Chapter VI

Pricing Outcomes in Dual-Channel Monopoly and Partial Duopoly

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Abstract

In this chapter, the authors first study the pricing strategies of a monopolist selling a product through stores in two channels, but under single management (or coordinated management) and then propose a framework for a model for a partial duopoly market conditions. The authors find that the monopolist generally charges a higher price in the brick and mortar store than the price charged in the Internet store. If, however, there is a sufficiently large fraction of buyers who would strictly prefer to buy the product from the Internet store instead of the physical store at any given price, the monopolist might charge the same price in both the stores. The authors also find that physical store price of a dual-channel monopoly is higher than the physical store price of a single-channel monopoly; the price charged in
the Internet store is generally lower than the single channel monopoly price. This chapter concludes with an identification of parameters for channel pricing strategies under partial duopoly market conditions.

Introduction

The initial outburst of optimism in the potential of the Internet to herald an era of perfectly competitive markets has been undoubtedly subdued by events that unfolded in the recent past amidst the plethora of dot-com failures. Even so, the Internet remains a channel of promise as evidenced by the increasing number of traditional brick and mortar firms that continue to open up Internet stores to function alongside their physical stores.

Indeed our understanding of the Internet as an alternate market channel continues to evolve to this date. An attractive feature of e-tailing that has received unequivocal recognition lies in the inherent capacity of Internet to support mass customization of products and buyers’ shopping experiences; this touches on the notion of buyer discrimination in mutually acceptable ways. Under such circumstances, opportunities for higher surpluses for the buyers and higher aggregate profits for the supplier begin to appear feasible. As sellers experiment with different business models to exploit opportunities on the Internet, the Internet market environment undergoes rapid shifts that need to be coped with; scholars have proposed a good number of strategies (Urban, Sultan, & Qualls, 2000) to address the dynamic marketplace of e-tail. Researchers have sought to approach the issues from various perspectives (Calkins and Farello, 2000; Dewan, Jing, & Seidman, 2000; Lu, 2003; Lee, Lee, & Larson, 2003; Odekerken-Schroder & Wetzels, 2003; Ward, 2001; Cao & Gruca, 2003) leading them to describe and propose various dimensions of the emerging market conditions. The available literature reveals a number of new issues including the nature of customer profiles (Koyuncu & Lien, 2003; Schoenbachler & Gordon, 2002) and behavior (Chiang & Dholakia, 2003), the issue of trust (Urban et al., 2000), and the expense of technological innovations and updates rarely addressed in the traditional distribution theories and logistics. In addition, the issue of privacy and concerns with regard to the integrity of the e-tailer in the appropriate use of “secured” information has come under wide discussion (Forsythe & Shi, 2003; Yoon, 2002).

With the tremendous growth witnessed in e-tail business, the need for an empirically grounded, rational behavioral model that explains the consumer preferences and seller strategies in electronic commerce cannot be overemphasized. The increasing number of commercial banks and financial institutions extending their services onto the Internet attest to the volume of transaction that must take place on the Internet.
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