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# PRICING MECHANISM ON-LINE

**S. A. Ozova**

*Student,*
*e-mail: saniatozova@gmail.com,*
*Moscow State University,*
*Moscow, Russia*

**Abstract.** The article analyses the difference between on-line and conventional stores in terms of pricing. Several factors that influence prices on-line are considered including reduction in costs, expanded access to information, product differentiation, and discrimination.

**Keywords:** E-commerce; product differentiation; personalization; switching costs; price discrimination; information marketplace.

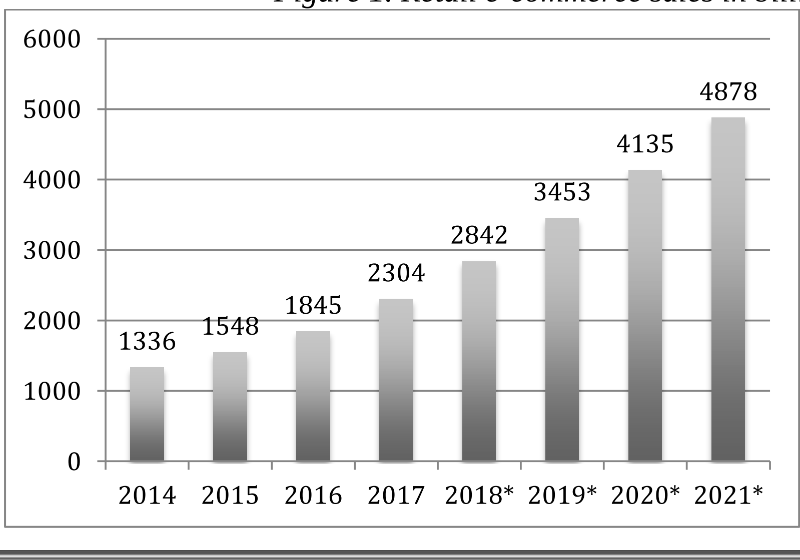
In modern world information and communication technologies have become driving forces of the economy that create incentives for dynamic development of high-tech sectors. Advances in technologic productivity foster economic growth, which in its turn elevates living standards.

Among the major areas of digitalization is the development of the Internet that penetrates into all spheres of human activity. According to the International Telecommunication Union [3, p. 15] in 2016 more than a half of the world's households – 53.6 % – had access to the home Internet, compared with about 30 % in 2010 and less than 20 % in 2005. The number of new Internet users rises in a similar way exceeding 3.8 billion individuals already, which is about 40 % of the world population.

**Development of e-commerce**

Expansion of the Internet since early 90-s among other things has created new opportunities for businesses allowing them to operate online and initiating a new type of trade – electronic commerce, or e-commerce. In 1995, Amazon, one of the first on-line stores in the world, opened its website [7, p. 152]. After 22 years, in 2017, retail e-commerce sales around the world amounted to $ 2.3 trillion and are expected to grow to $ 4.88 trillion in 2021 as shown in Figure 1 [6].

*Figure 1. Retail e-commerce sales in billion U. S. dollars*



**Transformation of market structure under the influence of e-commerce**

The emergence and dynamic development of e-commerce led to a significant transformation of the retail market structure. First of all, businesses have become more global regardless of their dimensions as the Internet erases geographical and language barriers.

Secondly, both a seller and a buyer have significantly reduced their costs. There is no need for sellers in investing in brick-and-mortar store and maintenance anymore. Instead, delivery arrangement becomes an issue of paramount importance. Less need in capital investments leads to lower entry barriers and promotes competition. Apart from that, menu costs on the Internet are close to zero as information can be immediately changed almost for nothing [2, pp. 651–652].

As far as a customer is concerned, search and transportation costs decrease quite sharply as there is no need to actually quit the house to buy something while previously several stores were to be visited in order to find an item at a suitable price.

However, such retrenchment of costs does not necessarily lead to lower prices online due to product differentiation, personalization, and price discrimination.

**Differentiation and personalization**

Reduction in different types of costs of buyers and sellers, on the one hand, leads to greater competition for homogeneous goods. On the other hand, the Internet creates the possibility of product differentiation. A differentiated product is favorably distinguished from other products in the eyes of consumers by virtue of quality, geographical location, product image, and many other factors. An accurate adaptation to specific requirements of each individual customer is called customization.

Consumers often do not advance their requirements to the goods directly, but modern technologies allow on-line stores to find out the preferences of consumers automatically based on their search requests, and this information is transferable from the site to the site. Thus, sellers have the opportunity to conduct more accurate marketing researches, use targeted advertising are shown only to certain users, and, finally, conduct a policy of price discrimination [4, pp. 35–38].

**Price discrimination**

With e-commerce both parties engaged in a deal have expanded their access to information. A consumer is now able to compare prices asked for similar goods at different sites. On the other hand, as mentioned above, technologies allow sellers to accumulate data on potential customers' preferences and study the way people make purchase decisions almost for free even when such data is not explicitly provided by users.

Information on consumers' preferences also helps to divide them into groups to offer them different prices. On the one hand, discrimination does not always carry a negative connotation. For example, one form of discrimination involves targeted non-transferable coupons that offer customized discounts, also known as loyalty cards.

Discrimination as a pricing strategy is widely popular in information marketplaces. The specific feature of information goods such as books, music, films, etc. is connected with low variable costs in case if information products are sold via the Internet, which means that costs in general are detached from the number of sales. The aim at gaining a larger market share accompanied by intense competition has led to development of several business-models that imply a range of prices for different variants of one product so that a customer could choose the most suitable one.

However, other types of discrimination are less customer-friendly. One of them is connected with switching costs that appear as soon as a buyer enters any personal data such as name, address or payment cars number on a shop's website because since then it becomes more convenient to stick to the site avoiding the need to double this information in the future. This situation might create incentives for sellers to stealthily adjust prices upwards as soon as the client has inserted personal information.

The ambiguousness of e-commerce is emphasized in several empirical studies. Thus, the research conducted by Y. Bakos [1, p. 73] has shown that “differentiation of products and price discrimination can outweigh price competition in digital markets” based on comparison of price levels and their dispersion in conventional and online markets.

**Conclusions**

Evidence considered in this article proves the ambivalent nature of market transformation aroused by development of e-commerce. It cannot be denied that e-commerce has helped to reduce overall costs, to obtain more information, and to create global businesses. This led to the expansion of potential markets, lower barriers to entry and increased number of market players, promoting price competition.

At the same time, there are ways to avoid competition by attracting buyers through detected information about their preferences and switching costs. Strengthened consumer loyalty, a wider variety of goods on-line and the possibility of customization create opportunities for pursuing a policy of price discrimination and reduce market competitiveness.

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