

Price Sensitivity - It takes more than a teaspoon to stir public opinion - By Robin Trehan

2006-09-05

It is true that public opinion is like an ocean and it takes more than a teaspoon to alter, but when it comes to product and services we know that that we are price sensitive by nature. So, let's see what is price sensitivity?

Price sensitivity measures how sensitive consumers are to changes in prices. Since search and switching costs are much lower on the Internet market, than in conventional markets, and therefore consumers can easily and efficiently shop around the Internet for the best deals on the goods they wish to buy. This fact would be expected to lead to highly price-sensitive online consumers, but empirical research proves that customers' sensitivity to prices is highly correlated with products.

If search and switching costs are lower on the Internet, and if consumers are more informed of prices, then 'price spreading' on the Internet should be lower than in conventional outlets. The theoretical research analyzed proved that 'price spreading' among online retailers is higher than among conventional ones. There are several possible sources for the high degree of 'price spreading', but the most quoted possible source is price discrimination. Price discrimination occurs when a retailer charges different prices to different categories of consumers based on their willingness to pay. Therefore, it is interesting to see that retailers with the highest levels of awareness and trust may be able to sustain large price premiums, since the most probable source for online price dispersion is differences in consumer trust for, and awareness of, online retailers.

The Internet makes a buyer's search more efficient and encourages rational shopping versus a more emotional shopping in brick and mortar store, which appeals to our senses (images, sounds, smells). The Internet has forced with varying prices to reexamine their price structure and policy. Not only a varying price structure will bring resentment from customers but will also make it harder for companies to retain them. This does not help to build loyalty.

Theory might imply that a reduction in the costs of transactions will lead to lower prices, less 'price spreading', and frequent price adjustments by online firms in comparison to their offline counterparts.

Internet business pricing model has changed our lives in last 10 years and more will be coming. It will still take a lot to stir the ocean.

Robin C. Trehan is an industry consultant in the field of mergers and acquisitions. He can be reached at robin@tafunds.com.

This article comes from Hotel News Resource

<http://www.hotelnewsresource.com>

The URL for this story is:

<http://www.hotelnewsresource.com/article23909.html>

© 1998 - 2007 Nevistas and the author.

Brought to you by Hotel News Resource

Distribute your news on our Network

See what all the buzz is about at:

http://www.hotelnewsresource.com/Info-news_account_info.html