

# THOUGHTS ON DIGITAL'S DISRUPTION TO PRICING

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**BUY**



**DOES THE EXISTING THINKING  
ON PRICING NEED REVISITING?  
IS DIGITAL DISRUPTING  
PRICING STRATEGY?**

# STRUCTURE

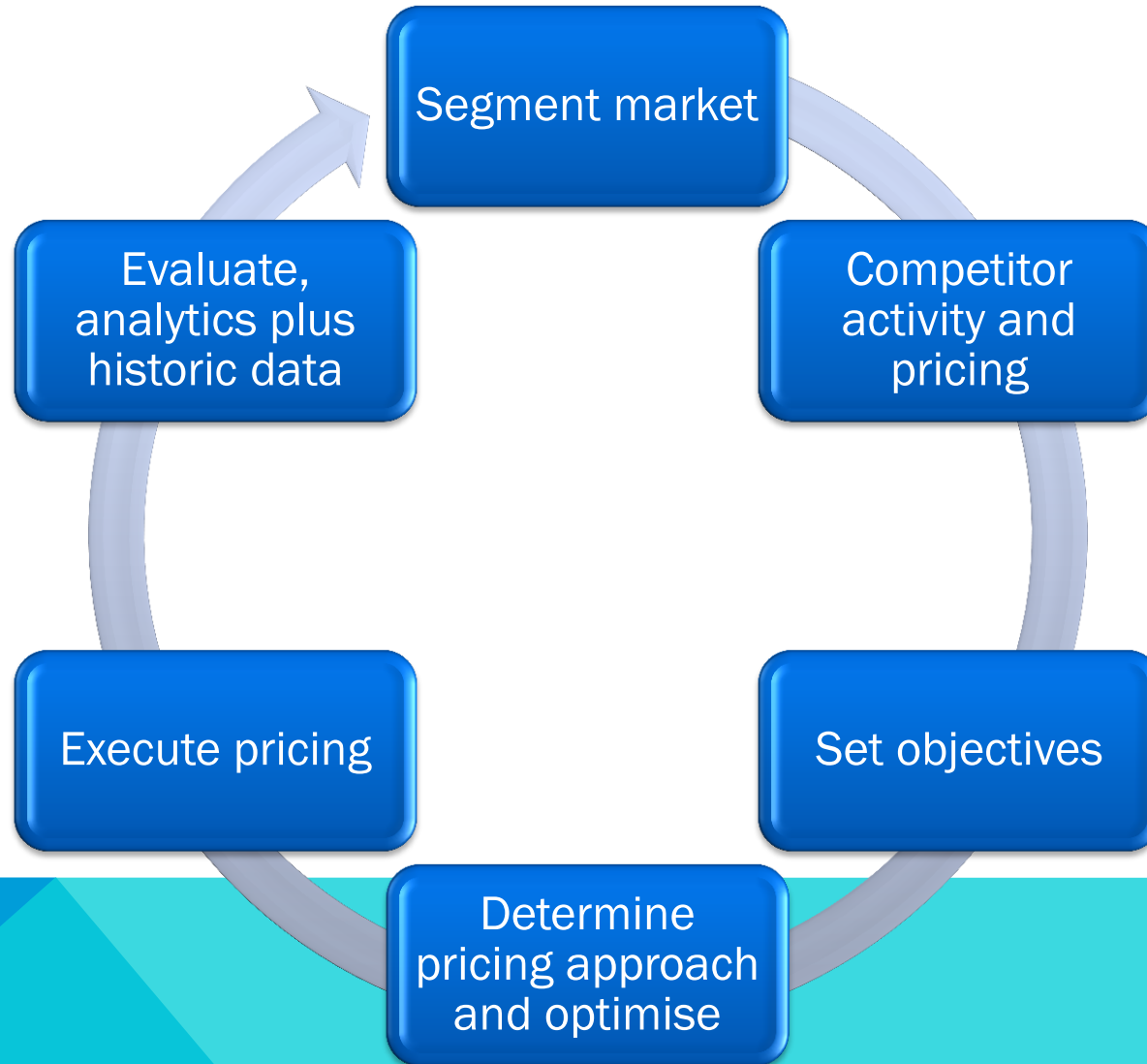
- Background and what we know
- What is happening owing to digitalisation
- Resulting pricing strategies
- So established frameworks need revisiting
- My efforts so far.... A proposed taxonomy
- The implications of digital disruption to pricing
- *NEWS FLASH-The Bottom Line Oct 23 2014*

# A RECAP: PRICE AS ONE OF THE ORIGINAL 4PS.

- Price as the revenue generator
- Price as most malleable of the marketing mix
- Pricing historically tied to costs and production
- Price as an indicator of quality
- Price ultimately determined by customer
- Price information shared by customers



# ESTABLISHED PRICING PROCESS



# DIGITAL TECHNOLOGIES HAVE ENABLED

Real time data streams

Real time analytics and dashboard creation

- New segments based on behaviour
  - Creates new pricing opportunities
  - Bespoke discount offers



Source: [www.http://online.wsj.com/news/articlesMattioli/aug232012](http://online.wsj.com/news/articlesMattioli/aug232012)

The logo for Orbitz, featuring the word "ORBITZ" in a bold, blue, italicized sans-serif font. The letter "O" is stylized with a blue circular arrow around it, suggesting a globe or orbit.

# DIGITAL TECHNOLOGIES HAVE ENABLED

- **Seamless communication of information**
  - internal to firm
  - external to firm
    - reference pricing
- **Third party inventory management**
- **Rise in 'constant' discounting**



# RELATIONSHIP BETWEEN PRICING AND PAYMENT

Consider willingness, authority and ability to pay

Consider mechanisms of payment





# CONSUMER PERCEPTION OF PRICE AND VALUE

- High price = high quality?
- Search costs
- Expertise, experience in the market
- Price paid versus value as perceived by user
- Value components
  - emotional
  - functional
  - currency



# DYNAMIC PRICING - EVOLUTION



Supply and demand



Purchase behaviour



Temperature



# DYNAMIC PRICING

- Supply and demand
- Auctioning



- Product Life cycle
- Approaching obsolescence - automated step downs
  - Fashion, electronics
  - Perishable goods



# DYNAMIC PRICING AND CONSUMER INSIGHT

- Perceptions of fairness within reference groups important
- Perceptions of fairness within firm's product portfolio important
- BUT
- Consumer purchase data, loyalty data into SCV to personalise price offered at payment point – via swipe card or mobile app.
- Consumers can play off competitors



Source: Gebhardt, G . (2006), Price skimming Paradoxes, *Advances in Consumer Research*, 33,1, 242-243.

Burdett, L., & Mader, S. (2014). The new rules for shopping, *Market Leader*, Quarter 1, [www.WARC.com](http://www.WARC.com)

# STRATEGIC OPTIONS FOR PRICING

- Adopt dynamic pricing as the new model in specific industry
  - Sports events - Baseball tickets
- Adopt new pricing model based on value and currency
  - Newspaper and entertainment industry
  - Subscription and paywalls
  - Adopt new pricing based on mode of delivery
    - Book publishing, education sector
    - E-books, downloads, online material access



# ALTERNATIVE PRICING STRATEGIES

- Pay what you want – music downloads, software
- Altruistic Payment – Panera cafe
- Location based pricing
- Time based group pricing - Groupon

## Pay What You Want Mac Bundle 3

Pay What You Want for 8 top Mac apps!



Numeric Notes



Bluesole



sBlaster



DVDRemaster



Photo Recovery



Cat



GaragePay



# ALTERNATIVE PRICING STRATEGIES

## Freemium

- FLF – part A free part B charged
- TLF- time limited - pay later

## Micro- transaction

- Gaming industry – paying for in-game items to enhance in-game performance



Nair, H. S. (2007). Intertemporal Price Discrimination with forward-looking customers: applications to the US market for console video games, *Quantitative Marketing and Economics*, 5,3,239-292.

# COMPETITOR ACTIVITY RESPONSE STRATEGY

- Use of competitor pricing or observed actions
  - + shows awareness of environment
  - + can hold market share
  - + in real time can close sales
  - + can stop planned promotional activity
  - - may start price war
  - - undermines value proposition



Source: Hinterhuber, A. & Liozu, S. (2012), Is it time to rethink your pricing strategy, *MIT Sloan Management Review*, 53,4, 69-77.



**SO OLD FRAMEWORKS MAY  
NO LONGER FIT — A NEW  
TAXONOMY IS NEEDED!**



# **SOME UNDERPINNING LITERATURE AND KEY AUTHORS**

Early researchers on pricing – (Tellis, 1986; Monroe, 2003)

Overview of pricing research (Leone et al., 2011; Piercy et al., 2010)

Impact of internet on pricing – (Kung et al., 2002; Grewal 2006, 2011; Doctors et al, 2011; Dixit et al., 2008)



# A NEW TAXONOMY - A NEW WAY OF GROUPING PRICING IDEAS TOGETHER - FIRST ATTEMPT

DIGITAL ERA PRICING STRATEGY TAXONOMY - DEPS



Previous Pricing taxonomy (Tellis, 1986)	Proposed Digital Pricing taxonomy	Illustrations of disruption
Price variation among segments	Price variation focused on groups	Groupon
		Consumer co-creation, Panera cafe
		Real time dynamic- - Safeway
		Transparency – BA using Facebook
Discounting approaches	Beyond auctions, towards convenience	Omni-channel
Exploitation of competition and customers	Competition from within and between firms and customers	Alibaba.com
Geographic pricing	Dynamic algorithms	Rainmaker rent optimiser
		Real time , multiple aggregators - uswitch
Price signalling	Price an only one indicator	
Balancing price across product line	Balancing contextual price within strategy	Movement from internal to external focus, subscriptions

# IMPLICATIONS FOR MARKETERS 1

## Shift from individual to group purchasing

- may impact upon acquisition strategy

## Collective buying

- May impact on promotional campaigns
- Tension between personalised pricing and group pricing

## Price may no longer be a heuristic for quality

- Other attributes may need emphasising



# IMPLICATIONS FOR MARKETERS 2

**Increased pricing complexity across platforms**

- Impact on perception of brand

**Digital natives have differing expectations of norms of pricing**

**Real time price information at point of sale impacts on retail marketers**

- Pressure on distribution chain
- 

# IMPLICATIONS FOR SOCIETY

Price transparency encourages equity for consumers

Partial pricing transparency disadvantages groups

Norms of digital behaviour by businesses/organisations may increase digital divide and exclusion



## FURTHER READING

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- Ratchford, B. (2009). Online pricing review and directions for research, *Journal of Interactive Marketing*, 23, 1, 82-90.



THANK YOU

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