

Online Marketing

Online Shopping

Online shopping is the process consumers go through to purchase products or services over the Internet. An online shop, eshop, e-store, internet shop, web shop, online store, or virtual store evokes the physical analogy of buying products or services at a bricks-and-mortar retailer or in a shopping mall.

The metaphor of an online catalog is also used, by analogy with mail order catalogs. All types of stores have retail web sites, including those that do and do not also have physical storefronts and paper catalogs.

Online shopping is a type of electronic commerce used for business-to-business (B2B) and business-to-consumer (B2C) transactions.

History of Online Shopping

Since about 1990, online shopping has emerged into every corner of life, linking people to the culture of capitalism in frequent and daily ways. It lets us buy what we want, when we want at our convenience, and helps us to imagine ourselves buying, owning, and having positive outcomes by the goods available out there on the web. Shopping has been a way of identifying oneself in today's culture by what we purchase and how we use our purchases. Online shopping has always been middle to high class commodity since its first arrival on the internet in society. In 1990, Tim Berners-Lee created The World Wide Web Browser]. A few years later in 1994 other advances took place such as Online Banking, after that, the next big development was the opening of an online pizza shop by Pizza Hut. In that same year Netscape introduced SSL encryption to enable encryption over the data transferred online which has become essential for online shopping. In 1995, Amazon started up with online shopping, and then in 1996, eBay opened up for online shopping as well. The idea of online shipping pre-dates the World Wide Web for there were earlier experiments involving real-time transaction processing from a domestic television. The technology, based on Videotext, was first demonstrated by Michael Aldrich in 1979 that designed and installed systems in the UK, including the first Tosco pilot system in the 1980s.

Target Audience

In general, shopping has always catered to middle class and upper class women. Shopping is fragmented and pyramid-shaped. At the pinnacle are elegant boutiques for the affluent, a huge belt of inelegant but ruthlessly efficient "discounters" flog plenty at the pyramid's precarious middle. According to the analysis of Susan D. Davis, at its base are the world's workers and poor, on whose cheapened labor the rest of the pyramid depends for its incredible abundance. Shopping has evolved from single stores to large malls with different services such as offering delivery, attentive service and store credit and accepting return. These new additions to shopping have encouraged and targeted middle class women.

In recent years, online shopping has become popular; however, it still caters to the middle and upper class. In order to shop online, one must be able to have access to a computer and most of the time, own a credit card. This technology separates social classes and their ability to shop. The shopping landscape not only helps distract us from the enormous social segregation by race and class that the most privileged Americans find completely natural, it helps to reproduce this segregation. Shopping has evolved with the growth of technology and that means an even larger separation between social classes and their means to shop. Social position strongly influences individual preferences and tastes in popular culture. According to research found in the Journal of Electronic Commerce, if we focus on the demographic characteristics of the in-home shopper, in general, the higher the level of education, income, and occupation of the head of the household, the more favorable the perception of non-store shopping. It should be remembered that an influential factor in consumer attitude towards non-store shopping is exposure to technology, since it has been demonstrated that increased exposure to technology increases the probability of developing favorable attitudes towards new shopping channels.

Online shopping widened the target audience to men and women of the middle class. At first, main users of online shopping were young men with a high level of income and a university education. This profile is changing. For example,

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in USA in the early years of Internet there were very few women users, but by 2001 women were 52.8% of the online population. Socio cultural pressure has made men generally more independent in their purchase decisions, while women place greater value on personal contact and social relations. In addition, male shoppers are more independent when deciding on purchasing products because unlike women, they don't necessarily need to see or try on the product.

Trends and Predictability in Online Shopping

One third of people that shop online use a search engine to find what they are looking for and about one fourth of people find websites by word of mouth. Word of mouth has increased as a leading way that people find websites to shop from. When an online shopper has a good first experience with a certain website sixty percent of the time they will return to that website to buy more.

Books are one of the things bought most online, however clothes, shoes and accessories are all very popular things to buy online. Cosmetics, nutrition products and groceries are increasingly being purchased online. About one fourth of travelers are buying their plane tickets online because it is a quick and easy way to compare airline travel and make a purchase. Online shopping provides more freedom and control than shopping in a store.

According to sociological perspective online shopping is arguably the most predictable way to shop. One knows exactly what website to go to, how much the product will cost, and how long it will take for the product to reach them. Online shopping has become extremely routine and predictable, which is one of its great appeals to the consumer.

Logistics

Consumers find a product of interest by visiting the website of the retailer directly, or do a search across many different vendors using a shopping search engine.

Once a particular product has been found on the web site of the seller, most online retailers use shopping cart software to allow the consumer to accumulate multiple items and to adjust quantities, by analogy with filling a physical shopping cart or basket in a conventional store. A "checkout" process follows (continuing the physical-store analogy) in which payment and delivery information is collected, if necessary. Some stores allow consumers to sign up for a permanent online account so that some or all of this information only needs to be entered once. The consumer often receives an e-mail confirmation once the transaction is complete. Less sophisticated stores may rely on consumers to phone or e-mail their orders (though credit card numbers are not accepted by e-mail, for security reasons).

Payment

Online shoppers commonly use credit card to make payments, however some systems enable users to create accounts and pay by alternative means, such as:

1. Debit card
2. Various types of electronic money
3. Cash on delivery (C.O.D., offered by very few online stores)
4. Cheque
5. Wire transfer/delivery on payment
6. Postal money order
7. Paypal
8. Google Checkout
9. Money bookers
10. Reverse SMS billing to mobile phones
11. Gift cards
12. Direct debit in some countries

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Some sites will not allow international credit cards and billing address and shipping address have to be in the same country in which site does its business. Other sites allow customers from anywhere to send gifts anywhere. The financial part of a transaction might be processed in real time (for example, letting the consumer know their credit card was declined before they log off), or might be done later as part of the fulfillment process.

While credit cards are currently the most popular means of paying for online goods and services, alternative online payments will account for 26% of e-commerce volume by 2009 according to Client.

Product delivery

Once a payment has been accepted the goods or services can be delivered in the following ways.

- Download: This is the method often used for digital media products such as software, music, movies, or images.
- Shipping: The product is shipped to the customer's address.
- Drop shipping: The order is passed to the manufacturer or third-party distributor, who ships the item directly to the consumer, bypassing the retailer's physical location to save time, money, and space.
- In-store pickup: The customer orders online, finds a local store using locator software and picks the product up at the closest store. This is the method often used in the bricks and clicks business model.

Shopping cart systems

- Simple systems allow the offline administration of products and categories. The shop is then generated as HTML files and graphics that can be uploaded to a web space. These systems do not use an online database.
- A high end solution can be bought or rented as a standalone program or as an addition to an enterprise resource planning program. It is usually installed on the company's own web server and may integrate into the existing supply chain so that ordering, payment, delivery, accounting and warehousing can be automated to a large extent.
- Other solutions allow the user to register and create an online shop on a portal that hosts multiple shops at the same time.
- Open source shopping cart packages include advanced platforms such as Interchange, and off the shelf solutions as osCommerce, Magneto, Zen Cart and VirtueMart.
- Commercial systems can also be tailored to ones needs so that the shop does not have to be created from scratch. By using a framework already existing, software modules for different functionalities required by a web shop can be adapted and combined.

Online store design

Why does electronic shopping exist? For customers it is not only because of the high level of convenience, but also because of the broader selection; competitive pricing and greater access to information. For organizations it increases their customer value and the building of sustainable capabilities, next to the increased profits.

Online Store Builders

There are a number of [[online store] options. Yahoo, EBay and Amazon have store builders. WebStore by Amazon passes down the features from Amazon to the merchant's personalized store. EBay integrates its store solution with sales on eBay.

Information Load

Designers of online shops should consider the effects of information load. Mehrabian and Russel (1974) introduced the concept of information rate (load) as the complex spatial and temporal arrangements of stimuli within a setting. The

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notion of information load is directly related to concerns about whether consumers can be given too much information in virtual shopping environments. Compared with conventional retail shopping, computer shopping enriches the information environment of virtual shopping by providing additional product information, such as comparative products and services, as well as various alternatives and attributes of each alternative, etc.

Two major sub-dimensions have been identified for information load: complexity and novelty. Complexity refers to the number of different elements or features of a site, which can be the result of increased information diversity. Novelty involves the unexpected, suppressing, new, or unfamiliar aspects of the site. A research by Huang (2000) showed that the novelty dimension kept consumers exploring the shopping sites, whereas the complexity dimension has the potential to induce impulse purchases.

Consumer expectations

The main idea of online shopping is not in having a good looking website that could be listed in a lot of search engines and it is not about the art behind the site. It also is not only just about disseminating information, because it is all about building relationships and making money. Mostly, organizations try to adopt techniques of online shopping without understanding these techniques and/or without a sound business model. Rather than supporting the organization's culture and brand name, the website should satisfy consumer's expectations. Many researchers notify that the uniqueness of the web has dissolved and the need for the design, which will be user centered, is very important. Companies should always remember that there are certain things, such as understanding the customer's wants and needs, living up to promises, never go out of style, because they give reason to come back. And the reason will stay if consumers always get what they expect. McDonaldization theory can be used in terms of online shopping, because online shopping is becoming more and more popular and website that wants to gain more shoppers will use four major principles of McDonaldization: efficiency, calculability, predictability and control.

Organizations, which want people to shop more online for them, should consume extensive amounts of time and money to define, design, develop, test, implement, and maintain website. Also if company wants their website to be popular among online shoppers it should leave the user with a positive impression about the organization, so consumers can get an impression that the company cares about them. The organization that wants to be acceptable in online shopping needs to remember, that it is easier to lose a customer then to gain one. Lots of researchers state that even when site was a "top-rated", it would go nowhere if the organization failed to live up to common etiquette, such as returning e-mails in a timely fashion, notifying customers of problems, being honest, and being good stewards of the customers' data. Organizations that want to keep their customers or gain new ones try to get rid of all mistakes and be more appealing to be more desirable for online shoppers. And this is why many designers of webshops considered research outcomes concerning consumer expectations. Research conducted by Elliot and Fowell (2000) revealed satisfactory and unsatisfactory customer experiences.

Satisfactory:

- Increased customization, e.g. "capability to treat customers as individuals".
- Convenience in purchasing "anytime, from anywhere, to anywhere".
- Responsiveness in product delivery, e.g. "instantaneous distribution of digital products and services".
- Cost savings through lower prices, e.g. "site aims at providing lower costs and latest information on music scene".
- Able to fulfill most shoppers needs. Comparison shop several online stores at once.

Unsatisfactory (unsatisfactory experiences):

- Security
- Ease of use
- Poor levels of service
- Costs
- Product delivered did not meet expectations.

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User interface

It is important to take the country and customers into account. For example, in Japan privacy is very important and emotional involvement is more important on a pension's site than on a shopping site. Next to that, there is a difference in experience: experienced users focus more on the variables that directly influence the task, while novice users are focusing more on understanding the information.

There are several techniques for the inspection of the usability. The ones used in the research of Chen & Macredie (2005) are: Heuristic evaluation, cognitive walkthrough and the user testing. Every technique has its own (dis-)advantages and it is therefore important to check per situation which technique is appropriate.

When the customers visited the online shop, a couple of factors determine whether they will return to the site. The most important factors are the ease of use and the presence of user-friendly features.

Market share

E-commerce product sales totaled \$146.4 billion in the United States in 2006, representing about 6% of retail product sales in the country. The \$18.3 billion worth of clothes sold online represented about 10% of the domestic market.

For developing countries and low-income households in developed countries, adoption of e-commerce in place of or in addition to conventional methods is limited by a lack of affordable Internet access.

Convenience

Online stores are usually available 24 hours a day, and many consumers have Internet access both at work and at home. A visit to a conventional retail store requires travel and must take place during business hours.

Searching or browsing an online catalog can be faster than browsing the aisles of a physical store. Consumers with dial-up Internet connections rather than broadband have much longer load times for content-rich web sites and have a considerably slower online shopping experience.

Some consumers prefer interacting with people rather than computers (and vice versa), sometimes because they find computers hard to use. Not all online retailers have succeeded in making their sites easy to use or reliable.

In most cases, merchandise must be shipped to the consumer, introducing a significant delay and potentially uncertainty about whether or not the item was actually in stock at the time of purchase. Bricks-and-clicks stores offer the ability to buy online but pick up in a nearby store. Many stores give the consumer the delivery company's tracking number for their package when shipped, so they can check its status online and know exactly when it will arrive. For efficiency reasons, online stores generally do not ship products immediately upon receiving an order. Orders are only filled during warehouse operating hours, and there may be a delay of anywhere from a few minutes to a few days to a few weeks before in-stock items are actually packaged and shipped. Many retailers inform customers how long they can expect to wait before receiving a package, and whether or not they generally have a fulfillment backlog. A quick response time is sometimes an important factor in consumers' choice of merchant. A weakness of online shopping is that, even if a purchase can be made 24 hours a day, the customer must often be at home during normal business hours to accept the delivery. For many professionals this is can be difficult, and absence at the time of delivery can result in delays, or in some cases, return of the item to the retailer. Automated delivery booths, such as DHL's Packstation, have tried to address this problem.

In the event of a problem with the item - it is not what the consumer ordered, or it is not what they expected - consumers are concerned with the ease with which they can return an item for the correct one or for a refund.

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Consumers may need to contact the retailer, visit the post office and pay return shipping, and then wait for a replacement or refund. Some online companies have more generous return policies to compensate for the traditional advantage of physical stores. For example, the online shoe retailer Zappos.com includes labels for free return shipping, and does not charge a restocking fee, even for returns which are not the result of merchant error. (Note: In the United Kingdom, Online shops are prohibited from charging a restocking fee if the consumer cancels their order in accordance with the Consumer Protection (Distance Selling) Act 2000.

Information and reviews

Online stores must describe products for sale with text, photos, and multimedia files, whereas in a physical retail store, the actual product and the manufacturer's packaging will be available for direct inspection (which might involve a test drive, fitting, or other experimentation).

Some online stores provide or link to supplemental product information, such as instructions, safety procedures, demonstrations, or manufacturer specifications. Some provide background information, advice, or how-to guides designed to help consumers decide which product to buy.

Some stores even allow customers to comment or rate their items. There are also dedicated review sites that host user reviews for different products.

In a conventional retail store, clerks are generally available to answer questions. Some online stores have real-time chat features, but most rely on e-mail or phone calls to handle customer questions.

Price and selection

One advantage of shopping online is being able to quickly seek out deals for items or services with many different vendors (though some local search engines do exist to help consumers locate products for sale in nearby stores). Search engines and online price comparison services can be used to look up sellers of a particular product or service.

Shoppers find a greater selection online in certain market segments (for example, computers and consumer electronics) and in some cases lower prices. This is due to a relaxation of certain constraints, such as the size of a "brick-and-mortar" store, lower stocking costs (or none, if drop shipping is used), and lower staffing overhead.

Shipping costs (if applicable) reduce the price advantage of online merchandise, though depending on the jurisdiction, a lack of sales tax may compensate for this.

Shipping a small number of items, especially from another country, is much more expensive than making the larger shipments bricks-and-mortar retailers order. Some retailers (especially those selling small, high-value items like electronics) offer free shipping on sufficiently large orders.

Fraud and security concerns

Given the lack of ability to inspect merchandise before purchase, consumers are at higher risk of fraud on the part of the merchant than in a physical store. Merchants also risk fraudulent purchases using stolen credit cards or fraudulent repudiation of the online purchase. With a warehouse instead of a retail storefront, merchants face less risk from physical theft.

Secure Sockets Layer (SSL) encryption has generally solved the problem of credit card numbers being intercepted in transit between the consumer and the merchant. Identity theft is still a concern for consumers when hackers break into a merchant's web site and steal names, addresses and credit card numbers. A number of high-profile break-ins in the 2000s have prompted some U.S. states to require disclosure to consumers when this happens. Computer security has thus

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become a major concern for merchants and e-commerce service providers, who deploy countermeasures such as firewalls and anti-virus software to protect their networks.

Phishing is another danger, where consumers are fooled into thinking they are dealing with a reputable retailer, when they have actually been manipulated into feeding private information to a system operated by a malicious party. On the other hand, dealing with an automated system instead of a population of store clerks reduces the risk of employees stealing consumer information, or dumpster diving of paper receipts. Denial of service attacks are a minor risk for merchants, as are server and network outages.

Quality seals can be placed on the Shop webpage if it has undergone an independent assessment and meets all requirements of the company issuing the seal. The purpose of these seals is to increase the confidence of the online shoppers; the existence of many different seals, or seals unfamiliar to consumers, may foil this effort to a certain extent.

A number of resources offer advice on how consumers can protect themselves when using online retailer services. These include:

- Sticking with known stores, or attempting to find independent consumer reviews of their experiences; also ensuring that there is comprehensive contact information on the website before using the service, and noting if the retailer has enrolled in industry oversight programs such as trust mark or trust seal.
- Ensuring that the retailer has an acceptable privacy policy posted. For example note if the retailer does not explicitly state that it will not share private information with others without consent.
- Ensuring that the vendor address is protected with SSL (see above) when entering credit card information. If it does the address on the credit card information entry screen will start with "HTTPS".
- Using strong passwords, without personal information. Another option is a "pass phrase," which might be something along the lines: "I shop 4 good a buy!!" These are difficult to hack, and provides a variety of upper, lower, and special characters and could be site specific and easy to remember.

Although the benefits of online shopping are considerable, when the process goes poorly it can create a thorny situation. A few problems that shoppers potentially face include identity theft, faulty products, and the accumulation of spy ware. Most large online corporations are inventing new ways to make fraud more difficult, however, the criminals are constantly responding to these developments with new ways to manipulate the system. Even though these efforts are making it easier to protect yourself online, it is a constant fight to maintain the lead. It is advisable to be aware of the most current technology and scams out there to fully protect yourself and your finances.

One of the hardest areas to deal with in online shopping is the delivery of the products. Most companies offer shipping insurance in case the product is lost or damaged; however, if the buyer opts not to purchase insurance on their products, they are generally out of luck. Some shipping companies will offer refunds or compensation for the damage, but it is up to their digression if this will happen. It is important to realize that once the product leaves the hands of the seller, they have no responsibility (provided the product is what the buyer ordered and is in the specified condition).

Privacy

Privacy of personal information is a significant issue for some consumers. Different legal jurisdictions have different laws concerning consumer privacy, and different levels of enforcement. Many consumers wish to avoid spam and telemarketing which could result from supplying contact information to an online merchant. In response, many merchants promise not to use consumer information for these purposes, or provide a mechanism to opt-out of such contacts.

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Brick-and-mortar stores also collect consumer information. Some ask for address and phone number at checkout, though consumers may refuse to provide it. Many larger stores use the address information encoded on consumers' credit cards (often without their knowledge) to add them to a catalog mailing list. This information is obviously not accessible to the merchant when paying in cash.

Product suitability

Category	U.S. online sales (2006)
Apparel, accessories and footwear	\$18.3 billion
Computer hardware and software	\$17.2 billion
Autos and auto parts	\$16.7 billion
Home furnishings	\$10.0 billion
Total products sales (excluding travel)	\$146.4 billion
Travel	\$73.5 billion

Many successful purely virtual companies deal with digital products, (including information storage, retrieval, and modification), music, movies, office supplies, education, communication, software, photography, and financial transactions. Examples of this type of company include: Google, eBay and Paypal. Other successful marketers use Drop shipping or affiliate marketing techniques to facilitate transactions of tangible goods without maintaining real inventory. Examples include numerous sellers on eBay.

Some non-digital products have been more successful than others for online stores. Profitable items often have a high value-to-weight ratio, they may involve embarrassing purchases, they may typically go to people in remote locations, and they may have shut-ins as their typical purchasers. Items which can fit through a standard letterbox — such as music CDs, DVDs and books — are particularly suitable for a virtual marketer, and indeed Amazon.com, one of the few enduring dot-com companies, has historically concentrated on this field.

Products such as spare parts, both for consumer items like washing machines and for industrial equipment like centrifugal pumps, also seem good candidates for selling online. Retailers often need to order spare parts specially, since they typically do not stock them at consumer outlets -- in such cases, e-commerce solutions in spares do not compete with retail stores, only with other ordering systems. A factor for success in this niche can consist of providing customers with exact, reliable information about which part number their particular version of a product needs, for example by providing parts lists keyed by serial number.[citation needed]

Products less suitable for e-commerce include products that have a low value-to-weight ratio, products that have a smell, taste, or touch component, products that need trial fittings — most notably clothing — and products where colour integrity appears important. Nonetheless, Tesco.com has had success delivering groceries in the UK, albeit that many of its goods are of a generic quality, and clothing sold through the internet is big business in the U.S. Also, the recycling program Cheapcycle sells goods over the internet, but avoids the low value-to-weight ratio problem by creating different groups for various regions, so that shipping costs remain low.[citation needed]

Aggregation

High-volume websites, such as Yahoo!, Amazon.com and eBay, offer hosting services for online stores to small retailers. These stores are presented within an integrated navigation framework. Collections of online stores are sometimes known as virtual shopping malls or online marketplaces.

Become.com is a product price comparison service and discovery shopping search engine with a mission to help shoppers make ideal buying decisions. Dulance was a price engine that specialized in searching for hard-to-find products often sold by small independent online retailers ("The Long Tail").

Online Shopping Rewards

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Online shopping rewards portals are a type of reward website, with some also offering rewards for other actions, usually including registering with the website.

The advent of online shopping has resulted in the development of a large number of rewards programs that offer rewards for shopping through specific shopping portals. These rewards can be points-based (allowing redemption for various prizes), cash back, airline frequent flyer-miles-based, hotel points, or even donations to charity.

Types of online Shopping rewards

Point's rewards

It is important to remember that, with the exception of cash back rewards, each rewards program values its points differently: before consumers purchase through one of the point- or mile-based programs, they should compare the points they will earn with the specific reward they choose. In addition, because of the highly competitive nature of online commerce, many of the shopping portals offer coupons or discount offers not available if purchases are made directly through the merchant site: besides receiving points towards a reward, consumers can also save money up front.

Cash back websites

To explain how cash back websites operate, you must be able to comprehend the idea that when someone clicks a link on the Internet from one website to another it is very easy to track where that click originated from. Millions of websites use this to their advantage by joining Affiliate programme. For example, take a football fan website. As they are going to be getting visitors interested in football, there is a chance they might also be interested in gambling. Therefore that website owner might decide to place a banner for an online bookmaker on their football fan website. Then every time a visitor clicks that banner and then goes on to become a paying customer at the bookmaker website, the football fan website owner will receive a commission - maybe 20%, for example. What the cash back websites do is they gain commission for directing people to buy products/services via their website, and they might offer a high percentage of this commission back to the customers, say 80% for example thus keeping 20% of the commission money to themselves.

Donating to charity

Many rewards websites give users the chance to donate any money you get back to charity. In order to encourage participation this is usually in addition to also offering cash back. This will allow cashback website users the ability to donate to charity whilst carrying out their usual shopping online without any additional cost to themselves. However, many of these websites, unlike the charities that they give to, do not operate as not-for-profit websites.

Pricing

Pricing is one of the four p's of the marketing mix. The other three aspects are product, promotion, and place. It is also a key variable in microeconomic price allocation theory. Price is the only revenue generating element amongst the 4ps, the rest being cost centers. Pricing is the manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated systems require more setup and maintenance but may prevent pricing errors.

What a price should do

A well chosen price should do three things:

a) achieve the financial goals of the firm (e.g.: profitability)

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- b) fit the realities of the marketplace (will customers buy at that price?)
- c) support a product's positioning and be consistent with the other variables in the marketing mix o price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product+ price will usually need to be relatively high if manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns a low price can be a viable substitute for product quality, effective promotions, or an energetic selling effort by distributors

From the marketer's point of view, an efficient price is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer surplus to the producer. A good pricing strategy would be the one which could balance between the Price floor (the price below which the organization ends up in losses) and the Price ceiling (the price beyond which the organization experiences a no demand situation).

Definitions

The effective price is the price the company receives after accounting for discounts, promotions, and other incentives.

Price lining is the use of a limited number of prices for all your product offerings. This is a tradition started in the old five and dime stores in which everything cost either 5 or 10 cents. Its underlying rationale is that these amounts are seen as suitable price points for a whole range of products by prospective customers. It has the advantage of ease of administering, but the disadvantage of inflexibility, particularly in times of inflation or unstable prices.

A loss leader is a product that has a price set below the operating margin. This results in a loss to the enterprise on that particular item, but this is done in the hope that it will draw customers into the store and that some of those customers will buy other, higher margin items.

Promotional pricing refers to an instance where pricing is the key element of the marketing mix.

The price/quality relationship refers to the perception by most consumers that a relatively high price is a sign of good quality. The belief in this relationship is most important with complex products that are hard to test, and experiential products that cannot be tested until used (such as most services). The greater the uncertainty surrounding a product, the more consumers depend on the price/quality hypothesis and the more of a premium they are prepared to pay. The classic example of this is the pricing of the snack cake Twinkies, which were perceived as low quality when the price was lowered. Note, however, that excessive reliance on the price/quantity relationship by consumers may lead to the raising of prices on all products and services, even those of low quality, which in turn causes the price/quality relationship to no longer apply.

Premium pricing (also called prestige pricing) is the strategy of consistently pricing at, or near, the high end of the possible price range to help attract status-conscious consumers. A few examples of companies which partake in premium pricing in the marketplace include Rolex and Bentley. People will buy a premium priced product because:

- They believe the high price is an indication of good quality;
- They believe it to be a sign of self worth - "They are worth it" - It authenticates their success and status - It is a signal to others that they are a member of an exclusive group; and
- They require flawless performance in this application - The cost of product malfunction is too high to buy anything but the best - example : heart pacemaker

The term Goldilocks pricing is commonly used to describe the practice of providing a "gold-plated" version of a product at a premium price in order to make the next-lower priced option look more reasonably priced; for example, encouraging customers to see business-class airline seats as good value for money by offering an even higher priced first-class option.[citation needed] Similarly, third-class railway carriages in Victorian England are said to have been built without windows, not so much to punish third-class customers (for which there was no economic incentive), as to motivate those

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who could afford second-class seats to pay for them instead of taking the cheaper option.[citation needed] This is also known as a potential result of price discrimination.

The name derives from the Goldilocks story, in which Goldilocks chose neither the hottest nor the coldest porridge, but instead the one that was "just right". More technically, this form of pricing exploits the general cognitive bias of aversion to extremes. This practice is known academically as "framing". By providing three options (i.e. small, medium, and large; first, business, and coach classes) you can manipulate the consumer into choosing the middle choice and thus, the middle choice should yield the most profit to the seller, since it is the most chosen option.

Demand-based pricing is any pricing method that uses consumer demand - based on perceived value - as the central element. These include: price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing. Pricing factors are manufacturing cost, market place, competition, market condition, Quality of product.

Approaches

Pricing are the most effective profit lever. (Template: Cite book :) Pricing can be approached at three levels such as the industry, market, and transaction level.

Pricing at the industry level focuses on the overall economics of the industry, including supplier price changes and customer demand changes.

Pricing at the market level focuses on the competitive position of the price in comparison to the value differential of the product to that of comparative competing products.

Pricing at the transaction level focuses on managing the implementation of discounts away from the reference, or list price, which occur both on and off the invoice or receipt? Pricing at the transaction level focuses on managing the implementation of discounts away from the reference, or list price, which occur both on and off the invoice or receipt?