

Research of Pricing Strategy from Multi-Channel

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ABSTRACT

Nowadays, retailers sell their commodities in different channels: the offline channel and the online channel, and more and more retailers are making the transition from offline channel to the online channel. This kind of transition is getting more and more popular over time, so the competition grows in intensity. Proper decisions have to be made by the retailers in the current situation. A suitable online pricing strategy is in great demand. Three factors mainly influence the pricing strategy: consumer behaviors, market and the characteristics of the goods. This paper attempts to find out important factors that have to be taken into consideration when setting the price for the online commodity. We find that the cost of the commodity itself can contribute to the price difference between the online selling channel and the offline selling channels, and some other characteristics can also contribute to this difference. By analyzing the current market condition of the sale in multichannel, we find that compared to the offline channel, the online channel takes the advantage of having lower pricing and a more regulated industry which is promoted by the shopping website. Through analysis of the consumer behavior, we find that characteristics of online shopping channel may increase the price sensitivity, and by digging out some concerns of the consumers of buying online, the different types of perceived risks of consumers may dominate their purchasing decision.

Keywords: *Online pricing strategy, Offline pricing strategy, multichannel sale, consumer behavior*

1. INTRODUCTION

This paper aims to dig out whether the price should be the same in the single products from multi-channel, and the reason for different prices between online and offline.

For the current society, relying on online shopping has changed from a trend to reality. In 2015, about 1.46 billion people would shop online, and today, 2.08 billion people have started to shop online. The reason is because of the convenience and speed of online shopping. When people need a product, they only need to move their fingers to complete the purchase. If he needs to buy two kinds of goods, in reality he may need to go to two places to buy, which wastes a lot of time. Moreover, he can choose hundreds or even thousands of brands on the Internet, which is something that offline transactions cannot do. Choosing to buy online perfectly helped him improve his efficiency. Online shopping requires buyers and sellers to reach an agreement on the Internet to determine the occurrence of the transaction, and this agreement may change due to the ideas of any role. For example, the seller thinks that his product has a higher

value in the eyes of the buyer. In other words, the seller thinks that the consumer will buy it at a higher price, and he will raise the price. It may also be because the transportation cost is too high, causing the online price to be much higher than the price bought in the market. Similarly, for many commodities such as food, storage factors need to be considered when selling offline. Merchants may need to buy a refrigerator to store it, and online merchants can make it at any time based on sales. This saves a lot of costs, resulting in lower prices online than offline. The third point is that there are many online competitors who own products of the same quality, which creates competition in prices, leading to lower prices for online sales.

Whether the price for the online channel should be set lower than the offline channel? Wang fu [8] mentions that facing the increasing and continuous promotion to motivate buyers, the suppliers have to rise the retail price to gain profit, but in another paper, Alberto Cavallo [2] points out that the prices online differ slightly from the prices offline, and the prices for online channel and offline channel are identical in the most circumstances. In

detail, Wu Feng [7] summarizes the crucial factors that may influence the price of products: utility of costumers, the cost of the products, the different behaviors presented by the consumers and current demand for the goods. Since goods are offered to consumers, consumer behavior is the one of crucial factors to determine the price. In some precious investigations, the sensitivity of price is highly emphasized. Venkatesh Shankar; Arvind Rangaswamy; Michael Pusateri [9] focus on two aspects of price sensitivity: one is price importance, “the relative weight a customer attaches to price compared to other attributes,” and another one is price search “customer’s perceived value of undertaking a search for better prices.” They find that online shopping actually dampens the sensitivity of the price. In addition to the sensitivity of price, the behaviors of consumers are also impacted by the heterogeneity of the consumer. [6] The company with multichannel grocery retailers may not have higher profit than those with a single one, because different consumer behaviors will change the competition scenario and the price of goods.” Recently one article also points out some intriguing phenomenon, which is most people tend to be more likely to accept the price difference of online channel. [1] Through the glance of other scholars, these are assumptions and concepts in the area of pricing strategy. Only a few papers use data to analyze the relationship between online and offline retailers, and many researchers did not classify the retailers into more special industry, such as food, clothing, and stationery. This investigation will deep into different industries’ pricing strategy and using data to support them.

In the rest of this paper, there are three main topics to discuss the pricing strategies. The first section is from the product itself, such as cost and value. The second section focuses on factors of consumer behavior. The third section is going to illustrate the situation of the market. In detailly, whether the competition, the government law will affect the price. Then, there is a conclusion about the whole passage and giving some limitations to motivate future research. After the research, it will give the company a sense of their marketing strategies and help them to gain a better profit in selling. The consumers may have a better life quality too.

2. CHARACTERISTICS OF THE PRODUCT ITSELF

There are two different pricing systems between online and offline products, because they use different marketing strategies to attract and sell products. From offline products, the cost includes the rent of the building. Usually, for the clothes industry, the location in town will take up a part of the final cost. The workers who sell their product to customers need to train for a short time before actually selling it, and making a profit. When they start to sell, their wages need to cover again. There are many other factors, such as the original cost of the products.

However, for the online products, the cost is mainly transportation cost, since many producers will offer free delivery costs.

Another factor is the advertisement, as there are thousands or hundreds of shops online, and customers usually buy products depending on sales and other factors. Producers need to put their attention on the decoration of the goods. Secondly, offline products, such as clothing, are usually for middle-class or rich people. Usually, if the clothing shop wants to set it up in town, it needs to cover a high level of rent. Due to rent, selling cheap clothes even with poor quality may not gain back the profit. With online shops, producers can cut down the price of rent, so the clothes will be low. The lower-classes customers are more likely to find suitable products online. For rich people, the price of clothes may be the same, because the producers need to set the same price in order to gain profit in the offline markets. However, different industries, such as food, may not have any difference for multichannel customers, because there is a range of products with different prices. If the products with a lower price, the goal of this company would be sales of the products. The number of products it sells may cover their profits, and food is a necessity for all of the public from lower-classes to upper-classes. Thirdly, the time of products can put without going bad may cause the pricing of multichannel products. The stationery can store for a long time and is difficult to break. The price maybe lower or equal to the offline products, as the labor costs will be lower to some degree. Workers can transport all the storable products from one area to another. Since the transportation cost can reduce by a large number of goods together, and then separate to a specific target customer in a smaller area, the price will be lower. Transportation cost is more likely to be the same as the offline company. Nonetheless, the products that are easy to rotten have a higher price online. For example, customers need to pay the extra 9 yuan to KFC company in order to buy food. These offline products need more labor cost, as customers need to receive goods with a certain hour. To increase this service, a company may pay extra money for the transportation cost.

3. THE CURRENT STATE IF THE MARKET

Online shopping is a very good trend in its current form. The transparency and fairness of the Internet has helped consumers and businesses have a healthy competition, which is online shopping, people can search for thousands of Similar goods. All we need to do is type what we want to buy in the search bar. Because there are many merchants buying the same thing, consumers will compare prices under the same quality and choose the one with the lowest price. In the supply-demand balance relationship, when the supply of goods is greater than the

demand for goods, a certain amount of waste will be generated, thereby reducing prices to obtain more profits.

For offline shopping, because there are fewer competitors, the price of a certain item is exactly the same. More competition lies in the competition between different brands of products, and online shopping competition occurs more often in the same product of the same brand. When they have different distributors, their prices will be due to each other's price. The price changes, so as to maximize their own interests. In other words, offline merchants monopolize the price of a small area, while online merchants have competition due to the existence of express delivery. Due to the openness of the market, merchants cannot achieve complete monopoly, which leads to price changes. And this way provides consumers with more choices and makes the market more liberalized. "The report shows that today's consumers' online shopping experience is more enjoyable than offline. Today's consumers are getting smarter and smarter, and their shopping perspectives will also jump back and forth in product catalogs, retail stores, and comprehensive online stores.

Changes in consumer behavior herald the integration of channel sales in all aspects of the e-commerce market in the future, which are naturally linked to each other, the characteristics of the Internet, and the decision-making of consumers, which purchase to choose, and which form of payment to choose, have been more and more. The more liberalized, the traditional consumer behavior itself is quite fixed." (The past, present and future of the e-commerce market) In this passage, we can see that consumers will filter product information, including prices, quality and brand, to choose the most suitable brand for you. In the choice of consumers and the competition of businesses, the quality and cost-effectiveness of the products have become higher and higher. When shopping online, we will choose some websites, and these websites play the role of intermediary in the transaction between consumers and merchants. It not only needs to help consumers select some excellent products, but also needs to choose excellent products from excellent merchants to promote, in exchange for a good reputation to promote their own programs.

Therefore, shopping websites will also regulate products and businesses to ensure the quality of the website. This is something that is difficult for offline merchants to do, but offline merchants will provide better services. For example, for the return and exchange service, customers who shop online need to mail back the original products first, and then the merchant will send a good product again. This wastes too much time. And offline consumption saves the time of express delivery. In the current environment, the advantage of online shopping is that it has lower prices because there is industry competition, and the industry is more regulated, because shopping websites will play a supervisory role in

it, thus ensuring product quality and competitive standards. The great advantage of offline shopping lies in the ability to provide higher services.

4. CONSUMER BEHAVIORS

There are two main reasons that motivated the consumer to purchase online: convenience and lower price. Indeed, compared to the offline channel, the online channel is able to provide more choices, less expensive commodities and deliver services to the consumer. Although for many types of commodities, like clothes and shoes, the offline purchase still takes the domain, the growing popularity of the online purchase cannot be neglected. "retail e-commerce has grown nearly to US\$840 billion in 2014 surpassing the sales of US\$695 billion in the year 2013 and it was estimated to increase to US\$1506 billion in 2018." [4] Transaction from offline channel to the online channel, or integrated channels, urges us to explore an optimal online pricing strategy. The price of the commodity itself may play an important role in determining the purchasing decision of the consumer. Thus, to give an optimal pricing strategy online, the consumer's behavior should be considered as one important aspect of setting the optimal price for the online commodities. By identifying some factors that may influence the behaviors of the consumer shopping online, we may have a clearer view of setting the online price for a different commodity. Different from the offline retailers, the online purchasing channel has multiple traits that may have an influence on the consumers' behavior. The sensitivity of price may play the main role in influencing the consumer's behavior. "Online shopping provides customers better channel of information with a better selection, facilitation and cost saving." [5] The online channels are capable to provide different retailers, offering different prices, which provides a chance for the consumers to make purchase decisions in a large number of retailers. In this case, the price sensitivity of the consumer actually increases due to many choices available. As a result, slightly increase in price may reduce the demand of the consumers. However, in spite of the fact that consumers may search online for the more optimal price of the commodity, the price sensitivity of consumers could be greatly reduced by some traits of the online channels. The abundance of other attributes of the commodity and interaction between consumers and the online purchasing platform can contribute to the reduction of the price sensitivity of consumers. For different commodities, the consumers may react differently to the price change, so we should take two factors into consideration—attributes of the commodity itself and the traits of online purchasing channel—to set the price online. Perception risks, which are performed by the consumers, can be extremely crucial considering their influences on the behavior and the purchasing decision of the consumer. The 'perception risks' are defined as "consumer's perception of the

uncertainty and adverse consequences of engaging in an activity.” [3] The ‘perception risks’ are actually negatively related to the altitudes and intention of the consumers to purchase commodities online. “In this study showed that reduced the perception risks that could affect to increase customers’ attitudes towards online shopping and purchase intention in Hanoi market.” [5] Thus, in this case, reducing the influence brought by perception risks can be effective to encourage the customers to purchase commodities online.

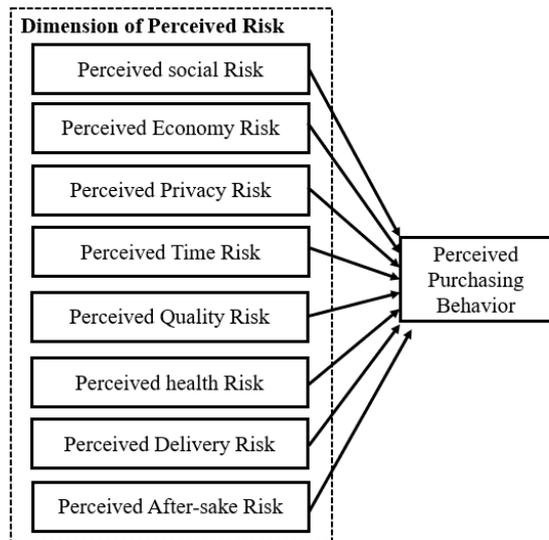


Figure1: different perceptions of risks performed by the consumer

There are generally eight types of perception risks: perceived social risk, perceived economy risk, perceived privacy risk, perceived time risk, perceived quality risk, perceived health risk, perceived delivery risk and perceived after-sale risk. Online channels can greatly amplify those concerns of consumers, mostly due to some attributes of the online channels of selling and purchasing goods: less promising description of the goods, communication gaps between consumers and retailers. The fact is that the retailers can actually reduce the effects of some perceived risks, and by doing this, consumer’s attitudes and intentions to buy commodities can increase. Yet, some of the perceived risks can be hard to be eliminated or alleviated. The perceived health risk can be one example. Health concern actually is mainly caused by one intellectual discipline of human beings: natural respond to some perceived harmful [consequences. “The elusive and hard to manage qualities of today’s hazards have forced the creation of an intellectual discipline called risk assessment, designed to aid in identifying, characterizing, and quantifying risks.” [10] consumers may have different perceptions of the risks of different types of commodities. For different commodities, retailers should use different strategies to alleviate the perceived risks that may lower the perceived

value of the commodity. It becomes apparent that some perceived risks, which cannot be alleviated or eliminated, have to be considered seriously when retailers are setting the price, since the perceived value of the commodity can be greatly reduced by those concerns.

5. CONCLUSION

In conclusion, this paper mentions that the differences in pricing, psychology of consumers, cost and profit between offline shopping and Online shopping. In another word, online shopping is very different from offline shopping, not only in terms of consumer groups and product quality, but also in terms of cost and environment. In terms of cost, the cost of offline shopping lies in storage and rent, while the most important cost of online shopping is transportation. For consumers themselves, those who like to shop offline enjoy more offline shopping experiences and services. Online shoppers care more about price and quality. For the environment, online is more competitive, and it is also more egalitarian. There are better rules offline, but the rules for online shopping through platforms are slowly improving.

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