



Chapter XV

E-Pricing for Intelligent Enterprises: A Strategic Perspective

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ABSTRACT

Setting the right price has a lot to do with assessing value. Understanding value is a direct result of understanding customers. Intelligent enterprises should use the power of the Internet to collect and process information to rethink their pricing strategy and gear it to customer perception of value. This chapter explores the impact of the Internet on pricing and demonstrates that rather than pushing prices universally downward and squeezing margins, the Internet provides unique opportunities in pricing to enhance margins and generate growth. It expounds on the low-online pricing myth and the dimensions of e-price improvement. Some models of real time and dynamic pricing are explored and implications for theory and practice are discussed.

INTRODUCTION

The pricing of a product or service refers to the pricing models and processes involved in determining a firm's price. The firm's strategy typically dictates the type of pricing model chosen, such as a high volume, low penetration strategy. Physical goods are frequently discounted if a large enough quantity is ordered.

Web-based marketers are already producing interesting pricing strategies. Some sites providing free services for visitors in order to create a community for which it can sell advertising space, such as www.parenthood.com. A more dramatic move is for a site

to pay customers to use its services. Frequent purchase systems are also being used to help strengthen customer loyalty and encourage repeat buying. Because of the development of search engines, consumers are easily able to compare prices of many products/services offered for sale on the Internet.

One question raised by the increased use of Internet for price comparison is—Will prices be forced down to the lowest possible point? Clearly, increased competition and consumer buying power will force prices down somewhat, but other attributes such as service, availability, vendor reliability, incentives, warranty, refund/exchange policies and so forth are also important in the purchasing decision. Further, the differential pricing scheme presents a challenge for Web-based electronic sites. Price is an extremely important factor in purchasing decisions, but intelligent enterprises engaging in electronic commerce must also develop value-based pricing strategies, which call for increasing perceived value and then settling the price at a level compatible with that value. Those businesses that charge a premium have the challenge of providing customers with premium service and possibly premium products.

Today the questions managers of intelligent enterprises ask when deciding a price for their products/services to be sold online are as follows:

- Can we change the way we price products and services using technology?
- Should we use optimal dynamic pricing (Kambil & Agrawal, 2002) or revenue optimisation techniques?
- Are we pricing at a premium for the latest technology or at a discount for commodity products?
- Do we charge extra for post-sales service?
- Do we offer financing to aid the purchase of the product?

These are just a few of the questions that managers of intelligent enterprises have trouble answering due to the dynamic nature of the Internet.

Since pricing of the product is crucial to the survival of the business, managers should pay a lot more attention to it. Pricing has become dynamic and it has to be reviewed at almost a daily or weekly basis (Kambil & Agrawal, 2002). It is no longer enough to have just a good website with fancy features; it is also how to price the products online as customers now have a number of sites to choose from.

Low-Pricing Myth

Contrary to conventional wisdom, the Internet offers tremendous advantages to companies that use its capabilities to set and manage prices more astutely for their products and services. These advantages far outweigh what is possible offline and permit a more precise and timely alignment of price with customer value, competitive actions, and market conditions.

Indeed, evidence is building that rather than pushing prices universally downward and squeezing margins, the Internet provides unique opportunities in pricing to enhance margins and generate growth. To capture that advantage, companies must understand that there's often a big difference between what consumers say and what they do. For example, 75 percent of respondents in an Ernst & Young survey identified low price as an important driver of their online shopping, contrasted to 50 percent for convenience and 48 percent for selection. Low price was identified by a similar margin in a joint Jupiter Communications/NFO Worldwide survey.

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