



E-Marketing/7E

Chapter 8

The Online Value

Chapter 8 Objectives

- After reading Chapter 10, you will be able to:
 - Identify the main fixed and dynamic pricing strategies used for selling online.
 - Discuss the buyer's view of pricing online in relation to real costs and buyer control.
 - Highlight the seller's view of pricing online in relation to internal and external factors.
 - Outline the arguments for and against the internet as an efficient market.
 - Describe several types of online payment systems and their benefits to online retailers.

The Price of an iPhone App

- Mobile apps have different pricing and revenue models.
 - **Freemium** is when companies offer a basic product for free and an upgraded version for a fee.
 - **Lite** versions are sold at low prices with fewer features.
 - **Full price versions** include more features.
- In June 2011, 52% of top game app revenue came from freemium games.
 - So how can companies monetize apps?
- When the freemium version of the Instapaper app was removed, sales of the paid app increased.
 - The company also noticed that few people upgraded from freemium to the paid version.

The Internet Changes Pricing Strategies

- Price is the sum of all values that buyers exchange for the benefits of a good or service.
- Throughout history, prices were negotiated; fixed price policies are a modern idea.
- The internet is taking us back to an era of **dynamic pricing**--varying prices for individual customers.
- The internet also allows for **price transparency**--both buyers and sellers can view prices online.

Buyer & Seller Perspectives:

Buyer View

- The meaning of price depends on viewpoints of the buyer and the seller.
- Buyer's costs may include money, time, energy, and psychic costs.
- But they often enjoy many cost savings:
 - The internet is convenient and fast.
 - Self-service saves time.
 - One-stop shopping & integration save time.
 - Automation saves energy.

Online Search for *The Hunger Games* Book

Bookseller	Stars/ Reviewers	Price (\$)	Shipping (\$)	Price with Shipping (\$)
DeepDiscount.com	Not rated	10.39	0.99	11.38
Alibris.com	*****/17	5.13	3.99	9.12
Books-A-Million	*****/102	9.98	2.99 +0.99/item	13.96
Biblio.com	*/1	3.74	4.00	7.74
Tower.com	Not rated	5.74	3.99	9.73
Barnes & Noble	*****/44012 (4.66/5)	9.98	3.00 +0.99/item	13.97
Ecampus.com	*****/1	\$7.03	\$2.98 +0.99/ item	\$11.00
Amazon.com	*****/6783	\$5.82	\$3.00 +0.99/item	\$9.81

Buyer Control

- The shift in power from seller to buyer affects pricing strategies.
 - Buyers set prices and sellers decide whether to accept the prices in a **reverse auction**.
 - In the B2B market, buyers bid for excess inventory at exchanges.
 - In the B2G market, government buyers request proposals for materials and labor.
- Buyer power online is also based on the huge quantity of information on the Web.

Buyer & Seller Perspectives:

Seller View

- The seller's perspective includes internal and external factors.
 - Internal factors include pricing objectives, marketing mix strategy, and information technology.
 - External factors include market structure and market efficiency.
- Pricing objectives may be:
 - Profit oriented
 - Market oriented
 - Competition oriented

Upward Pressure on Prices

- Online customer service is an expensive competitive necessity.
- Distribution and shipping costs.
- Affiliate programs add commission costs.
- Site development and maintenance.
- Social media maintenance.
- Customer acquisition costs (CAC).
 - The average CAC for early online retailing was \$82.

Downward Pressure on Prices

- Firms can save money by using internet technology for internal processes.
 - Self-service order processing.
 - Just-in-time inventory.
 - Overhead.
 - Customer service.
 - Printing and mailing.
 - Digital product distribution.
- These efficiencies usually result in lower prices for customers online.

External Factors Affect Online Pricing

- Market structure and market efficiency affect online pricing strategy.
- The seller's leeway to set prices varies by market type:
 - Pure competition.
 - Monopolistic competition.
 - Oligopolistic competition.
 - Pure monopoly.
- If price transparency results in a completely efficient market, sellers will have no control over online prices.

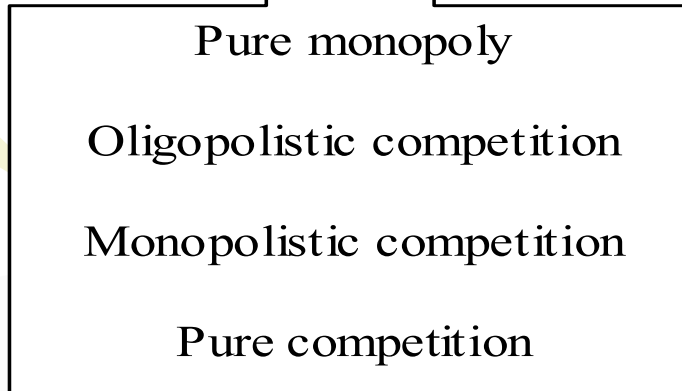
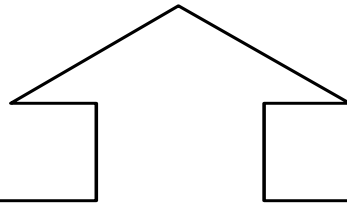
Efficient Markets

- A market is efficient when customers have equal access to information about products, prices, and distribution.
- In an efficient market, one would expect to find:
 - Lower prices.
 - High price elasticity.
 - Frequent price changes.
 - Smaller price changes.
 - Narrow price dispersion.

Efficient Markets Mean Loss of Pricing Control

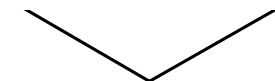


Government control



Area of control for e-marketing pricing strategy

Efficient market



Market control



Is the Internet an Efficient Market?

- External market factors place downward pressure on internet prices and contribute to efficiency.
 - Shopping agents such as BizRate.
 - Flash sales.
 - High price elasticity.
 - Reverse auctions.
 - Tax-free zones.
 - Venture capital.
 - Competition.
 - Frequent price changes.
 - Smaller price change increments.

Is the Net an Inefficient Market?

- The internet does not act like an efficient market with respect to narrow price dispersion for various reasons:
 - Branding and brand strength.
 - Differentiation.
 - Online pricing.
 - Delivery options.
 - Time-sensitive shoppers.
 - Switching costs.
 - Second-generation shopping agents.

Payment Options

- Electronic money uses the internet and computers to exchange payments electronically.
- Off-line e-money payment systems include:
 - Smart chips in cell phones.
 - Mobile wallets.
- For one-time payments, PayPal has become the industry standard with over 113 million accounts worldwide.

PayPal Account Options

	E-mail Payments	Web Site Payments Standard	Web Site Payments Pro	Payflow Gateway	PayPal Express Checkout
Customer Experience					
Where customers shop	Varies by business	Shop on your Web site	Shop on your Web site	Shop on your Web site	Shop on your Web site
Where customers check out	PayPal	PayPal	Your Web site or PayPal	Your Web site or PayPal	PayPal
Customers need PayPal account	No	No	No	No	Yes
Integration					
Internet merchant acct.	Not needed	Not needed	Included	Required	Required
Shopping cart support	Not required	Yes	Yes	Yes	Yes
Technical skills	Not required	HTML	APIs	APIs or HTML	APIs or HTML
Pricing					
Setup	Free	Free	Free	\$0–\$249	Free
Monthly	Free–	Free	\$30	\$9.95–\$495.00	Free
Per Transaction	2.2%–2.9% + \$0.30	2.2%–2.9% + \$0.30	2.2%–2.9% + \$0.30	Depends	2.2%–2.9% + \$0.30
For phone, fax, mail orders	\$30 per month	\$30 per month	Included	Included	\$30 per month

Pricing Strategies

- Price setting is full of contradictions and has become an art as much as a science.
- How marketers apply pricing strategy is as important as *how much* they charge.
- Marketers can employ all traditional pricing strategies to the online environment.

Fixed Pricing

- Fixed pricing (menu pricing) occurs when sellers set the price and buyers must take it or leave it.
 - Everyone pays the same price.
- Three common fixed pricing strategies are:
 - Price leadership
 - Promotional pricing
 - Freemium pricing

Dynamic Pricing

- Dynamic pricing is the strategy of offering different prices to different customers.
 - Airlines have long used dynamic pricing to price air travel.
- Dynamic pricing can be initiated by the seller or buyer. There are 2 types:
 - Segmented pricing
 - Price negotiation

Segmented Pricing

- Pricing levels are set based on order size and timing, demand and supply levels, or other factors.
 - Becoming more common as firms collect more behavioral information.
- Segmented pricing can be effective when:
 - The market is segmentable.
 - Pricing reflects value perceptions of the segment.
 - Segments exhibit different demand behavior.
 - The costs of segmentation do not exceed revenue.
- The firm must be careful not to upset customers.

Constant Contact Segmented Pricing

[Home](#) » [Email Marketing](#) » Pricing

Email Marketing Pricing

Our prices are monthly, and based on the number of contacts in your email list or database. That means you can send as many emails as you want without affecting your monthly fee. Once you buy Email Marketing, your satisfaction is guaranteed for 30 days — or we'll refund you.

	Standard Pricing	Pre-pay Discount 15% Off	Nonprofit Pre-pay 30% Off				
Monthly Pricing		Displayed in U.S. Dollars. Pricing Converter »					
Email Addresses	0 - 100	0 - 500	501 - 2,500	2,501 - 5,000	5,001 - 10,000	10,001 - 25,000	25,000+
Price/month	\$0 60-day FREE trial <small>No credit card required</small>	\$15	\$30	\$50	\$75	\$150	Call Us <small>(855)825-0406</small>
	Try it FREE	Ready to buy? Sign Up »					

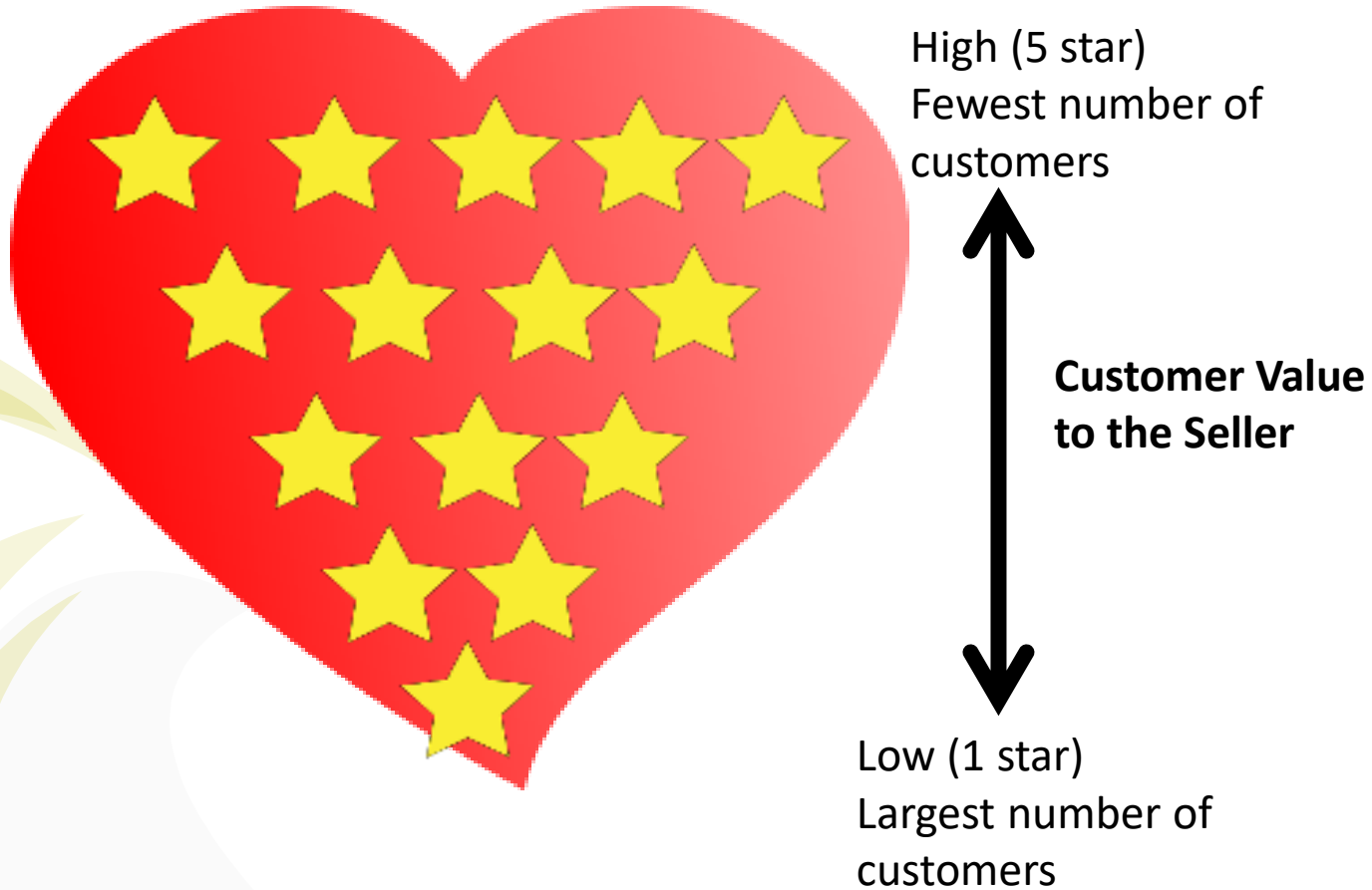
Geographic Segment Pricing

- Geographic segment pricing can help a company relate its pricing to regional or country factors, including competitive pressures, local costs, etc.
 - Pricing differs by geographic area.
 - May vary by country.
 - May reflect higher costs of transportation, tariffs, margins, etc.

Value Segment Pricing

- The seller recognizes that not all customers provide equal value to the firm.
- Pareto principle: 80% of a firm's business comes from the top 20% of customers.
 - A firm's five-star customers contribute disproportionately to revenues and profits.

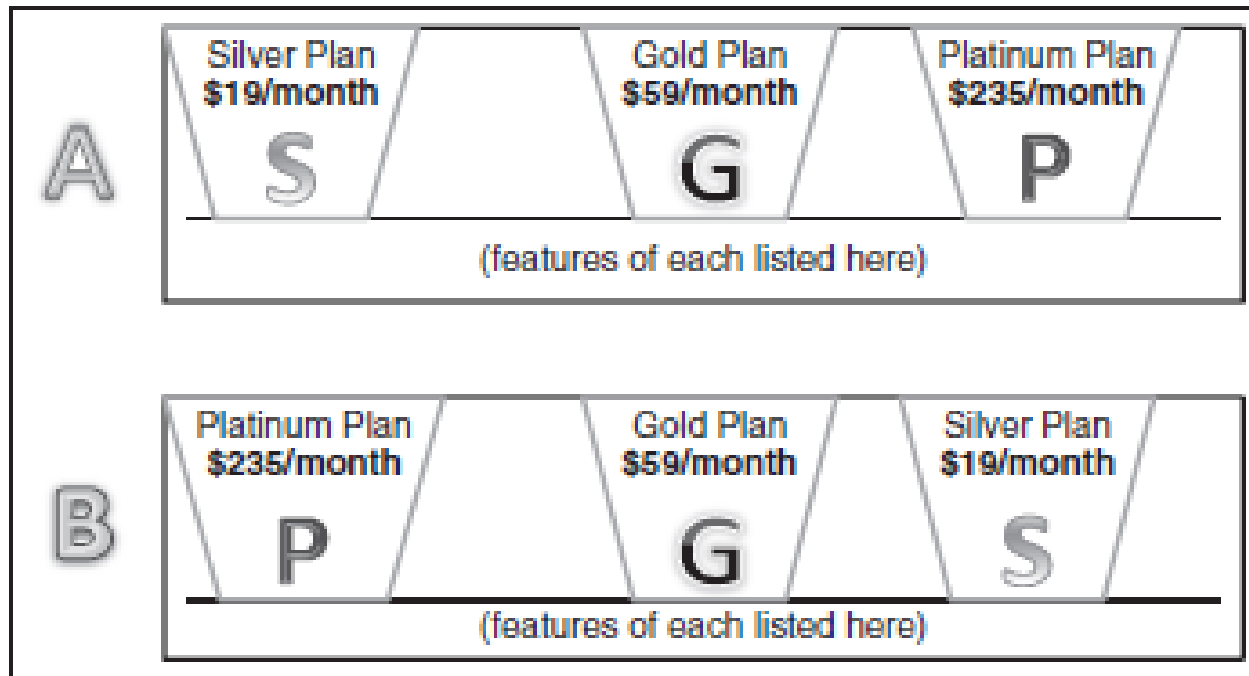
Customer Value Segments



Negotiated Pricing and Auctions

- Through negotiation, the price is set more than once in a back-and-forth discussion.
- Online auctions such as eBay utilize negotiated pricing.
 - In the C2C market, trust between buyers and sellers is an important issue.
 - Ebay uses a feedback system to assist buyers.
 - B2B auctions, such as uBid, are an effective way to unload surplus inventory.

Price Placement on a Web Page





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