1381.1	27.8%	16.0%	10.5%	32.6%
	Handbag	6 ^(b)	629	1842.9	1903.3	31.8%	28.3%	6.4%	26.4%
Mytheresa	Clothing	26 ^(c)	4904	1413.4	969.9	13.8%	20.9%	6.3%	32.1%
	Handbag	4 ^(d)	786	1676.5	757.5	32.6%	22.1%	7.9%	28.1%

^(a) Alaïa, Alexander McQueen, Bottega Veneta, Gucci, Miu Miu, Prada, Saint Laurent, The Row

^(b) Bottega Veneta, Chloé, Gucci, Loewe, Prada, Saint Laurent

^(c) Alaïa, Alexander McQueen, Balenciaga, Balmain, Bottega Veneta, Brunello Cucinelli, Chloé, Dolce & Gabbana, Etro, Gabriela Hearst, Gucci, Isabel Marant, Jil Sander, Khaïte, Loewe, Loro Piana, Max Mara, Miu Miu, Moncler, Prada, Rick Owens, Saint Laurent, Stella McCartney, The Row, Valentino, Zimmermann

^(d) Bottega Veneta, Gucci, Prada, Saint Laurent

Globally, each of the three pricing practices – even, odd and compromise pricing – represents around one third of the cases (except for even pricing in the clothing at MyTheresa, 13.8%). Among the compromise prices, the endings in “50” are more widely used than the endings in “80”. A further analysis at the brand level reveals diverse pricing practices (e.g., Saint Laurent does not use compromise pricing) which justifies controlling for brand-fixed effects in the modelling.

Method

We performed two multinomial logistic regressions, one for each category, to explain the three most common price ending practices: even (“00”), compromise (“50” and “80”) and odd (“90”). The latter serves as the reference.

In a first model (Model 1), we introduced a dummy capturing whether the hundred digit is a “9” and a dummy equal to 1 for the highest-priced products (i.e., price above €2000). The cut at €2000 allows distinguishing accessible from inaccessible luxury products according to luxury experts (e.g., <https://www.magmontres.fr/prix-montres-de-luxe/>). In our sample, products priced above €2000 represent 22.9% of the items in the clothing category and 27.5% in the handbag category. We also introduced dummy variables capturing brands-fixed effects and a dummy variable for the platform (1 if Net-a-porter, 0 if Mytheresa). With Model 1, we tested H3 and H4.

(Model 1) $Price_ending = f(9^{th} \text{ Hundred}; Price; Brand; Platform)$

In order to test H5, we defined a second model (Model 2) where in addition to the brands and platform dummies, we introduced the interaction between the 9th hundred and the price.

(Model 2) $Price_ending = f(9^{th} \text{ Hundred} \cdot Price; Brand; Platform)$

The interaction in the model leads to four cases:

- 9th hundred and low-priced. The digit in the hundreds place is a 9 and the price is under €2000 (i.e., price between €900 and €999 or between €1900 and €1999);
- Not 9th hundred and low-priced. The digit in the hundreds place is *not* a 9 and the price is under €2000 (i.e., price lower than €899 or between €1000 and €1899);
- Not 9th hundred and high-priced. The digit in the hundreds place is *not* a 9 and the price is above €2000 (i.e., price between €2000 and €2899, €3000 and €3899, and so on);
- 9th hundred and high-priced. The digit in the hundreds place is a 9 and the price is above €2000 (i.e., price between €2900 and €2999, between €3900 and €3999, and so on).

The latter case is defined as the baseline in Model 2, meaning that the estimates for the three first cases are interpreted by comparison to this baseline. Following, H5 that hypothesizes more compromise prices for higher-priced products when the digit in the hundreds place is a “9” will be corroborated if the estimates for the three former cases are significantly negative.

Results

Both models were estimated for the clothing and handbag categories separately. Table 2 displays the results for Model 1 and Table 3 for Model 2.

Results reported in Table 2 support H3 and H4 in both categories: the coefficients are significantly positive for the dummies ‘9th hundred’ ($\beta = 1.15, p < .01$ for the clothing category and $\beta = 1.11, p < .01$ for the handbag category) and ‘Price > €2000’ ($\beta = .27, p < .05$ for the clothing category and $\beta = 1.05, p < .01$ for the handbag category), supporting that compromise prices are more likely than odd prices for the ninth hundred and for the highest-priced products. Of note, results concerning even prices are consistent with previous literature (e.g., Naipaul and Parsa, 2001): even prices are more common than odd prices for highest-priced products ($\beta = 2.32, p <$

.01 for the clothing category and $\beta = 3.15, p < .01$ for the handbag category). Finally, results show that price ending practices depend on the brands through significant brand-fixed effects and the platforms. As an illustration, in the handbag category, more even and compromise prices appear for Net-a-porter, which implies more odd prices for Mytheresa.

Table 2 Multinomial logit regression (Model 1 testing H3 and H4)

	Clothing		Handbag	
-2 Log likelihood	1342.8***		376.2***	
Cox and Snell R²	0.471		0.504	
	Compromise prices	Even prices	Compromise prices	Even prices
9th hundred	1.15***	-0.58***	1.11***	-0.22
Price > €2000	0.27**	2.32***	1.05***	3.15***
Platform	0.06	0.12	0.49***	0.34*
Brand	Fixed effects	Fixed effects	Fixed effects	Fixed effects

Odd prices as reference / *p<0.10, **p<0.05, ***p<0.01

Interestingly, the goodness of fit (measured by -2 Log likelihood) is better for Model 2 than for Model 1, confirming that the decision to set compromise prices is driven by the interaction of the two factors, whether the digit in the hundreds place is a “9” and whether the product is a high-priced product.

As mentioned previously, the baseline in the interaction is the case where the digit in the hundreds place is a “9” and the price is above €2000. Therefore, H5 is corroborated if the estimates of the other three cases are significantly negative. The estimates reported in the grey columns of Table 3 are significant and negative ($\beta s < -.72, ps < .01$) for the clothing category. However, in the handbag category, the estimate when the digit in the hundreds place is a “9” for low-priced products is not significant ($\beta = -1.03, ns$), meaning that in the ninth hundred, the probability of setting a compromise price (versus an odd price) does not depend on the level of price, providing no support for an interaction effect. Going further, the two significant negative estimates when the digit in the hundreds place is *not* a “9” suggest a direct effect of the “9” in the hundreds place on the probability to set a compromise price (versus an odd price), providing new support for H3. In conclusion, H5 is only partially corroborated.

Table 3 Multinomial logit regression (Model 2 testing H5)

	Clothing		Handbag	
-2 Log likelihood	2097.5***		1922.2***	
Cox and Snell R²	0.498		0.504	
	Compromise prices	Even prices	Compromise prices	Even prices
Not 9th hundred / Price < €2000	-1.70***	-1.58***	-2.85***	-3.34***
Not 9th hundred / Price > €2000	-1.60***	0.44	-1.88*	0.16
9th hundred / Price < €2000	-0.72***	-2.15***	-1.03	-2.75**
Platform	0.40**	1.00***	0.38**	0.27
Brand	Fixed effects	Fixed effects	Fixed effects	Fixed effects

Odd prices as reference / *p<0.10, **p<0.05, ***p<0.01

Discussion and conclusion

Going beyond odd and even prices, this paper explores the rationale behind the widespread practice of prices ending in “50” or “80” in the luxury industry. Drawing on previous literature on price endings, we argue that when they set these prices, managers accept to reduce their profit margin to benefit from the underestimation effect and, by doing so, to reduce the guilt associated with the purchase of a luxury item and facilitate sales, while protecting brand luxury. As such, compromise prices help luxury managers solve their price setting dilemma. We propose to label *compromise pricing* this original pricing practice that aims an underestimation effect without damaging brand luxury. Formally, we define compromise pricing as *the practice of choosing a price’s ending so that the price falls below (but not just below) a round number to boost sales without damaging brand luxury*. This definition covers both prices ending in “50” and “80” but prices ending in “80” may appear as a better compromise in terms of margin for luxury pricing managers as this is the closest to the even price (€20 below).

Our research is original as it explores theoretically and empirically compromise pricing from both luxury consumers’ and luxury pricing managers’ perspectives through two complementary studies. In Study 1, we investigate luxury consumers’ response to compromise pricing; in Study 2, we investigate the practice of compromise pricing, and this, for two luxury product categories. By

doing so, our contribution is twofold: first, we study the under-investigated question of pricing in the luxury industry; second, we shed light on compromise pricing, a price ending practice, which, to the best of our knowledge, had never been identified nor explored by previous literature.

Luxury consumers' response to compromise pricing

The anticipation of guilt may appear as a great barrier in the purchase of a luxury good (Dahl *et al.*, 2003; Ki *et al.*, 2017; Kivetz and Simonson, 2002). In Study 1, we show that compared with even prices, compromise prices reduce the anticipated guilt associated with luxury shopping. In other words, faced with a price such as €2980 a consumer might think to him- or herself “*I shouldn't feel guilty about buying this bag, I am not even spending €3000*”. As such, compromise prices serve as a justification for luxury consumption, which empirically extends the relevance of the OPJE (Choi *et al.*, 2014) to luxury pricing in general and compromise pricing in particular. Protecting brand luxury is also a key challenge for managers from the luxury industry. Thereupon, Study 1 shows that luxury consumers associate compromise prices with higher brand luxury than odd prices, confirming that compromise prices are more appropriate than odd prices in a luxury context. However, unexpectedly, findings also indicate a higher brand luxury for compromise prices than even prices. Does it mean that even prices may appear as approximatively calculated, inflated and suspicious? In contrast, may compromise prices ending in “50” or “80” appear as resulting from a more careful pricing process (Schindler, 1991), hence reinforcing brand luxury? On the whole, our findings question the common wisdom that luxury managers should favor even prices and reveal that prices ending in “50” and “80” are a good compromise in luxury consumers' mind, as they present the advantage of the underestimation effect without entailing the risk to damage brand luxury.

Luxury pricing managers' practice of compromise pricing

Study 2 provides support for the general assumption that pricing managers in the luxury industry make explicit choices in terms of price endings. Based on observed prices, we conclude that they have, and act on, beliefs about the underestimation and image effects of price endings when setting prices. They seem to hold the belief that compromise prices might be more appropriate in certain circumstances, i.e., when there is a high potential for underestimation and/or a risk to damage brand luxury. Precisely, when the digit in the hundreds place is a “9”, and even more so as prices

increase, they tend to arbitrate in favor of compromise prices to avoid over-obvious odd prices ending in “990” though this ending might still be used occasionally. In this case, they might prefer a more discreet way of using just-below pricing, in line with the luxury industry codes. Kapferer and Bastien (2012) indeed highlight that using prices ending in 9 or their equivalent (“90” in this research), is not a technique worthy of a luxury product. This should be even more true for prices ending in “990” while prices ending in “980” might mitigate this effect. Ending in “50” or “80” would still be a way to make use of the high potential for underestimation (since using them when the hundred digit is 9 would make the leftmost digit drop by one unit). However, this would reduce unit revenues by a few more euros. We sustain that both the belief in the high potential for underestimation of the price and the fact that just-below prices (all of them, ending in “950”, “980” and “990”) are used less as the price increases show that managers rely on both heuristics when setting prices and their endings.

Managerial implications

Drawing from conclusions of both studies, we observe that while even prices are heavily used in the luxury industry, consumers do not seem to respond favorably to them: even prices enhance the anticipation of guilt without enhancing brand luxury compared with odd and compromise prices. Interestingly, even and odd prices induce the same level of brand luxury. To make sense of this counterintuitive result, we assume that “over-even” are not preferable to “over-odd” prices: while a price ending in “990” might appear as inappropriate because it recalls FMCG codes, a price ending with too many zeros might be perceived as too round, calculated inaccurately and misleading. Unless the only objective of the manager is to increase the unit margin by a few euros, it seems suboptimal to adopt this pricing practice and we therefore advise against it. This research therefore questions the common wisdom that even prices should always be preferred for luxury products. Beyond even prices, price-ending practices should be adopted depending on managerial priorities. When the priority is to preserve brand luxury, managers should favor compromise prices; when the priority is to maximize unit margins, they should favor odd prices. These two prices have the same favorable effect on luxury consumers’ anticipation of guilt and will therefore facilitate sales. However, the former protects brand luxury the most while decreasing the unit margin by 10 or 40 euros (for a price ending in “80” or “50” respectively); the latter protects brand luxury the lesser but allows a higher unit margin.

Limitations & directions for further research

To our knowledge, there is no prior research investigating the practice of compromise pricing nor its impact on consumers' perceptions. As such, we extend research on price endings beyond the traditional and well-established opposition between odd and even endings (e.g., Stiving and Winer, 1997). We encourage further research to complete our seminal findings and validate the use of compromise prices in other categories than luxury clothing and handbag. As an illustration, experiments could explore whether compromise pricing effects are mitigated when the digit of the hundreds is not a "9" or whether they extend to the digit of the thousands. Although data collected from Net-a-porter and Mytheresa show that other endings such as 60 or 70 are underused, it could be studied whether our definition of compromise prices might be expanded to other endings. Also, interviews with pricing managers in luxury firms could provide a comprehensive review of their practice which could corroborate our findings. Finally, the impact on actual sales could be measured to evaluate the effectiveness of the compromise pricing more extensively.

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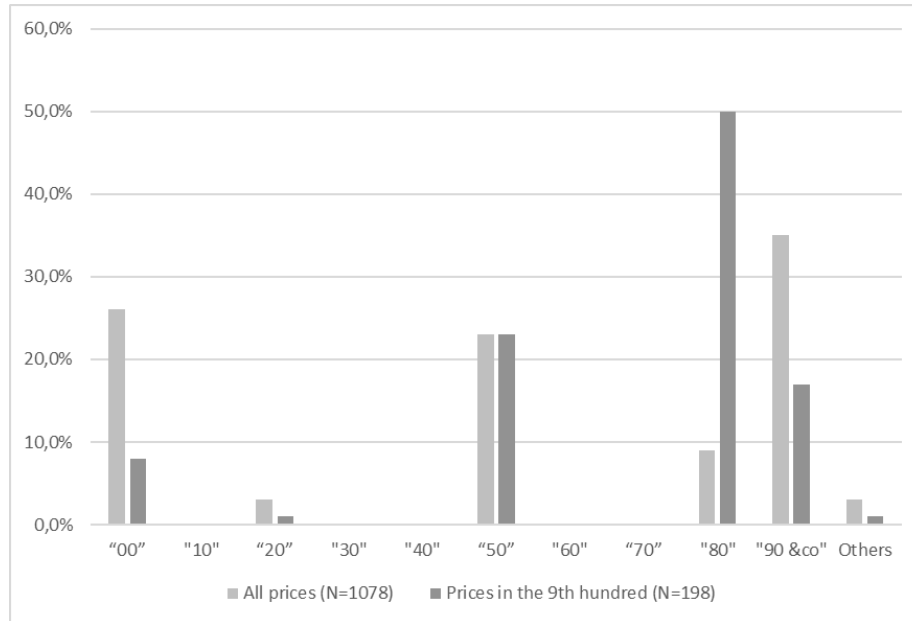
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Appendices

Appendix 1 Price ending distribution observed in the exploratory study



Appendix 2 Scales used in the experiment

<p>Brand luxury (Christodoulides <i>et al.</i>, 2009; Conejo <i>et al.</i>, 2020) Cronbach $\alpha = .882$</p>	<ul style="list-style-type: none"> • Not luxurious – Luxurious • Poor quality – Best quality • Popular – Elitist • Everywhere – Exclusive • Inferior – Superior
<p>Anticipated guilt (Lee-Wingate and Corfman, 2010) Cronbach $\alpha = .756$</p>	<p>How guilty / uneasy / hesitant would you feel about spending money on purchasing one of these watches?</p>