

Psychological Pricing and the Performance of Small and Medium Tourism Enterprises (SMTes) in Arusha City

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Abstract: Despite the contribution that the Small and Medium Tourism enterprises have in the development of tourism Industry and in the country's Gross Domestic product (GDP), the performance of these enterprises is still poor and questionable. The study focused on determining the relationship between psychological pricing in terms of odd even pricing and prestige pricing and the performance of Small and Medium Tourism Enterprises located in Arusha city. Purposive sampling was employed to select key respondents who were participants in ensuring data collection activity is successful. The study also used self-administered questionnaires to collect relevant data to answer the research objectives. Linear regression analysis was used to find out the existing relationship between psychological pricing (Odd even pricing and prestige pricing) and the performances of Small and Medium Tourism Enterprises in terms of sales growth. The results revealed that prestige pricing and odd even pricing are significantly related to sales growth of Small and Medium Tourism Enterprises with p value ($p=0.000$). Therefore, prestige pricing and odd even pricing are the key determinants of performances of Small and Medium Tourism Enterprises in terms of sales growth. The study finally recommended that the management of Small and Medium Tourism Enterprises should see the possibility of using psychological pricing as a strategy to price their tourism products to improve the performance in terms of sales in Tanzania.

Keywords: Pricing, Psychological Pricing, Performance, Small and Medium Tourism Enterprises (SMTes)

1. Introduction

The contribution of small and medium enterprises (SMEs) in the economy of a country is very substantial. The Small and Medium Enterprises are regarded as a means of employments creation leading to income generation. This contribution of SMEs has increasingly been realized in the social economic development of a country. In almost all economies in the world (developed and developing nations) the SMEs sector have become very crucial and key factor that ensure sustainable economic growth and developments whereby, it stands as a life blood of economies [5]. The SMEs allow the marginalized and vulnerable group of people in the society increase their incomes by creating new sources of economic growth and generate additional employment opportunities.

Over 95% of enterprises are SMEs, which account for 60%-70% of employment in most countries in the world [6]. In developing countries such as Tanzania, SMEs are the largest sources of employment, income distribution as well as wealth creation [37].

In Tanzania specific, SMEs are also playing a significant role in creating employment, generating income as well as poverty alleviation, but more specifically are regarded as a base for industrial development [32, 33]. This is because the SMEs sector is estimated to contribute up to one third of Gross Domestic Product (GDP) and can employ up to 20% of labour force in the country. With these statistics it is beyond no doubt to say that SMEs play a significant role on stimulating economic growth, employment generation and contribution in poverty reduction in developing countries.

The Tanzanian Small and Medium Enterprise Development

Policy of 2002 was developed to make sure that there is an improvement in business environments for SMEs to grow. The policy highlighted some challenges that faced the SMEs sector and the strategies to overcome the challenges for sustainable growth of SMEs and the economy at large. The challenges were such as failure to collect receivables from debtors, complicated and bureaucratic legal requirements that regulate business operations and works, high tax returns and difficulties in obtaining loans from commercial institutions [28]. The bank of Tanzania has initiated a Small and Medium Enterprise Credit Guarantee Scheme in 2004/2005, which aimed at providing microfinance regulations to simplify access to financial services by SMEs.

With all these efforts put forward by government of Tanzania to ensure sustainable growth of SMEs, the performance of these SMEs is still questionable. Cosmas *et al* [6] found that half of SMEs established survive only in the early years of their operations, among those surviving SMEs, it's only a small fraction that grows into the core group of high performances that can trigger industrial innovation and economic growth. According to Sallem *et al* [29], the global failure rate of SMEs fluctuates from 70-90% dependently on a country and industry.

Like other SMEs, Small and Medium Tourism Enterprises (SMTEs) cannot be ignored and exempted in these challenges and problems. There has been a tremendous effort by the government of Tanzania and other agencies to make the tourism sector grow and support the development of SMTEs. The Tanzania tourism policy was developed to assist the efforts specifically on promotion and improvement of the livelihoods of the people and poverty alleviation through encouraging the development of sustainable tourism [31]. The policy made it clear that the private sector and other non-governmental organizations play a vital role in the development of tourism industry, while the government act as a catalyst by providing good infrastructure and conducive environment for tourism investment. Furthermore, Tanzania Tourist Board (TTB) in 2013 launched an international tourism marketing strategy, the major aim is to place Tanzania on top among the world's famous and leading tourists' destination. Additionally, it involved private public partnership (PPP), joint discussion between public and private sector including key stakeholders such as Medium and Small Tourism Enterprises in Tanzania.

The Tanzanian tourism sector activities are based much on wildlife and other natural resources which are highly concentrated on the Northern circuit known as Northern Wildlife Area (NWA), the city of Dar es Salam and Zanzibar Island. Game drive and game viewing is the main activity that tourists engage in due to countries richness in wildlife and other natural resources. Tanzania is said to be the only country in the globe which has dedicated more than 30 percent of its area as protected areas for conservation of natural resources. The protected areas range from 22 National Parks, 27 Game Reserves, 44 Game Controlled areas, Ngorongoro Conservation Area and marine parks [21] as cited by Mussa *et al* [23]. The competition in the business of tourism is more

intense and stiffer among destination countries. New destinations are emerging and many countries have dedicated most of their resources in tourism business investment and tourism promotions. Looking at all these emerging competition challenges and taking it seriously, the government of Tanzania formulated National Branding Committee (NBC) on December 10th, 2017 to brand Tanzania as a best destination to visit.

Despite all these efforts by the government and the potential tourist's destinations existing, the tourism sector has not achieved its potential contribution to the economy which is only 17% of GDP. This unsatisfactory contribution to the economy is caused by inadequate performance of SMTEs. According to National Five Years Development Plan (2015/2016-2020/2021), the challenges faced by SMTEs are associated with inadequate quality of skilled local labour in relation to customer care as well as weak marketing strategies and tools such as pricing.

Some studies have been done with regard to tourism industry SMTEs inclusive such as Nkonoki [26] who studied about the challenges facing the tour operator companies. It is further noted that many tourists' products and tour packages offered by small and medium tourism enterprises are highly influenced and affected by seasonality due to holidays and school years patterns. Studies such as Nkonoki [26] and Nathanael [24], addressed very little on psychological pricing and performance of small and medium tourism enterprises.

Hollensen & Opresnik [12] highlighted some of the pricing strategies to include discriminatory pricing, psychological pricing, promotion pricing and pioneering pricing. Based on the reviewed literatures, psychological pricing as one of the key aspects of pricing has been reported very little. There are little or no established study showing a relationship existing between psychological pricing and performances of these SMTEs. Based on the established challenges, the study intends to share knowledge on pricing strategies and its influence on performances of SMTEs.

2. Literature Review

Pricing is always considered as the important part of managerial economics [38]. Pricing integrates theories of demand and cost of operations [35, 38]. It is defined as the process of choosing or selecting the appropriate amount of money to charge for a product or service provided. It involves all the activities of setting and managing price [25]. One of the biggest challenges that the management of any business organization face is to choose the appropriate price to charge for the products or services they are producing and selling [25]. The decision to choose appropriate pricing strategy is carried out very carefully by the management in order to avoid inconveniences. Hollensen & Opresnik [12] categorized pricing strategies as promotion pricing, psychological pricing, discriminatory pricing and pioneering pricing. Morgan *et al* [22] and Kotler *et al* [16] presented a list of pricing strategies which consist of product line pricing strategy, bundling-pricing strategy, pricing strategies for new products

and established products, price-leader strategy and flexible pricing strategies. This article is focusing on psychological pricing strategy as supported by Malinowska & Zielińska-Chmielewska [19].

Psychological pricing has been defined as a pricing strategy that takes into account the customers emotional reactions to a point that can make him make a purchase decision to enhance the sales of the organization. It uses unusual pricing tactics and conventions that the customers can perceive that the product is cheaper than it used to be [15]. This strategy is usually used to influence the purchases which are based on emotional responses than on rational reactions, it is designed to capture the emotions of the customers when purchasing and not rationality [36]. Additionally psychological pricing considers pricing the services or products at the price point that make the products or services look cheaper than it appears [12]. This concept is not new in today's business world. It historically started as a price war that was between the newspaper's dealers in the late 1800s and early 1900s. A famous Czechoslovakian shoe maker started using it famously "decimal 99" prices [8]. This concept has grown to day that psychological pricing is practiced everywhere in business right from the fuel prices to real estate prices. The problem with this psychological pricing is that many customers are rational and not emotional when purchasing, therefore sometimes rational buyers cannot be influenced by the strategy and will not make purchase just because of the decimal places as they will try to round off the prices to the next higher amount [8].

Over many years, marketers in many firms have been using pricing strategies to convince consumers to purchase their products or consume their services [4]. This is due to the emergence of highly stiff market which is very competitive, the competition has been in such a way that, it forces firms to work on employing some marketing strategies to survive in the market and increase their sales. Psychological pricing has been one of those strategies which are used in many projects and firms in order to sustain in such a competitive environment [4]. This is evidence that support the perception among firms that the demand of a service or product may increase at a psychological price point [11]. In their studies conducted worldwide by interviewing more than 50 executives, Hinterhuber & Liozu [9] commented that pricing is an important tool for gaining competitive advantage, although it has been one of the least explored sources of competitive advantage. Psychological pricing is said to bring varieties of advantages, one of which is boosting and influencing sales [11], but sometimes it increases the chance of getting potential deals in business, increasing profit margins and expanding the base through customer loyalty as psychological pricing aim at setting fair prices.

Psychological pricing is important marketing tool in influencing customers asking for discounts in retail business because of the stiff competition among businesses but also the pressure of increasing sales volume rather than margins of profit in each sale [27]. Additionally, McKinsey & Company [20] revealed that, the most effective businesses are those

which have put much efforts on pricing strategies in discounted stores applying psychological pricing. Perceptions of customers on psychological pricing are a vital ingredient as customers are influenced by beliefs/perceptions and emotions that they usually get best value for money. In contrast Levy [18] found that some of the retail's firms were unaware of how their pricing strategies influence the overall image as optimal pricing is not a dynamic problem.

Many studies have been done with regard to pricing strategies, but little is done on the relationship between psychological pricing and performance of SMTEs in terms of sales levels. For instance, Ahmed & Baruah [2] conducted a study on perceptions of psychological pricing on customer's retention and attraction. The results have revealed that psychological pricing influence customers to look and survey the products or services provided and hence increases the chance of selling products, the study by Ahmed & Baruah [2] further found that psychological pricing increase the chance of selling the products or services. The researcher commented that psychological pricing is a motivation to sales persons for selling their products, the study finally concluded that psychological pricing is a good marketing strategies that can bring more customers because the figure ending with 99 gives a good impact in the minds of customers, Thus, the study recommended that marketers in organization such as in tourism have to maintain communication to see if the products which have the psychological price tags are equally better in quality when compared to other normal products, this will make the psychological price policy work [2]. This study concentrated on SMTEs and little has been done on the relationship between psychological pricing and sales level of these SMTEs.

Kumar & Pandey [17] studied about the role that psychological pricing is playing in the consumer's behavior, the study found some social demographic characteristics like gender, education, income, age, lifestyle, family size, preference groups, social roles and status to have an impact in the buying behavior of consumers. The study by Kumar & Pandey [17] further found psychological variables such as the availability of the products and representatives to influence buying behaviors of consumers. In addition, the study realized that customers who are pricing conscious are more likely to be attracted by prices which are nine-ending [17]. The study concentrated much on the psychological factors influencing buying behavior and failed to establish the relationship existing between psychological pricing and performances.

Schindler *et al* [30] revealed that using "just-below" is common in tourism and hospitality industry businesses such as quick service and dining. The detailed findings of that study on just below pricing beliefs of tourism and hospitality practitioners shows that just below pricing means good value and the higher next amount shows high quality. Practitioners believe that customers are always having a tendency of giving less devotion to the right digits of the price tag.

From all the studies discussed above, it's very clear that, these studies have not been in a position of establishing relationship between psychological pricing and performances

in terms of sales. Although most of those studies which focused on perceptions of customers on psychological pricing as well as customers buying behavior claimed that psychological pricing influences sales but there is limited statistical evidence managed to show the extent to which sales are influenced. Ahmed & Baruah [2] commented that the logic behind psychological pricing is, firms are setting the prices in psychological terms in order to compete with other firms. Therefore, setting a price with a fraction lower than the prices charged by firms' competitors can lead to an increase in unit sales. The psychological pricing is meant to strategically price the product so as to increase sales volume without any reduction in the prices. This paper aimed at sharing the knowledge on the relationship and the extent to which psychological prices influences performances of SMTEs in terms of sales.

3. Methods and Materials

3.1. Area of Study Description

The paper presents a study conducted in Arusha city, The city was selected due to the fact that, it is termed as a gate way to most famous tourists' attractions in northern tourist's circuit such as Arusha National Park, Lake Manyara National Park, Serengeti National Park as well as Ngorongoro conservation area. Arusha is said to be a heaven for mountain climbers and hikers as it is near Mount Kilimanjaro, mount Meru and crater highlands. Tourists begin their safaris to the attractions found in northern tourist's circuit right from Arusha city. Arusha city is located in Northern part of the United Republic of Tanzania. It has an area of 208 square Kilometers and a population of 416,442 data from census conducted in 2012 by National Bureau of Statistics. It is in several occasions that Arusha city is commonly referred to the "tourist capital of Tanzania" due to varieties of tourism activities and operations taking place in the city and majority of SMTEs are having their offices situated in Arusha city. Others call it the "Geneva of Africa" because of its favorable climate and having a long experience of hosting international conferences at Arusha International Conference Centre (AICC).

3.2. The Population of the Study

The study included all Small and Medium Tourism Enterprises (SMTEs) located in Arusha city where by their selection were purposeful done. This is because more than 80% of all SMTEs are located in Arusha city. Tanzania Association of Tour Operators (TATO) reports in (2016) revealed that there are about 230 active members and registered tour operators in Tanzania of which 195 equivalent to 84.8% of all tour operator companies are based in Arusha city.

3.3. Data Collection Methods, Instrument and Measurement

Data were collected through survey method and Questionnaires were used as the tools. These questionnaires

were self-administered to deliberately selected SMTEs managers and owners in those selected SMTEs. The tools concentrated on the variables presenting psychological pricing strategies (odd even pricing and prestige pricing) and the performance of Small and Medium Tourism Enterprises (SMTEs) which is presented by sales level of the firm as supported by Abrate & Viglia [1].

3.4. Sampling Techniques

In this study, purposive sampling was employed to select key respondents who were participants in ensuring data collection activity is successful. The technique involved selecting well informed respondents who were capable to give the needed information concerning about psychological pricing and sales. These are managers, owners and any other staffs of the SMTEs who are directly involved in tour packages price setting in these SMTEs. In this case, a sample of 120 managers and owners of these SMTEs were selected and data analysis and conclusions were drawn based on their responses.

3.5. Data Analysis

The collected data were analyzed by using SPSS Version 26 and the multiple linear regression models was used to determine the existing association between psychological pricing and the performance of Small and Medium Tourism Enterprises. Multiple Linear regressions was used because as correlation techniques it enables the researcher to analyses the multiple variables simultaneously.

4. Results and Discussions

4.1. Overview

The study aimed at establishing a relationship between psychological pricing and performance of small and medium tourism Enterprises in Arusha city. The psychological pricing is presented by two parameters namely odd even pricing and prestige pricing. The performance of SMTEs is presented by the sales levels of the enterprises. The results presented here include correlation and regression analysis that are used to show if the variables are related.

4.2. Regression Analysis

From the below model summary Table 1 which is used to test if the model can measure and influence sales levels of the SMTEs, R square value is 0.714. This state the extent to which psychological pricing influence the sales levels, there is about 71.4% of which psychological pricing (odd even pricing and prestige pricing) explains the sales levels of SMTEs. The adjusted R square value in this analysis is 0.709. This indicates that the independent variable (psychological pricing) in the model accounts 70.9% variance in dependent variables which is sales levels among SMTEs in Arusha City.

Table 1. Regression model.

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845 ^a	.714	.709	.32416

a. Predictors: (Constant), Psychological pricing

Source: Field data, 2022

Table 2. Anova Test.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.630	2	15.315	145.747	.000 ^b
	Residual	12.295	117	.105		
	Total	42.925	119			
a. Dependent Variable: Sales level						
b. Predictors: (Constant), Psychological pricing						

a. Dependent Variable: Sales level

b. Predictors: (Constant), Psychological pricing

Source: Field data, 2022

From Table 2 above, Anova test is used to find out the overall fitness of independent variable which is psychological pricing (odd even pricing and prestige pricing) determine sales levels among SMTEs. The F value indicates whether this model has overall significant or not. Based on the above result

F value is 145.747 and its significant is at 0.000 which is within 0.05 significant levels. So, psychological pricing (odd even pricing and prestige pricing) is significant for sales levels among SMTEs in Arusha city.

Table 3. Regression results of psychological pricing and sales of a SMTEs.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.603	.203		2.970	.004
	Odd even Pricing	.399	.111	.417	3.594	.000
	Prestige pricing	.454	.117	.449	3.866	.000
Dependent Variable: sales level						

Dependent Variable: sales level

Source: Field data, 2022

The results as presented in Table 3 has revealed that, odd even pricing is positively correlated with sales levels of the SMTEs at p value 0.000 and beta value of 0.399. This implies that when there is an increase in the use of odd even pricing, the sales levels of the SMTEs will increase by 39.9%, the relationship is statistically significant since p value is within the required statistical value ($p < 0.05$). This confirms odd even pricing to be a determinant of sales levels of SMTEs. The results suggest that the SMTEs who are capable of and can practice the odd even pricing to a large extent in selling the tour packages to tourists will likely increase the sales levels of the enterprises. De Toni [7] revealed that firms which apply odd even pricing strategy in particular do get greater sales which may imply greater profits compared to their competitors who decide to use competition-based pricing which sometimes force them to set lower prices below their competitors' price. The results concur with that of Wagner & Jamsawang [37] who found that odd-even pricing are common practices for a wide range of prices in many enterprises such as SMTEs. They further found that a low number of price points generate higher sales more than half of the sales.

Furthermore, the results as indicated in Table 3 has found prestige pricing to be positively related with sales levels of the SMTEs, they relate at $p = 0.000$ and beta value of 0.603 which means that when there is a unit increase in the use of prestige

pricing the profit levels of the SMTEs will increase by 60.3%. The relationship is said to be statistically significant since p value is within the required statistical value ($p < 0.05$) and this confirms the prestige pricing to be a determinant of performances of SMTEs. The results reveal that if the SMTEs can practice prestige pricing as one of their marketing techniques it's very possible that their sales will increase. Ahmed & Baruah [2], in their study of customer's perception on psychological pricing found that psychological pricing in many cases attracts the customers. The attraction making customers to have a look on the products or services offered which can pursue customers to purchase and thus increase sales. They further commented that psychological pricing should be a motivation to sales people to increase the sales of their enterprises. Therefore, prestige pricing is a key to the performance of the SMTEs.

5. Conclusion and Recommendations

This paper aimed at using the study on psychological pricing and performance of SMTEs to analyze the relationship existing. The results presented and discussed in this article after being analyzed by the use of multiple regressions model uncovered that odd even pricing and prestige pricing are the determinants of performances (sales level) of Small and

Medium Tourism Enterprises (SMTEs) in Arusha city. These psychological pricing strategies parameters are related to performance in terms of sales growth of Small and Medium Tourism Enterprises (SMTEs). Therefore, the study recommends that Small and Medium Tourism Enterprises (SMTEs) managers and owners have to practice psychological pricing in SMTEs to ensure the performance of SMTEs is improved through enhancing sales of the tour packages to tourists. In this paper case, the performance was measured by one variable, the sales level. But according to Anwar, Abdullah [3] and Ingenbleek & Van der Lans [13], organization performance can also be measured by looking at fixed assets, cost effectiveness, satisfaction and others. In this case some other future studies can use other performance variables and measure their impacts in relation the price levels and pricing strategies applied by SMTEs [9, 14, 31].

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