



eCommerce Pricing Strategies Now and in the Future (or, How I Learned to Stop Worrying and Love Price Optimization)

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Are you choosing your pricing with a dartboard? Or constantly changing your prices to reflect current market conditions? Or employing any of dozens of scam-like pricing formulas that are likely to irritate a user? Frank Fiore advises doing some hard thinking about how to set prices for the products offered on your eCommerce site.

New Pricing Models

eCommerce today is little more than a reflection of the way business has always been conducted in the brick-and-mortar world. Pricing models such as fixed-price buying at a fixed location, online auctions, and group buying have merely mimicked the offline retail world. In addition, manufacturers and merchants have struggled with the escalating costs associated with the liquidation of excess inventory, resulting in lower returns, and, consequently, greater financial loss.

Pricing a product or service is part art and part science, and represents a critical piece of a company's marketing mix. It's an important element of any company's marketing strategy, but also difficult because creating a pricing strategy inherently includes so many possibilities—but only one price.

Enter the Internet.

This technology has reshaped the pricing landscape. Dynamic pricing strategies such as auctions, group buying, and name-your-price have thrown new elements into the mix. As an eCommerce manager, you'll have to create a pricing strategy that benefits from and takes advantage of the ability of the Internet to provide a true dynamic pricing environment where fixed pricing and the painful process of applying fixed prices are a thing of the past.

There are many benefits to using dynamic pricing to price a company's product or service. First and most obvious, businesses can maximize return per customer by providing customized pricing for different market segments. Second, a company can gather market intelligence on how much a consumer is willing to pay for a product or service. With dynamic pricing, companies can give consumers what they want at prices they're willing to pay.

The one-size-fits-all pricing strategy is obsolete—may it rest in peace. It never really was designed for the long haul, anyway. In short, dynamic pricing is attuned to the digital age—customized and just in time.

Because the Internet has switched the power equation to the consumer, who can shop and compare with a simple click of the mouse, increased competition and customer segmentation are mandating that companies adopt a dynamic pricing strategy. Yet a recent Accenture study of online pricing suggests that not enough companies have integrated dynamic pricing into their online pricing strategies. Changing pricing to reflect market conditions can help to maximize profits and create a competitive advantage.

So why are so few companies putting this strategy to use? There are a number of reasons.

Consumer Discontent

Dynamic pricing is not without hazards. If done incorrectly, dynamic pricing strategies can cause consumers to feel cheated—especially if they can easily perceive that the same product is being sold at the same time at different prices.

Frequently-changing pricing is subject to misinterpretation by the general consumer. Too often, the logic used by some companies to set prices baffles and even angers the very consumers they're trying to attract. For example, you walk into your favorite computer store and buy a state-of-the-art computer system for \$3,500. The following week, you're in the same store to buy some software, and you see the system you bought last week selling for \$2,000! Nothing brings on buyer's remorse faster than the realization that you've paid more than you had to.

You might detect one of the tricky pricing policies that some companies use on the Internet today:

- Creating a fake price and giving a fake discount.
- Raising the price to match the competitor's, even if the competitor added more bells and whistles to his product.
- Raising the price without changing the product, and marketing it as "new" or "improved."
- Charging more to buy more. Take a product with an uneven price, say \$2.69, and put a big sign over it that says, "Special! 2 for \$5.75." (Do the math.)
- The ever-popular charging extra for mandatory parts. The automotive industry loves this one. Set a low price for a car, and then charge extra for the wheels. I jest, sort of, but here's a real-life example. My father, who is quite the skinflint, brought his car in to have its wheels balanced. The charge was \$29.95 to balance the wheels and \$.75 cents per lead weight to balance the wheels. My dad saw through the scam and said, "That's OK. Just balance the wheels without the weights."

Attention as a Resource

The second reason for companies to use dynamic pricing is *time*. It takes time, and more importantly, a lot of attention to continuously monitor the marketplace and change pricing in response to market conditions.

Attention is one of a company's scarcest and most valuable assets. Sure, manually changing prices due to market conditions is a good competitive strategy. You may have the money in your budget to approve a new pricing plan, but you may have to turn it down. Why? Because it will cost your company something else—something just as valuable as dollars—the constant monitoring and changing of prices will demand attention. A lot of attention, from one and quite possibly more of your employees. Employees only have so much attention to give, and so does an eCommerce manager. As a manager, you know that attention must be carefully invested to reach company goals. Or, in the words of Peter Drucker, "You can't manage what you can't measure."

Manual monitoring and price changing is a burden on you and your staff. But there are ways to do it with the help of technology.

Pricing-Optimization Technology

A number of pricing-optimization technologies are available to the eCommerce manager. Pricing-optimization technologies are computer programs that assist businesses in optimizing the pricing that they offer on their web sites. The software integrates data from a company's operations, both internal and external, such as prior sales and price points, and analyzing past customer responses to price promotions to determine an ideal pricing strategy. Companies that offer this price optimization technology include Zilliant, Khimetrics, Optivo, and Talus.

But no matter how sophisticated the software programs, the bottom line is that the

technology is only as good as an educated guess. The main problem with any pricing strategy, manual or technology-assisted, is that it doesn't change the current dynamic between consumers and businesses.

A Peek into the Future of Price Optimization

The problem with all of the dynamic pricing strategies described so far is this: Chances are good that companies are leaving money on the table. That's not the objective of dynamic pricing—at least, not to the business.

How can this difficulty be prevented?

Currently, companies compete with other companies for a consumer's business. What's needed is a dynamic pricing technology that makes consumers compete with each other for a company's business. And in the process, we need to give companies important real-time market intelligence on the value of their products and at what price they'll sell. No guesswork, manual or otherwise, or the need for constant attention. In other words, why not go right to the source and ask your shoppers what they're willing to pay, and not guess at what their response might be? While you're at it, why not get them to compete with each other for the privilege of buying from you?

With the technology of the Internet, pricing can get personal. I don't mean just preferred pricing for repeat customers, but the ability of every consumer to buy at the price she's willing to pay. In other words, use the technology of the Internet to make products and services sold on the Net act like the stock market. Give consumers the ability to place "market orders," "limit orders," and "open orders," and to participate in an IPO-type auction on any product or service offered on the Net. It could work like this.

1. Make the price of a product or service fluctuate based on supply and demand.
2. Give consumers a way to make it known that they will purchase a product or service when and if it reaches a certain price.
3. Give consumers a way to offer the price that they will pay and a response from the merchant if it accepts that price.
4. Finally, offer the product and service at auction.

You might be thinking that each of these techniques has been tried in one way or another by companies on the Net. True, to an extent. But here's the secret. To make this scheme act like the stock market, you must combine all four techniques, working on the same product or service at the same time (concurrently).

With concurrent dynamic pricing, an eBusiness doesn't have to decide whether to sell its goods via a fixed-price model such as Amazon.com's, an auction model like eBay's, or a "name your own price" model such as Priceline's. Instead, an eBusiness can sell goods and services through all these methods concurrently, with the price of the goods or services fluctuating minute by minute, based on actual customer demand and price sensitivity.

When such a pricing strategy is implemented, that's the day when the business paradigm will be turned on its head. Companies no longer will competing against each other for a consumer's business, but consumers will compete against other consumers for a company's business. For more information on this type of dynamic pricing, see my article "[Flexible Pricing: A Concept Whose Time Has Come.](#)"

In my next article, we'll consider how to promote and market an eCommerce web site and what the eCommerce manager should know.