The brave new world of dynamic pricing

Online retailers are changing their prices multiple times a day, raising prices when they can, lowering them when they must. Want a better deal? Wait 10 minutes.

For many of us, the days of circling the mall parking lot for an hour during the holidays are over. Many of us do much or all of our holiday shopping on our computers. But just because you don't have to leave your couch, doesn't mean you don't need to shop around. That's because retailers are changing online prices all the time.

Case in point: A Star Wars Blu-ray DVD box set. Marketplace has been tracking its price in a partnership with online price tracking site, camelcamelcamel. In October, the DVD set cost $100. The week before Black Friday, the price dropped to $70. On Black Friday, it jumped to $90, and then the day after Black Friday, it hit $134. Right after that, it fell to $84. That means you might have paid $64 more than someone else on Amazon.com for the same exact item, just because you purchased it on a different day. Welcome to the world of dynamic pricing.

by Stacey Vanek Smith
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"It used to be about where to buy to get the price, now it's about when to buy to get the best price," explains Mike Fridgen, CEO of Decide.com. The company helps consumers track online prices and sends them alerts when a price drops. "Fixed price is a thing of the past," he says. "Today consumers are faced with prices changing minute by minute."

These changes are controlled by pricing bots, which are computers that use algorithms to decide when to nudge prices up and down. They're looking for three main things says pricing consultant Rafi Mohammed, author of the "The 1% Windfall: How Successful Companies Use Price to Profit and Grow."

"The first factor is competitors' prices," he says. "What's the competition charging? The second factor is how are your customers responding and, finally, supply."

"They're experimenting," notes Daniel Green, president of Cosmic Shovel Inc., which owns price tracking site camelcamelcamel. "They will raise the prices, seeing if people will purchase, then they'll drop them back down... They're testing the waters to see what people are willing to pay."

Mohammed, the consultant, adds: "What they're really trying to do is find pockets of opportunity, where they can change the price to make the highest profit margin or sell the most amount of products."

And these days retailers have more than real-time information. They have our personal data. Retailers know things about us: What we've purchased in the past, how many times we've looked at a product.

Robert Phillips, a dynamic pricing expert at Columbia University's business school, helped airlines perfect their dynamic pricing practices in the 1980s. Phillips says companies are starting to use our personal information to figure out how much they can charge each shopper.

"Dynamic pricing’s been around since the first caveman tried to sell the first club to his next door neighbor and, when he couldn’t find a buyer, lowered the price," he says. "But this new world of big data, where, for consumers, we know their click stream and what else they've viewed, that part is very new."

But the concept is not so new. Phillips says this is exactly what car salesman do when they size up customers based on what they're wearing or what car they drove on to the lot. "That's what the value added of the salesperson was," he says. "Being able to look at you and say, 'Aha, I wonder what she'd be willing to pay.' Only now it's a robot."

So, if the price you paid used to be about where you shopped and now it's about when you shop, soon it could be about who you are. But companies have to be careful that customers don't strike back says Mohammed.

"If it becomes very public that retailers are changing different customers different prices at the same time, that's going to be bad for the brand," he says. "Pricing is an integral part of a company's brand, and if they mess up, they can destroy a brand."

In today's lackluster economy, dynamic pricing often works for the consumer, says Fridgen of Decide.com. "It's never been a better time to be an online consumer," he says. "You literally have retailers changing their prices minute by minute competing with each other for your business."

Still, it pays to pay attention. Remember those Star Wars DVDs? For the past week, Amazon has been changing the price several times a day, from $70 to $84 and back.
Blue Rays aren’t DVDs. 
Loved the Star Wars theme.