A Study on the Price Decisions of the Dual-Channel Composite Decision in B2C Mode

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ABSTRACT

This paper studies the subject of pricing decisions of online dual-channel based on hybrid decisions wherein a manufacturer introduces direct online marketing channels beyond the traditional online retail channels. The purpose is to study how to balance the interests of different online channels and maximize the overall efficiency of the channel. Having considered both online channels’ satisfaction and the hidden costs of channel selection, by means of the demand function of both channels derived from a consumer utility and selection model, the author investigates the impacts of these two factors on the online dual-channel pricing decisions. This article also further analyzes the impact of changes in these two factors for manufacturers, retailers, and channel total revenue, with the purpose to provide decision-making reference for the enterprises’ managers in the supply chain to develop optimal pricing strategies.

Keywords: Composite Decision, Dual-Channel, Pricing Decision, Vertical Integration

1. INTRODUCTION

With the rapid development of B2C e-commerce model and the gradual maturity of third-party logistics and electronic payments, there is an increasing number of customers who have began shopping through online channels. The online channels of B2C e-commerce mode are mainly divided into two categories: online retail channels and online direct channels. Function of online retailers makes manufacturing enterprise’s products extended to the online consumer market more effectively and rapidly through online retail platform. Superiority of online direct marketing is that making the communication between manufacture enterprise and online consumer more directly. To capture the market, enterprises continue to expand marketing by online retail platform and begin to build their own network marketing platform due to the Double-Online Channel Conflict.

Domestic and foreign scholars have conducted considerable researches in the field of e-commerce mode and the pricing strategies between different channels. Tsay, etc. (2004) analyzed the conflict issues in the dual channel and built the model about supply chain coordination issues in the e-commerce environment.
Swaminathan et al. (2009) researched the optimal pricing problem of the dual channel by the assumption of demand based on product price, the replaceable degree of channels and the potential market demand. Brian T. Ratchford (2009) made literature reviews of related literature of online pricing strategies, including dual-channel pricing strategy researches. Yung-Ming Li (2010) studied the problem of digital products’ pricing and distribution in the two kinds of online channels (Web and P2P). The research obtained that the channels of P2P and Web can raise prices and thus acquire more profits. The latter makes a higher price and a greater market share in orderly decision-making structure. Li Chenhua (2009) studied the heterogeneity of consumer preferences and set consumer shopping convenience as the distinction. He researched the prices competitive strategy in two modes of distribution channels in view of the degree of sensitivity of customers towards convenient shopping.

These studies are limited in the two supply chain or direct marketing models on commodity pricing issues which are constituted by the retailers and consumers. Little literature review considers mixed pricing strategies which are made by online retailers and online direct manufacturers from the perspective of supply chain.

Meanwhile, they ignores the differences between online retail channels and online direct channels—Consumption Experience. Consumer’ satisfaction with online channels and the hidden costs of the channel selection are not taken into account in the process of making the dual-channel pricing strategy.

Based on consumer satisfaction with online channels and the hidden costs of the channel selection, this article makes an in-depth analysis on pricing strategy of the manufacturers and online retailers in different situations. It reveals the hidden costs of consumer satisfaction with online channels and channel selection have a crucial impact on manufacturers and retailers pricing. In the meantime, in order to obtain optimal pricing strategy, it also studies the impacts of the changes of two factors on manufacturers, retailers, and the total revenue of channels.

2. THE SPECIFICATIONS OF MODEL AND ASSUMPTIONS

As is shown in Figure 1, this paper analyses the online dual-channel market. The selling price of commodity in online direct marketing and retail channels are $p_m$ and $p_r$. The reserving value of goods is $\bar{\theta}$ (In other words, it is the maximum effectiveness when the price of the goods is zero, and its value has nothing to do with the purchase channels. It is a constant. The value of evaluation space evenly distributes in $[0, \bar{\theta}]$). The other costs that consumers pay for online direct marketing and retail channels are $v_m$ and $v_r$.

The assumptions are as follows:

1. Consumers can choose the online sales channel freely. They change shopping channels by maximize their own utility, and they will not buy goods when the utility is less than zero.

![Figure 1. The market structure of the online channel](image-url)
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