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E-PRICING STRATEGIES

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Abstract

It is frequently claimed that the growth of e-commerce has created a more competitive environment. It is argued that lower production costs of online retailers encourages new entry in previously concentrated sectors, and a marked reduction in search costs and switching costs increase the intensity of competition.As Internet-based commerce becomes increasingly widespread, large data sets about the demand for and pricing of a wide variety of products become available. These present exciting new opportunities for empirical economic and business research, but also raise new statistical issues and challenges. This paper studies about the pricing strategies that are followed by companies online and how it has impacted the business.

Introduction

Pricing items for sale in the Digital/internet Age, whether they be information goods, services, or physical products is far more complex than its corresponding number in traditional marketing settings. Nonetheless, as the population moves inexorably toward more interactive transactions and global customers become the order of the day for most businesses, learning to adapt to this relatively new medium is essential. The Internet provides a variety of sources for products and services unparalleled in the history of commerce. Whereas before a customer in a large city might compare prices by going from one store to another in town, and then choosing the best deal, customers can now easily check multiple websites offering identical products and choose which one has the best price. These developments all point to a greater degree of price transparency, wherein the customer need not wonder whether or not they are getting the best deal possible. With a few clicks of the

mouse, they can be relatively assured of an optimal exchange. Comparisons of physical goods for best price are very easy on the Web.

The meaning of price can be defined from the buyers and sellers perspective

Buyer perspective on price

- Buyers define value as **benefits minus cost**
- Costs to the buyer
  - Money – the real cost, How is it calculated; what does it include - shipping, taxes, duties, gift wrap
  - Time – finding what you want, waiting for it to arrive, slow web sites
  - Energy – Web = self service, no-one to help in research and locating an item
  - Psychic costs – frustration, lack of trust of web commerce, lack of confidence in on-line service delivery etc.

Seller perspective on price

- Sellers concerned with profitability – but there is some freedom to set price at a level that will draw buyers away from competing offers
- Profit lies between cost and price
- Affected by both internal and external factors

External factors:

  - Market structure and type of competition
  - Market efficiency

Internal factors:

- Depends on pricing objectives (e.g. volume; building market share; high profits; matching competition)

Factors that push prices upwards –

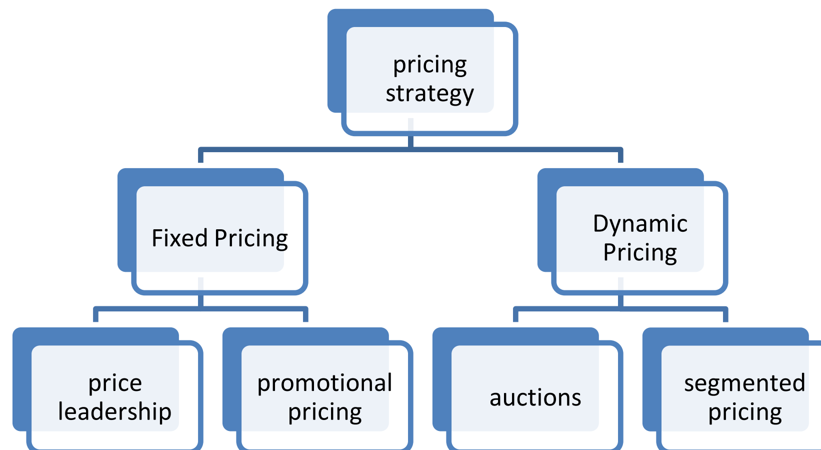
  - cost of distribution
  - commissions to affiliates
  - site development

- customer acquisition costs

Factors that depress prices –

- Order processing – self service
- Just-in-time inventory
- Overhead (physical vs. online store)
- Customer service costs lower
- Printing and mailing costs
- Digital product distribution costs

Pricing strategies



Fixed pricing (similar to offline pricing strategy)

- Price leadership
- Promotional pricing

Dynamic pricing (Internet-enabled pricing)

- Auctions
- Segmented pricing (geographic or based on customer profile)

1. *Fixed pricing*:

A price leader is most often, but not always, the lowest-priced product entry in a particular category. The price leader is the one that sets the price levels for the market. Others follow the leader with comparative pricing (usually higher).

Wal-Mart is an example of a "low price" price leader that uses technology to leverage its costs and maintain profitability.

2. *Dynamic pricing:*

Dynamic pricing is fluid pricing. It is one of the most significant contributions the Internet has made to pricing strategy. It offers interactivity as buyers and sellers from all around the world can interact and negotiate prices.Dynamic pricing is also the strategy of offering different prices to different customers

- Optimizes inventory management
- Segments customers by product use or other variables (eg. frequent or infrequent purchasers)
- Web-based technology and database marketing have made this strategy much easier to implement.

a) Auctions:

Variety of auction types

a. "English" auction - such as e-Bay where the price starts low and is then driven up

b. "Dutch" auction - the auctioneer announces a high price for the product, then gradually reduces it until a buyer will accept it

For e.g. e-Bay has a variant of this, where a seller has multiples of the same product to sell

c. First-Price sealed bid auction (purchaser does not know the amount of the other bids)

b) Segmented Pricing:

Where the company sells goods or services at two or more prices,based on segment differentiation itautomatically generates a different price depending on a number of pre-set variables or decision rules.

The Internet gives the ability to recognize a consumer, and then customize prices, segmenting sometimes to a segment of one

- e.g. anyone who has previously purchased 10 items gets a discount
- May use your IP address to offer a product at an introductory price – e.g.TELUS offer to students from Malaysian IP address

- May use behavioral cue: e.g. if you abandon your shopping cart

i) Geographic Segments:

A company sets different prices when selling a product in different geographic areas. It uses IP address of user to guess at their location. The prices can then be related to circumstances in different countries – local competition, economic conditions etc. For e.g. Computers, CDs etc. are usually priced differently according to geography.

Importance of Pricing Strategy

♦ If the pricing strategy of the product goes wrong, the demand for the product in the market will be very less. Product will fail.

♦ If the price is less than what it should be- then the company is unnecessarily sacrificing profit.

♦ If the price is more than what it should be- then the company will lose some of its customers.

♦ That's why an accurate price strategy is necessary.

Objectives of Pricing Strategy

Different companies will have different objectives while deciding on the price strategy:

♦ To increase market-share within a market

♦ To defend an existing market from new entrants

♦ To enter a new market etc.

PRICING STRATEGIES FOR YOUR DIGITAL PRODUCT

Pricing is more than just how you sell your products. It's a marketing strategy in itself that says something about the value of the product. When you're pricing physical products, it's much easier to decide on a final number. You have production costs and materials to consider into that sale's price, so it's as simple as calculating everything together to ensure you earn a profit.

When your product is digital, things is much less clear. Most likely you only put time and skill into the creation of your digital product. It might not be clear in which way to determine how much money that time is worth. You still want to make a profit, and you know your digital product has value. From software to e-books, you want to make sure customers know your product is worth paying for. These strategies for pricing below place your business ahead of the competition and demonstrate your value.

1.Tiered Pricing

Tiered pricing is a way to hit multiple demographics at once, and give customers what they need. Tiered pricing also gives you a better idea of what customers find valuable. One of the

first methods for pricing competitively is to offer tiered pricing. People will often feel compelled to pay a bit more if they know there's more in it for them. Similarly, those who might have objected to a higher price before will feel more comfortable choosing a lower, more affordable tier. Don't think you need to offer software as a service to use tiered pricing, however. This can work for virtually any digital product or service. For instance, if you're selling a downloadable e-book, you might include a lower tier with the e-book alone and a more expensive tier for the e-book and a corresponding workbook.

(i) Demonstrate the differences

Many companies that offer tiered pricing demonstrate the differences between high- and low-end packages by using a grid or comparison chart. Think about ways in which you can graphically show the added value of your product, using a tiered pricing strategy.

2. Try Before You Buy

A lot of customers object to online purchases because they're worried they won't be worth the money. That's why a "try before you buy" strategy is so effective. By offering customers the opportunity to see for themselves whether they actually find value in the product, they're more likely to make a purchase. This also builds trust in your customer base.

Most software companies already offer a 7-day or even a 30-day free trial. Having an auto responder in place will remind customers that their trials are expiring and it's time to consider a purchase. Using the e-book example, a trial might include offering the first chapter of the book for free so customers can learn more about the content of the document before making a purchase.

3. Added Bonus

Offering an incentive with purchase can go a long way towards convincing people to either reach a certain price threshold or to make an extra purchase. For instance, a virtual accounting service might let users download free graphic design invoice template with the purchase of a subscription.

This all comes down to perceived value. Customers want to get the most benefits for their money. Having a freebie shows them that this is a high-value purchase that's worth taking their wallet out for. The key is to make sure your bonus has substantial value to add to your core offering.

4. Price Psychologically

We've all seen the prices in the store that read ₹ 1999 instead of just ₹ 2000. It's a psychological method of pricing that makes things appear to be a better bargain than they

really are. That's why you're more likely to see prices ending in zeros in high-end shopping stores, while discount stores are known for prices ending in "9".

5. Learn the Market

Finally, it's up to you to learn your market as much as possible. You need to perform a complete analysis to understand how your competitors are pricing their digital product. If you want to compete against these products, you need to price them accordingly. That doesn't mean to price your digital product lower, but it means you need to be careful with your strategy.

A product priced slightly higher than your competition can show value. It might lead users to believe your product is of higher quality, thus worth the extra funds. This only works if you can demonstrate your value with a strong sales strategy. On the other hand, pricing slightly below your market competition can also get you an edge over those in-between buyers.

6. **Use Scarcity**

Scarcity is an age-old marketing technique that has stood the test of time. If potential customers think that they run the risk of not getting something, they are more likely to buy it as soon as possible. For e.g. this strategy used with digital marketing products, as well as travel websites that show that only three rooms are left at a given rate. Scarcity elicits a psychological effect that will boost your sales and allows you to price your product higher when enrolment is open.

Another way a business can use scarcity to sell digital products is through enrolment periods. Rather than having a product is available year-round, you only allow people to purchase it at certain parts of the year. Not only does this produce the scarcity effect, but it also gives businesses the opportunity to focus on selling one product at a time, which is ideal for sellers with limited resources.

7. **Offer a money-back guarantee.**

Money-back guarantees take away the last objection to purchasing a digital subscription by removing the risk in the transaction. Customers leery of buying from an unknown or independent digital provider may be less cautious if they are certain their money is not at risk. If you offer a quality product, you should see few, if any, returns.

Advantages

1. **It can offer a business a high return on their investments**.

One method of psychological pricing increases the price of an item that is sold. This happens when the product is initially launched. By charging a higher price when demand levels are also high, then it becomes possible to generate a higher return on the initial investments made

to bring the item to the market. At the same time, your early adopters become testers that can help you to refine the product.

2. **It may discourage competitors from entering your market**.

Another option for psychological pricing is called “penetration pricing.” This option targets the consumers who are sensitive to cost within specific market segments. By engaging these consumers with a targeted price that is lower, you’re creating an emotional response within the segment which encourages a purchase. That eliminates cost control pressures and may even create a barrier to entry for competitive products in the future.

3. **It creates a chance to be transparent about all costs.**

If you’ve shopped online at all for something, then you’ve seen a psychological pricing strategy called “partitioned pricing” for the goods and services offered. This pricing strategy will itemize the various costs that a customer faces, usually at the end of the checkout process. You’ll see separate charges for shipping and handling, administrative fees, sales tax, and other costs. The initial price on the item is there as well. With this transparency, customers can decide if they are actually getting a good deal.

4**. It simplifies the decision-making process for consumers.**

Many consumers are cost-conscious, so one of their primary screening points is cost. With anchor pricing techniques, you can encourage customers to look at a cheaper item when it is priced better than something comparable. This gives you the opportunity to increase sales for specific products while consumers feel like they were able to get a pretty good deal.

5. **It boosts attention to a specific product through its actual cost.**

Up to 70% of the products that are sold in stores are influenced by charm pricing. Sometimes called “.99 pricing,” it markets products with an odd number that is just below the full price of what a business wants to receive. Although it is so overused today that it may not be as effective as it once was, small changes to it can make a big difference. Some companies have started using .97 or .95 pricing instead of .99 pricing to create a bigger impact.

6. **It offers multiple ways to encourage customer attention.**

Although charm pricing is the most common strategy used today in this marketing category, there are other methods of psychological pricing that can be used too. Any pricing strategy which encourages customers to see more value in the product or added value when purchasing multiple items fits into this category. If you know what your customers prefer, then you can implement a pricing strategy that will dominate their attention, which gives you more opportunities to close a deal. Even fast-food restaurants, with their combo meals, employ a psychological pricing method that is called “bundling.”

7. **It offers evidence of value.**

One of the emerging elements of psychological pricing is called "social proof marketing." When you engage bloggers, social media influencers, and online personalities to promote your products, they will convey a higher level of popularity to potential customers. In a world where everyone has "this" product, you can charge more because there is perceived value in its overall profitability.

Advantages

1. It requires consistent demand levels to be effective.

Psychological pricing is only effective when demand levels for products or services are kept consistent. If you start lowering prices over time, for example, then you may find that consumers wait for the lower prices before upgrading to the next item. Many psychological pricing strategies cannot be implemented over a long-term period because consumers eventually grow wise to the fact that the perceived deals are not that strong.

2. It can create long-term pricing expectations.

If you use psychological pricing all the time to encourage sales, then consumers will expect to see the lowest price possible, whenever possible. When they see a price that they feel is unfair, and then they'll go to a competitor's product without a single thought. Customers who are always looking for the cheapest price are loyal to the price, not the company. Even worse, a business that appears to cater to cheap pricing will generate questions about the quality of the brand that may stop new customers from coming around.

3. It may drive customers away.

Some pricing strategies in this category lower prices, even if it is only by a penny or a currency equivalent. Others use tactics that might seem like you're hiding the true cost of the item. If you know a shirt costs $10 and that's what you can afford, getting blindsided with another $10 in shipping costs during checkout will cause that customer to abandon their card. If you don't like the idea of getting blasted with hidden costs, there's a good chance your customers are going to despite it as well.

4. It could hurt the reputation of your brand.

Some psychological pricing strategies are accepted, and even sometimes appreciated. Others create a different result. If a customer is expecting one price, but the final price is different, and that difference is unexpected, then it will create a negative perception of your company. When negativity is what influences consumer reactions, it spreads like a contagious disease to their entire network. It can be difficult to overcome a poor experience, especially when the issue was based on pricing and not a poor customer service reaction.

5. It could cause customers to feel like they're being manipulated.

Many psychological pricing strategies are based on the idea that customers are purchasing off of impulsive moments instead of well-researched thoughts. If you're pricing items in a way to manipulate how customers trend through your business, in person or online, then you're creating the risk of having unhappy people talking about what you've done. People who stop to think about a purchase will spot manipulative pricing schemes and either try to beat them or leave your business to shop with someone else.

6. It is a technique that is primarily based in the United States.

Charm pricing and other psychological pricing strategies are most effective when they are used to target American consumers. Research in other markets, such as Europe, suggest that rounded pricing is a better way to generate sales in new markets. The research on psychological pricing also tends to focus on the fashion and grocery industries, which means it may be an ineffective marketing tool if you're looking to target consumers outside of the United States.

7. It doesn't let you stand out from the competition.

Every business is conducting psychological pricing on some level today. You don't stand out in your industry if everyone is doing it. Some consumers might feel that a brand is more honest and transparent if they charge an actual price and run periodic sales instead of employing one of the various psychological pricing strategies that are available. You must be able to recognize what resonates best with your audience, then use that strategy to encourage sales growth.

8. It does not come with a sales guarantee.

No pricing strategy is 100% successful. Some customers will pay higher prices for items because they prefer a different brand. Your goal here is to get attention. Sales might come too, but it is important to maintain a realistic approach. Just because you change your pricing does not mean you'll get new customers.