1. INTRODUCTION

The rapid development in internet technologies has provided a powerful avenue for traditional “bricks-and-mortar” retailers to expand their businesses online. The proliferation in the e-business sector is a trend that the traditional retailers cannot ignore. Internet spending is on the rise. According to a report by Forrester Research Inc. (2010), online retail in the US is poised for double digit growth over the next five years. US online retail is projected to grow at 10 percent compound annual growth rate (CAGR) over the next five years to reach nearly $249 billion by 2014. To leverage the benefits of this added business opportunity big names in traditional retailing like Walmart, Target, Bloomingdales have all started their online operations. The greatest advantage in this scenario lies with those retailers who can establish multi-channel coordination between off-line and online business.

Multi-channel selling has pros and cons associated with it. On the positive side, it has broadened the business spectrum for these retailers but it has also complicated the pricing decisions which now require taking into account, simultaneously, demand developments in both the channels. Here we delve into multi-channel business operations and derive pricing policies...
for a retailer who is selling a seasonal item over the internet as well as in an off-line store. For simplicity we consider only one off-line store and study the problem. Our objective here is to get critical economic insights into multi-channel sales of seasonal items. In this paper we study the pricing problem of seasonal items, which has been a challenge for retailers, in a multi-channel sales scenario. We study how they can optimally apply strategic channel adoption and pricing decisions to maximize profits.

The problem of pricing seasonal fashion items is a difficult task. These items go out of style relatively fast. Through the selling season, these items lose value among customers as they have short usage time associated with them. Setting the time path of prices for these products is critical for the retailers. Retailers who carry seasonal merchandise, such as summer wear or winter garments or fall fashion collection often have to drastically lower the prices. The difference between the regular-price and the actual-sales dollars is often several hundred million dollars for major retailers (Smith & Archabal, 1998). The dilemma faced by the retailer is whether to start with high prices and then give deep markdowns at the end of the season or price the item uniformly through the season. So, in view of the previous considerations, pricing of seasonal goods, through the selling horizon, is of utmost importance to the retailer.

Primary reason a retailer needs to markdown slow selling seasonal items is to open up shelf space for new arrivals and ‘in-demand’ items. In an off-line store shelf space is limited. For the online channel the constraint of limited shelf space is relaxed. The marginal cost of displaying an additional item is negligible in the online channel as compared to the off-line store. Also inventory holding costs are higher for the off-line store as most of them are located in shopping malls and business areas whereas the inventory for the online channel can be stored in a central location with significantly less overhead costs. The cost of changing the prices is also less for the online channel. As pointed out by Bernie Feiwus, senior vice-president of Penny Direct (J.C. Penny):

\[ J.C. \text{ Pennysells through online three times the number of products available in its 1000 stores. That has proved to be a cost effective way to sell slow-moving items. (BusinessWeek, 2007)} \]

However, the online channel too has its own limitations. Online retailing is still in a developmental stage. Consumer behavior towards retailing goods is more inclined towards traditional off-line stores that can provide them with the benefit of trying-on the product and experiencing it before buying. Virtual retailing cannot provide this feature. However demand is influenced by the prices charged in the two channels and as customer population becomes more and more price sensitive, strategic pricing decisions can facilitate the retailers in acquiring the maximum profit.

One important characteristic of multi-channel sales that motivate the problem is that the demand patterns in the two channels are inter-dependent. At each time period the demand for each channel viz. off-line and online, depends on the respective prices of the item in both the stores and each customer’s channel preference and their respective valuation of the product. Depending on the respective demands, the retailer needs to set the price of the item in the two stores. Coordination is critical for performance in this dual channel selling environment. Perfect channel synergy provides the retailer an option to give fewer discounts and maximize profits based on the demand patterns. However, dual-channel operations pose viable market cannibalization threats. In this scenario customers have an option to buy the item from the off-line store as well as from the online store. Therefore, a retailer giving too much discount in any of the stores carries the risk of losing additional profit making opportunities. Drastic markdown in one channel can affect demand in the other channel as some of the “high value” customers, may switch shopping channels because of the added discount and lead to lower end-of-season profits for the retailer. Therefore, the retailer needs to develop optimal channel adoption and pricing strategies.
This title is available in InfoSci-Journals, InfoSci-Journal Disciplines Business, Administration, and Management, InfoSci-Digital Marketing, E-Business, and E-Services eJournal Collection, InfoSci-Select. Recommend this product to your librarian:

www.igi-global.com/e-resources/library-recommendation/?id=2

Related Content

E-Governance
www.igi-global.com/chapter/governance/9272?camid=4v1a

Bringing the Enterprise System to the Front Line: Intertwining Computerised and Conventional Communication with BT Europe
www.igi-global.com/chapter/bringing-enterprise-system-front-line/30592?camid=4v1a

Web Services Communities: From Intra-Community Coopetition to Inter-Community Competition
www.igi-global.com/chapter/web-services-communities/49289?camid=4v1a
The Decision Support System and Conventional Method of Telephone Triage by Nurses in Emergency Medical Services: A Comparative Investigation
www.igi-global.com/article/the-decision-support-system-and-conventional-method-of-phone-telephone-triage-by-nurses-in-emergency-medical-services/193031?camid=4v1a