Chapter 13
Online Pricing and Auctions

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ABSTRACT

Recently, the role of information technology facilitating the exchange of information in markets has enabled new pricing mechanisms between buyers and sellers. Such electronic marketplaces, specifically Internet-based markets have supported customization of marketing mix elements efficiently. In response to supply and demand fluctuations, prices change more dynamically and quickly in the Internet than in physical markets. This chapter focuses on the revolution in pricing of businesses driven by the Internet. Within this context, primary characteristics of online pricing and auctions are reviewed systematically from the both view of buyers and sellers interacting. Furthermore, this chapter evaluates the effects of Internet as a new pricing mechanism and future trends of pricing rules within this attractive option.

INTRODUCTION

Markets (electronic or otherwise) have three main functions: matching buyers and sellers; facilitating the exchange of information, goods, services and payments associated with market transactions; and providing an institutional infrastructure, such as a legal and regulatory framework, that enables the efficient functioning of the market (Bakos, 1998). As the internet reaches every aspect of our lives, many traditional retailers find that the internet is a new channel for selling their goods (Tang & Gan, 2004). E-Business companies are currently grappling with the complex task of determining the right prices to charge a customer for a product or a service (Narahari, Raju, Ravikumar, & Shah, 2005).

Bakos (1998) suggested that a key function of markets in new economic system is price discovery, which is the process of determining the prices at which demand and supply “clear” and trade occurs. For financial markets, price discovery is their primary function. Similar to the financial markets, electronic businesses enable new types of price discovery to be employed in different markets. For instance, online reservation systems of hotels can provide price-sensitive customers to lock-in a price for future services, airlines auction last-minute unsold seats to the highest bidders, and ebay.com, predominantly characterized as a person-to-person auction site as it provides a market place for individual buyers and sellers to trade online may be given (Bakos, 1998; Brint, 2003).

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The scope of this chapter is a review of literature related with online pricing and its effect on both consumers and businesses. Thus it highlights the contemporary internet pricing issues by providing a critique review of miscellaneous studies related with dynamic pricing such as online pricing and auctions.

PRICING AND TRADITIONAL PRICING STRATEGIES

Price can be defined as the total resources expanded by a buyer or lessee in acquiring a given good or service. Price in a transaction consists both of what the buyer explicitly pays the seller in exchange for a specified good or service and, in that for many people time and effort have a cost equivalent, also the resources expanded by the buyer in terms of purchase time, travel effort and other associated tasks and inconveniences (Narver & Savitt, 1971).

Kotler and Armstrong (2014, p. 312) define price in the narrowest sense as “the amount of money charged for a product or service”, and in the more broadly, “price is the sum of all the values that customers give up to gain the benefits of having or using the product or service”.

This essential role of price in commerce is sometimes disguised by the use of traditional terms. If the product in the commercial exchange is a good, then the product’s price will most likely be called “price.” (Schindler, 2012). The other terms used to mean price is listed in Table 1.

From the view of companies, pricing is one of the most important elements of the marketing mix that generates income, thus a key determinant of performance (Shipley & Jobber, 2001; Breidert, 2005; Rao & Kartono, 2009). Perhaps, the fastest and most effective way for a company to realize its maximum profit is to get its pricing right (Marn & Rosiello, 1992). The effects of price changes are more immediate and direct, and appeals based on price are the easiest to communicate to prospective buyers (Rao, 1984). Despite its high importance, price (or pricing) as the least researched and mastered areas of marketing, is the most neglected element of the marketing mix (Rao, 1984; Avlonitis & Indounas, 2006; Carricano, Trinquecoste, & Mondejar, 2010).

During the last decades, marketers have become aware of the importance of developing an appropriate pricing strategy, and of the complexity of such a task (Gijsbrechts, 1993). However, pricing can be seen

Table 1. Some Terms Used to Mean “Price”

<table>
<thead>
<tr>
<th>Price</th>
<th>most goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>college courses, education</td>
</tr>
<tr>
<td>Rent</td>
<td>use of a place to live or use of equipment for a period of time</td>
</tr>
<tr>
<td>Interest</td>
<td>use of money</td>
</tr>
<tr>
<td>Fee</td>
<td>professional services: for lawyers, doctors, consultants</td>
</tr>
<tr>
<td>Premium</td>
<td>insurance</td>
</tr>
<tr>
<td>Fare</td>
<td>transportation: air, taxi, bus</td>
</tr>
<tr>
<td>Toll</td>
<td>use of a road or bridge, or long-distance phone rate</td>
</tr>
<tr>
<td>Salary</td>
<td>work of managers</td>
</tr>
<tr>
<td>Wages</td>
<td>work of hourly workers</td>
</tr>
<tr>
<td>Commission</td>
<td>sales effort</td>
</tr>
</tbody>
</table>

Source: Schindler, 2012, p. 3
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