E-Commerce in a Web 2.0 World: Using Online Business Communities to Impact Consumer Price Sensitivity

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ABSTRACT

This paper details the usage of online communities to influence consumer price sensitivity for expensive, medium, and low cost products by formulating a research instrument, which is accomplished through an extensive literature review of price effects prevalent in the online domain. The research study further examines the impact of reference price effect, difficult comparison effect, price quality effect, and switching cost effect on consumer price sensitivity and proceeds to segment consumers into groups which demonstrate similar characteristics. Organisations benefit by identifying the strategically significant consumers in each category and target them appropriately rather than investing in a blanket promotion program. The objective is to enable organisations to identify consumers demonstrating future profit or relationship potential and devise strategies to impact price sensitivity by responding to price search intentions, improving product perceptions, improving consumer experiences, informing consumers about new schemes, and improving product perceived value. Most valuable consumers are those who depict consistent behaviour across all three product typologies. Valuable consumers identified through a customer portfolio analysis can be leveraged by hosting appropriate content in an online business community and subsequently using customers engaged through business online communities as important sources of competitive advantage. Due to these benefits, online business communities may generate more profitable sales than transactional marketing methods.

Keywords: Consumer Price Sensitivity, Customer Relationship Management, Difficult Comparison Effect, Online Communities, Price Quality Effect and Switching Cost Effect, Reference Price Effect

1. INTRODUCTION

Online business communities maintained for effective Customer Relationship Management can help to reduce price sensitivity, enable price premiums, and create opportunities for up and cross selling. The communities create barriers for customers to exit and for competitors to enter and facilitate database development, (O’Malley & Tynan, 2000). Loyal customers are important determinants in predicting market share and profit levels, (Ferguson & Hlavinka, 2006). The availability of detailed product information and the interactive nature of the online medium may enhance consumer’s willingness to search for price information on the Internet. Performing an Internet search for the lowest prices will

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be perceived as relatively comprehensive and capable of delivering a favorable price with less cost to the consumer. Respondents with Internet access have different price perceptions and price-search intentions than those without access, (Jensen, Kees, & Burton, 2003).

The price search done by a consumer on the Internet provides low cost options and demonstrates availability of higher benefits of products which is less likely to be strongly influenced by other promotional cues. The large amount of information about pricing, competitors, and features available on the Internet also helps to create a cost transparent environment. This severely impairs a seller’s ability to obtain high margins, because it turns products and services into commodities, and may damage company reputations by creating perceptions of price unfairness, (Campbell & Margaret, 1999).

Transaction Marketing focused on profitable customers and Relationship Marketing focused on building consumer relationships. Smart marketers will benefit by identifying strategically significant consumers who show noteworthy profit or relationship potential for the company, rather than investing resources in blanket promotions and mass marketing to all consumers.

2. LITERATURE REVIEW

2.1. Transaction Marketing

Transaction marketing is characterised by one off exchanges, brand management, short-term focus, mass markets, mass communication, market share, brand equity and profitability of transaction, (Bickert, 1992).

2.2. Relationship Marketing

Relationship marketing is emerging as the new phenomenon, due to technological advances direct marketing is staging a comeback, leading to a relationship orientation. This paradigm of marketing emphasises value creation rather than value distribution, (Sheth & Parvatiyar, 1995).

Relationship marketing is characterised by ongoing exchanges, customer management, long-term focus, personal communication, ongoing dialogue, markets of one, mind share, lifetime time value of customer and customer equity, (Harker, 1999).

2.3. Profitable Customers

Customer profitability is a measure of revenue generated from the consumer less marketing expenses less expenses pertaining to cost-to-serve.

2.4. Strategically Significant Customers

Consumers are important for organizations if they have substantial revenue potential (in terms of profitability) or if they have sizeable relationship potential (by virtue of superior contacts, presence in influential groups or networks and prospective capabilities for becoming opinion and trustworthy leaders who an influence large consumer groups).

2.5. Customer Relationship Management

CRM can be viewed as an application of one-to-one marketing and relationship marketing, responding to an individual customer on the basis of what the customer says and what else is known about that customer, (Peppers, Rogers, & Dorf, 1999). Customer Relationship Management is the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers for the company as well as maximizing satisfaction for customers, (Rajagopal & Sanchez, 2005). The value of targeting the right kind of customers has become so important that the entire success and failure of an organization depends on customer acquisition and retention. It is for this reason that technology has become very important in marketing in the form of CRM. To provide a wholesome understanding about customers, effective data generation and data