The history of dynamic pricing strategy economics essay

Dynamic pricing is a flexible pricing mechanism made possible at the free market environment. It is also known as third-degree price discrimination or time-based pricing. In dynamic pricing strategy, the supplier according by responding to market fluctuations or large amounts of data gathered from customers, to know what product that market in present needs and wants. It is also according to difference customer preferences to set the price and service. This is part of the supplier to obtain what economists call " consumer surplus" which is the difference between what the price consumer is willing to buy for a product and the money they actually have to pay. Economists research to the price the consumer is willing to pay such as " expected price ", and if supplier could find out a way to know what specific consumer's expected price was for a goods, they able to charge the highest price that the consumer willing to pay for the goods, and can take all of the consumer surplus.

Amazon has charged difference prices to difference customer that they willing to pay on the product and also the value they perceived. So that, Amazon can maximizes profit from consumer surplus. But this pricing strategy can only help Amazon to gain short run profit as there are two limitations in this case. Amazon applies this strategy at 2000 to sell DVDs, its version of the practice was a good deal more complicated than a peak-pricing rule for tolls. It used its software to analyze a customer's past purchase history, place of residence, and other factors to adjust price to ability to pay, when new consumer at Amazon buy one DVDs the price will cheaper than old consumer, because Amazon will given old consumer price discrimination, but it only help Amazon to maximize profit a month and failed in the end. One of the main reason, DVDs is a normal good which is elastic demand and will fall in quantity when price going up. Second of the main reason Amazon is not the monopoly market structural so the strategy of third-degree price discrimination cannot success to apply, so that, Amazon cannot barriers other suppliers to entry market, it just a part DVDs supplier in the market and competitive with other supplier, when consumers after buying the DVDs realize they purchase price was difference compare to other consumers, their will stop purchase in Amazon and shift to other suppliers to found substitute.

Value pricing strategy

Value pricing is defined by offering product at a reasonable and fair price that makes sense to the purchasing customer and understand your customer ′s wants, needs, key issues and value drivers in much greater depth. This strategy is general used where the value to the customer is many times the cost of producing the goods or service. The goal of the strategy is to avoid setting prices that are either too high for customers or lower than they would be willing to pay if they knew what kind of benefits they could get by using a product.

Amazon apply value pricing strategy is willing to obtain the long run market goals compare to the other competitors use this strategy just concentrate in the short run market goals, at the end obtain temporary profits and failed in future. Amazon has uses a form of value pricing strategy known as everyday low pricing and also includes offering free shipping services to consumers attracted and encourage their purchase more goods in their company, because nowadays supplier no unique in the market and online shoppers have now become accustomed to searching all the product to found the best price they willing to pay. In fact, Amazon CFO Tom Szkutak states outright that â€Å“ Amazon objective remains offering low prices every day and applying them broadly across our entire product range rather than discounting a small number of products for a limited time. â€ According to low prices every day strategy except demand of low price product increase, the sale of other products also will increase, because when shoppers purchase in some place will over view the shop products to buy they needs and wants, so that when demand of products increase will help Amazon to maximize the profit. It is elastic of demand when the price going down, the quantity demand of goods will increase further.

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