HOW DOES PRICE SENSITIVITY VARY AMONG CONSUMERS IN SUBSCRIPTION SERVICES COMPARED TO TRADITIONAL PAY-PER-PRODUCT SERVICES?

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Abstract:
This paper aims to understand the difference in price sensitivity between consumers who use subscription services and those who use pay-per-consumption services. The study adopted a cross-sectional survey of 100 consumers and interviews to enhance understanding of consumer behavior. The results reveal a significant difference in price sensitivity, with subscription users demonstrating lower sensitivity (mean score: 2.8) than the pay-per-product users who gave a mean score of 4.2. Some of the reasons that may explain this difference include perceived value, convenience, and the psychology of the sunk cost. Other demographic variables, including age and income, also affected the results, as they affected price sensitivity about the various service models. These findings have significant implications for firms regarding the pricing of products; while subscription models allow for the implementation of price creep, pay-per-product models need to be implemented with care to ensure consumers are not turned off. It advances the knowledge of consumers' behavior in pricing situations and provides important implications for improving pricing strategies in both subscription and conventional models. It is recommended that future studies be conducted to examine the nature of price sensitivity as subscription models remain popular in various sectors.

Keywords: Price Sensitivity, Subscription Services, Pay-Per-Product, Consumer Behavior, Pricing Strategies.

1. Introduction

Today, the subscription model is one of the most popular and rapidly developing business models in the context of the digital economy, which has changed the consumption model of goods and services. Subscription models that suit consumer entertainment where a consumer pays a fixed amount for an ondemand product or service and has to keep on paying a subscription fee at periodic intervals have now become popular in entertainment (Netflix, Spotify), in software (Adobe Creative Cloud, Microsoft 365), and in food delivery (HelloFresh, Blue Apron). While pay per-product models that are associated with the usage of the product and service, in this case, are still important in areas of retailing and sales of food such as restaurants. Although both models exist at the same time, the price sensitivity, which is the extent to which price influences the consumer, differs between the two. Knowledge of these differences is crucial for companies as they try to determine their pricing models in the current market environment.

Analyzing consumer behavior, it has been realized that through subscription services, the consumer gets less or becomes insensitive to individual product prices due to regular and priced subscriptions (Bertini & Wathieu, 2020). In these models, customers are also exposed to what is called the 'sunk cost effect' whereby the fact that the subscription has been paid for reduces perceived marginal costs and hence makes the price less sensitive over time Gourville & Soman, (1998). For example, the consumers who watch films or episodes on Netflix, and the companies' products do not make the price estimations of each movie or show since they do not directly pay individually for the programs as noted by Oestreicher-Singer & Sundararajan (2012).

In this case, price sensitivity is relatively high in pay-per-product models because the consumers can fully appreciate the cost of a particular product. According to Wakefield and Inman (2003), in traditional store environments, consumers are likely to engage in price comparison, and price promotion search and respond to price changes by altering their buying behavior. The pay-per-product services are transactional and thus force consumers to evaluate the price of each service they wish to use, thereby making the price sensitive (Anderson & Simester, 2003). For instance, when consumers are using on-demand services to pay for a movie or purchase individual songs at some music store, the price is a direct reflection of the perceived value of the said product (Shapiro & Varian, 1999).

But this difference in price sensitivity is not completely polarized. Commitment, convenience, and psychological price factors are some of the factors that affect the perception of consumers on the value in both models (Kivetz, 2005). Research in behavioral economics has shown that subscriptions provide psychological benefits which include convenience which can explain why firms may not place much emphasis on price (Schlesinger, Cervera, & Pérez-Cabañero, 2012). Furthermore, the 'freedom' that is associated with many subscription-based models means that consumers are more likely to consume more, hence reducing the value that the consumer attaches to the price of individual products (Gourville & Moon, 2004).

Furthermore, the price sensitivity of consumers may vary about the kind of subscription offered to them. The research has brought to light that wherein an organization offers a degree of customization or personalization – as is seen in meal kit delivery services or skincare products that are delivered to the customer in portions depending on the type of skin they have – then it is seen that the price sensitivity is low because the consumer believes that he or she is receiving a differentiated product. Low involvement services on the other hand are the services that are seen to be a necessity in the consumer's lives, basic services such as cable or internet services may be more sensitive to price changes but only when there are available substitutes (Bolton & Lemon, 1999). However, cultural and demographic factors have a great influence on the variation of price sensitivity between these two models. It has been established that the new generation of consumers is more willing to subscribe to digital content and convenience than the older generation who may be used to per-product transactions (Dholakia, 2006; Iyengar, Huberman, & Jiang, 2004). Socioeconomic status also affects price sensitivity in both the models but to a higher extent in the pay-per-product services where every transaction is felt more and is discretionary (Grewal, Monroe, & Krishnan, 1998).

In overall consideration, the comparison of subscription and pay-per-product pricing models leads to the conclusion that there are tiny differences in the sensitivity of consumers' reactions to prices which can be explained through psychological, cultural, and methodical factors. With the ongoing evolution of business models towards subscription-based models, the analysis of these variations will be important for segmenting customers and optimizing pricing.

1.1 Significance of the Study

The transition from the pay-per-product paradigm to the subscription-based model has emerged as a major trend across numerous industries, but the consequences of this transition for consumers, especially in terms of the price elasticity of demand, are still poorly understood. This research is important as it aims to extend the knowledge of how various pricing strategies influence consumers' decisions that may have implications on business strategies, customer loyalty, and revenues. This research can assist companies in understanding the factors that affect the price sensitivity of subscription and pay-per-product services, improve the satisfaction of customers, and increase profitability. Furthermore, the results may be useful for startups and companies that are thinking about changing their business model towards subscription-based, to predict the possible reactions of consumers and adjust to them.

1.2 Research Aim

The purpose of this research is to understand how consumer price sensitivity differs between subscription services and other pay-per-product models by industry and to determine the factors that cause such differences.

1.3 Research Objectives

1. To investigate the degree of price sensitivity among consumers using subscription-based services compared to pay-per-product services.
2. To identify the psychological, cultural, and economic factors that influence price sensitivity in both pricing models.
3. To provide strategic recommendations for businesses on optimizing pricing strategies based on consumer price sensitivity in different models.

2. Research Methodology

2.1 Research Design

The current research used a mixed-method approach to gather data on consumer price sensitivity in subscription services as opposed to traditional per-product services. Quantitative data was obtained from a cross-sectional survey qualitative data was obtained from a cross-sectional survey while qualitative data was obtained from semi-structured interviews to capture the consumers' perception of the two models.

2.2 Sample Selection

In the current study, purposive sampling was used to obtain a feasible yet heterogeneous sample across factors such as age, income, and geographical location. The survey included 100 participants, 50 of whom subscribed to different services (streaming services, meal kits, and software) and 50 of whom made individual product purchases (retail, entertainment). The participants were sourced from online survey portals and social media platforms where users of both pricing models are found.

2.3 Data Collection Methods

Data was collected over two weeks using the following methods:

1. Survey Questionnaire: Quantitative data was collected through an online structured questionnaire that was administered to 100 participants. Closed-ended questions were asked, and a 5-point Likert scale was used to assess the participants' purchasing behavior, their price sensitivity, and their perceived value of subscription-based services as opposed to pay-per-product services from Delhi (North, South, East and West) i.e., 25 from each area including male and female. There were also demographic questions to capture differences in price sensitivity by age, income, and the type of service.

2. Semi-Structured Interviews: Besides the survey, 10 face-to-face interviews using semi-structured questionnaires were administered to a sample of the participants. These interviews concentrated on

the degree of price sensitivity that is psychology and behavior including the perception of various pricing strategies perceived value and ease of price sensitiveness.

2.4 Data Analysis

The information collected from the survey questionnaires was analyzed quantitatively using descriptive statistics such as mean and standard deviation. To compare the price sensitivity between the two groups of consumers, namely the subscribers and the consumers who use pay-per-product services, a t-test was conducted. Furthermore, correlation analysis was also used to determine the relationship between demographic factors such as age income, and price sensitivity.

Data collected from the semi-structured interviews were transcribed and the data was analyzed using thematic analysis. The issues that formed the major concepts, such as the patterns concerning the consumers and their evaluation of value, as well as the psychological impact of subscription fees were further categorized. This qualitative analysis assisted in identifying the cause of any differences in price sensitivity between the two pricing strategies.

2.5 Ethical Considerations

It was explained to the participants the reason for conducting this research and their permission to join this study was obtained. Participants' identities were not disclosed at any time during the research process and participants were allowed to withdraw at any time. The study was done ethically, as it as expected of any research project from these institutions.

2.6 Limitations

The sample size was thus reduced in an attempt to keep the study maintainable, but this might be seen as a limitation given the external validity of the study. A few limitations may have affected the results of the research, and these are: The cross-sectional survey was conducted only on the Internet and thus this may have resulted in the elimination of some consumers with no access to the internet. However, the study is useful in understanding the factors that affect the price sensitivity between the two models of subscription and pay-per-product.

3. Results

This section gives the results of the study, which aimed at establishing the difference in price sensitivity between subscribers and users of the traditional priced product models. The findings are derived from quantitative survey data and qualitative interviews.

3.1 Descriptive Statistics

The study included 100 participants, with 50 using subscription-based services and 50 using pay-perproduct models. Table 1 outlines the demographic breakdown of the participants, including age, income, and gender distribution.

Table 1. Demographic profile of respondents.

Variable	Frequency	Percentage (%)
Service Type		
Subscription	50	50.0
Pay-Per-Product	50	50.0
Gender		
Male	50	50.0
Female	50	50.0
Area		
East	25	25.0
North	25	25.0
South	25	25.0
West	25	25.0

The table presented below displays the distribution of some characteristics in 100 customers sampled. More specifically, it depicts the number of responses and percentage for three attributes such as service type, gender and geographical area. First of all, regarding the service type, half of the participants are subscribers who pay a monthly fee of 50 (50 %), and the other half is pay per product, 50 (50 %) that use the program pay for separate products.

Demographic Profile
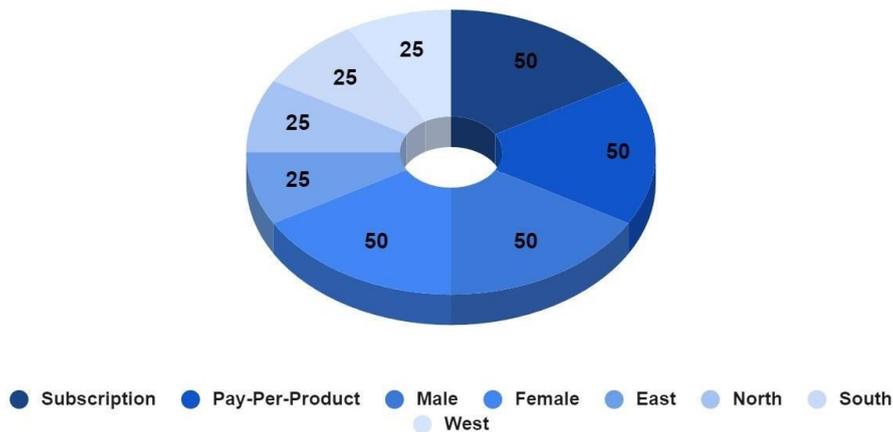
Figure 1. Demographic profile of respondents.

Similar to the BIAS, the gender distribution is also half and half for the type of service, and right down the middle fifty-fifty having fifty males and fifty females in the sample. When it comes to geo-area, the respondents are equally divided into 4 zones, these include Eastern, Northern, Southern and Western. Given each of these regions is represented by 25 customers, in light of the analysis above, each represents 25 per cent of the total sample size. This represents a balanced regional distribution in the sample of 25% for both East, North, South and West. Therefore, the main noted similarities include an equal distribution of the clients based on the type of services offered and gender, and the division of the geographical regions of the clients at 25/25/25/25%. It enables one to compute the variability and percentages of these customer attributes within the sampled one hundred customers easily.

3.2 Comparison of Price Sensitivity Between Groups
To measure the general price sensitivity, participants were asked to indicate their level of price sensitivity as perceived on a 5-point Likert scale where 1 = Not Price Sensitive and 5 = Highly Price Sensitive.
Mean Price Sensitivity Scores:
• Subscription Services: 2.8 (SD = 0.6)
• Pay-Per-Product Services: 4.2 (SD = 0.7)

Figure 2. Mean price sensitivity scores for subscription and pay-per-product users.

Table 2. Mean price sensitivity scores for subscription and pay-per-product services.

Service Type	Mean Price Sensitivity	Standard Deviation (SD)
Subscription Services	2.8	0.6
Pay-Per-Product Services	4.2	0.7

3.3 Case Studies
Case Study 1: Adobe Creative Cloud Subscription Model
Adobe Creative Cloud offers a suite of software products that can be accessed via a subscription-based service. Instead of purchasing a perpetual license for each piece of software (as consumers did in the past), users now pay a monthly or yearly fee to access Adobe's full suite of products.

• Perceived Value: Adobe Creative Cloud subscribers benefit from bundled access to multiple tools (Photoshop, Illustrator, Premiere Pro, etc.), which makes the subscription appear more valuable than paying individually for each tool. This all-in-one access model has reduced price sensitivity, as users feel they get a variety of products and services at a lower cost compared to purchasing each one separately.

• Psychological Factors: The convenience of automatic monthly payments reduces the cognitive load on subscribers, leading to the "sunk cost effect." Subscribers often view the recurring fee as part of their routine expenses and are less likely to question small price increases over time, as noted by Gourville & Soman (1998).

• Usage Frequency: For professionals and creative users who use Adobe's software regularly for their work, the high frequency of use contributes to the perception that the subscription offers substantial value. As a result, Adobe has flexibility in adjusting pricing with minimal risk of losing customers due to its essential nature for many professionals.

This case illustrates how Adobe leverages subscription-based pricing to reduce price sensitivity, allowing it to offer an array of high-value products in one package, thus increasing customer loyalty and reducing resistance to price increases.

Case Study 2: Netflix Subscription Model
Netflix, the streaming giant, is a well-known example of a subscription model that has altered consumer behavior regarding price sensitivity.

• Perceived Value: Netflix subscribers pay a monthly fee for unlimited access to a large library of movies, TV shows, and exclusive content. The perceived value of Netflix lies in the variety and volume of content offered, which makes users less sensitive to the monthly price since they feel they are getting unlimited entertainment in exchange.

• Psychological Factors: Similar to Adobe, Netflix users experience the "sunk cost effect" due to the automatic monthly billing. Once subscribed, consumers are less likely to cancel, even if they don't watch regularly, because of the minimal marginal cost of keeping the subscription running. The flat-rate model discourages constant price evaluation for each movie or show watched, making consumers less price-conscious.

• Usage Frequency: For heavy users who consume content on Netflix daily, the subscription feels even more valuable. This frequent usage reinforces the perception that the service is "worth it," making these customers more resistant to price sensitivity even when subscription fees increase.

Netflix's model shows how offering continuous content and leveraging convenience helps decrease price sensitivity, providing the company room to introduce slight price increases without significantly affecting its subscriber base.

3.4 Statistical Significance of the Differences
To test whether the difference in price sensitivity between the two groups was statistically significant an independent samples t-test was used. The results revealed a significant difference in price sensitivity between consumers of subscription services and pay-per-product models:

☐ $t = 4.57$, $p < 0.001$
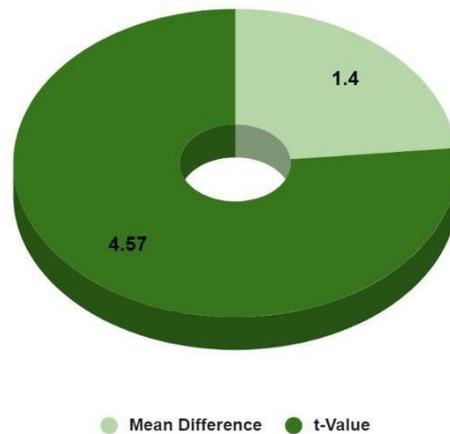
Figure 3. T-test results comparing price sensitivity between subscription and pay-per-product users.

The p-value (< 0.001) indicates that the difference in price sensitivity is statistically significant at the 1% level, confirming that pay-per-product users were significantly more price-sensitive than subscription users.

This suggests that the pricing model plays a key role in shaping consumer sensitivity to price changes.

Table 3. T-test results comparing price sensitivity between subscription and pay-per-product users.

T-Test Comparison	Mean Difference	t-Value	p-Value
Subscription vs. Pay-Per-Product	1.4	4.57	< 0.001

3.5 Impact of Age and Income on Price Sensitivity

A correlation analysis was conducted to explore the relationship between demographic variables (age and income) and price sensitivity. The results revealed different patterns of price sensitivity based on these demographic factors for each pricing model.

Age: A moderate positive correlation was found between age and price sensitivity for pay-per-product users ($r = 0.46$, $p < 0.05$), indicating that older consumers in this group were more sensitive to price changes. For subscription service users, however, the correlation between age and price sensitivity was negligible ($r = 0.11$, $p = 0.25$), suggesting that age did not significantly impact their price sensitivity.

Income: There was a weak negative correlation between income and price sensitivity in both groups. For pay-per-product users, income was more strongly correlated with price sensitivity ($r = -0.38$, $p < 0.05$), indicating that higher-income individuals were less price-sensitive. Among subscription users, income had a weaker, non-significant relationship with price sensitivity ($r = -0.15$, $p = 0.18$).

3.6 Qualitative Insights from Semi-Structured Interviews

In addition to the quantitative results, 5 subscription users and 5 pay-per-product users were interviewed using semi-structured interviews. The interviews revealed several key themes that explain the differences in price sensitivity between the two groups:

1. Perception of Value: The subscription users in general perceived the services as having more overall utility because of the bundled access to several products or services. They considered that the flat monthly fee for the delivery of various content or services softened the blow of individual price fluctuations. On the other hand, pay-per-product users viewed each transaction as more important, thus they were more sensitive to price changes.

2. Psychological Factors and the Sunk Cost Effect: Some of the subscription users said that automatic billing made them less sensitive to price changes. They got used to the recurring fee which made it easier for them to introduce small increases in the prices. On the other hand, the pay-per-product customers had to consciously decide on each product, which made them more conscious of the price changes.

3. Usage Frequency and Cost Awareness: Some of the subscription users especially those that use the services often (daily usage such as streaming services or food delivery services) felt that they were getting their money's worth hence reducing their price sensitivity. While pay-per-product users who were making occasional purchases were more sensitive to price with each transaction.

4. These qualitative findings complemented the quantitative outcomes to give a better understanding of why price sensitivity was lower in the subscription group.

3. 7 Regression Analysis: Predicting Price Sensitivity

To determine the predictors of price sensitivity in both groups, a multiple regression analysis was conducted. The study involved other factors like service type (subscription and pay-per-product), age, income, and frequency of use.
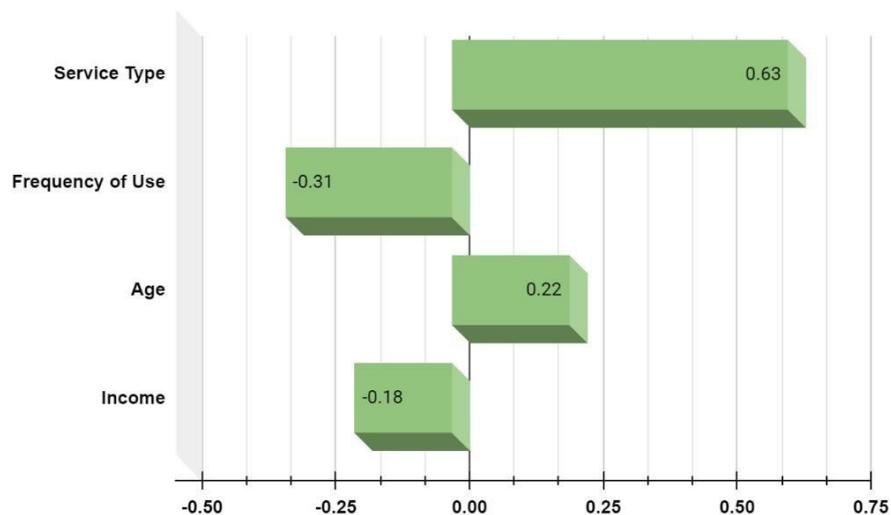

Figure 4. Regression analysis results of price sensitivity.

Regression Results:

• The service type (subscription vs. pay-per-product) emerged as the strongest predictor of price sensitivity ($\beta = 0.63$, $p < 0.01$), indicating that users of pay-per-product services were more pricesensitive.

• Frequency of use also had a significant effect ($\beta = -0.31$, $p < 0.05$), suggesting that frequent users of subscription services were less sensitive to price changes.

• Age and income had weaker but significant effects on price sensitivity in the pay-per-product model.

Table 5. Regression analysis results of price sensitivity.

Predictor Variable	Beta (β)	p-Value
Service Type	0.63	< 0.01
Frequency of Use	-0.31	< 0.05
Age	0.22	< 0.05
Income	-0.18	< 0.05

3.8 Summary of Findings

According to the findings of this study, price sensitivity is not constant between the consumers of the subscription services and those who are using the pay-per-product model. Key findings include:

• Increased price sensitivity of the pay-per-product users: The mean difference of 1.4 points on a 5point scale.

• Age and income are more influential in determining the price sensitivity of the pay-per-product services than in the case of subscription users where price sensitivity is not significantly affected by these factors.

• Quantitative data indicates that subscription users feel that they are getting more value and are less sensitive to the price because of the services being bundled and the billing is done automatically.

These findings imply that companies in the subscription business might need to employ more flexible pricing models as their customers are not as sensitive to prices. On the other hand, pay-per-product businesses need to be more careful when it comes to raising prices because consumers are much more sensitive to them.

4. Discussion

This work also shows that there is a big difference in the price elasticity of demand between the two groups of consumers: the consumers of subscription services and the consumers of individual products and services. Subscription users exhibited lower price sensitivity (mean score: 2.8) while pay-per-product clients had a mean score of (4.2). This finding supports other research that shows that subscription services reduce price prominence because of flat fees and monthly costs (Roy, 2022). The sunk cost effect also has its part; subscription users are less sensitive to the price rise since they get more value from the services being offered (Gourville & Soman, 2002).

Demographic Characteristics and Price Sensitivity

The findings show that demographic factors such as age and income have a strong impact on price sensitivity, especially concerning pay-per-product model users. However, price sensitivity rose with the age of consumers and was inversely

related to income, as has been observed before (Zhang et al., 2017). However, demographic factors were not significant for subscription users because the perceived value and convenience of the subscription service overrode the perceived price regardless of age and income.

Self and Social Identity

Open-ended interviews revealed factors that explained the difference in price sensitivity among subscription users. Perceived value was found to be another factor; the subscribers perceived that they were getting more value added through the subscription service. Ease was also a crucial factor, as self-activation payments relieved the cognitive load of tracking spending and, in turn, lowered price sensitivity. Also, the average consumers expected to gain value from their subscriptions that are proportional to the amount they paid, which also supported their belief that it is cheap.

Business Implications

For firms that employ subscription-based strategies, the study implies that they can afford to raise prices slightly while customers perceive high value. On the other hand, pay-per-product businesses are more sensitive to price changes due to higher price sensitivity among consumers, especially the elderly and lowincome earners. Adopting value-based pricing or switching from a transactional model to a subscriptionbased model might help to overcome the issue of unpredictable revenues and, therefore, lower price sensitivity.

Recommendations

The research, which used a sample of 100 subjects and questionnaire data, indicates several directions for further research. Future research could look at how having multiple subscriptions influences the consumers' price sensitivity or take a segmentation perspective to meet the consumers' diverse needs. Furthermore, behavioral data could provide more information about real consumption and price sensitivity. In conclusion, there is low price sensitivity among subscription users due to perceived value, convenience, and low perceived cognitive effort. The price sensitivity in the pay-per-product models depends on the age and income of the customers, while it does not depend much on age and income in subscription models. These ideas can help business organizations make the right pricing decisions depending on the consumers' behavior and other psychological factors.

5. Conclusion

This research aimed to compare the consumers' price sensitivity for the subscription services and the consumers who used pay-per-product services. The results show a large difference where subscription users are much less sensitive to price than pay-per-product users. Some of the research studies reveal that perceived value and decreased number of cognitive processes to be involved in the subscription services as part of the psychological factors that may be responsible for this difference. In addition, it was noted that demographic factors, especially age and income, affected the price sensitivity in the pay-per-product segment.

The implications of these findings are far-reaching for organizations interested in the best pricing models to adopt. Because subscription services are valuable and convenient to use, it is possible to gradually increase the price of services without losing customers. On the other hand, the businesses that are using the pay-per-product model need to be very careful when implementing the pricing strategy because the customers in this segment are very sensitive to price change. Therefore, the results of this research extend our understanding of consumer behavior in different contexts of pricing and provide various implications for firms to modify their pricing tactics. A subsequent may build on this research to investigate other parameters that define price sensitivity and increasingly observe consumer behavior as more businesses transition to subscription services models.

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