Price rigidity in internet retailing

Business

The Price rigidity in internet retailing Price Rigidity in internet retailing Robert J. Kauffman and Dongwon Lee Introduction Theauthors explains what price rigidity mean. It is spelled out as the ability of firms to adjust prices in the presence of forces that suggest they should change, occupies a central stage in the research agenda of new Keynesian macroeconomics. In the context of Internet retailing (or electronic retailing) , price rigidity is outlined as set of technological, organizational and managerial capabilities that permit a firms prices to be made accessible to consumers and businesses via websites and other means to support the sales transactions for information, goods and services. However, the internet version presents two fundamental ways of understanding price rigidity and the nature of price adjustment . First; it provides a unique technological context for the micro-level study of price-setting behavior and strategies. Second, these technologies are pointed out as major forces in market transformation hence different from initial doings. As a result of the above authors' concerns, three main research questions arise;

Whether there is a need to expect less price rigidity in Internet retailing, compared to traditional non-Internet channels?

Whether there exist any differences in price-changing behavior within and between firms, channels, and industries?

What theories or theoretical knowledge would provide a basis for understanding what we

observe?

The listed research question explicitly address the aim of this article that focuses on reviewing and synthesizing what we know about price rigidity in non-electronic background as well as to discover the extent to which it

explains dynamism of price setting as observed in Internet retailing research frame work. Moreover, this paper states research framework as a tool that provides a means to evaluate the observed empirical evidence for price-change behavior in Internet retailing in a manner that emphasizes theory.

Research Theoretical Backgrounds

The authors express their theoretical views and argue that rigid prices occur when prices do not adequately change in response to underlying cost and demand shocks (Anderson, 1994). It identifies Cost of Price Adjustment, Market Structure, Asymmetric, and Information, Demand-Based as the only 4 theories to explain the happenings. These theories are based on underlying assumptions that prices are under the control of and administered by firms, and not subject to the laws of supply and demand and that firm's pricing practices and consumer behavior are the key determinants. In that regard, they propose a research framework to examine different theories on price rigidity that will be observed in Internet retailing environments at the different levels of analysis covering the firm, the consumer, and the market.

Research methods and result

The article describes various analyses done. These analyses include; firm-specific level that focuses on Internet retailers strategic pricing capability that enhances organizational capabilities and their impacts on real price changes. Secondly is the firm-to-consumer level that focuses on Internet retailers price-changing behavior as influenced by the psychology and behavior of consumers. And finally is the firm-to-market level. It also depicts IT and Internet technologies as some other factors affecting pricing behavior compared to traditional environments. Based on the research, the result obtained states that managerial costs are more than six times greater than

the menu costs associated with changing prices. Thus, both physical menu costs and managerial costs give rise to price adjustment barriers within a firm . firms change prices step-by-step over time in a process that is called price staggering and further clarifies that price synchronization as the process of aligning strategic price changes in time.

Contributions and limitations

The article eventually suggests a major contribution; First, from a practitioners point of view, this research is said to enables senior managers, marketing analysts, and industry consultants to achieve a better understanding of price change dynamics in the context of Internet retailing. Such knowledge should empower their strategy formulation and decision-making. The research also helps pricing managers more thoroughly understand the dynamics of pricing in online environments. It also IS Professionals to know more about the underlying structures of pricing strategy in their companies markets hence become more innovative and effective in the creation of IT artifacts that can transform the power of their approaches to strategic pricing.

However, technology is depicted as not the only force at work driving price change capabilities and what we have observed about Internet retailing. Second, nor have we considered situations in which legal, regulatory and other non-business considerations are likely to play a significant role. Third, we have not attempted to characterize what may happen over a longer period of time, as Internet retailing-related technologies, and the business processes that are affected by them, evolve. Finally, the technological evolution of organizational business processes for pricing is affected by changes and transformations in other business processes.

However, the inflexibility in Internet retailing as described by Chakrabarti and Scholnick (2005) suggests synchronization in price changes, and argue that price rigidities also exist in online environments. price rigidity exists in Internet retailing due to managerial costs for channel integration. There is also Non-price competition, thus, can be used most effectively when a seller can make its product stand out from the competition by enhancing product quality, setting