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APRIL 2000

## Pricing Gets Personal

Technology and empowered consumers fuel online price pressure, sending margins careening downward. To restore margins, retailers must practice personalized pricing and pitch the right offer to the right customer.

### 2 INTERVIEWS

- Price pressure from the Web plagues 60% of retailers.
- Retailers fight the pressure with off-price buying options.

### 6 ANALYSIS

- Bots and fickle customers create margin mayhem.
- Personalized pricing will restore order with targeted offers.

### 15 ACTION

- Retailers must ditch one-price-fits-all strategies.
- Retail recruiters must find pricing analysts looking for work.

### 16 WHAT IT MEANS

- Catalogs will turn into magazines.
- Retailers will actively turn away undesirable customers.

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BestEdeal is the worst idea we've heard (this week).  
Caution: Auctions should not be used recklessly.  
Shopping in the basement again -- but this time with profits.  
Accompany gets an "A" for effort, "F" for creativity.

## INTERVIEWS

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### Price Pressure Is An Issue, Not A Problem

Most merchants feel pressure to compete on price online and are testing a mix of strategies to appeal to price-conscious consumers. But while 57% of retailers plan to expand those tests to offer multiple prices for the same item -- like preferred pricing for repeat customers -- less than 10% think multiple prices will replace fixed prices.

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#### ONLINE RETAILERS FEEL THE HEAT OF PRICE COMPETITION

To determine the impact of the Internet on price competition, Forrester interviewed 30 online retailers. Sixty percent feel pressure to compete on price, and most of that pressure comes from off-price retailers and comparison-shopping engines. Setting a pricing strategy is so important that for 43%, it's a CEO-level decision (see Figure 1).

“Pricing is a key driver of our getting to profitability.” (Music retailer)

“If you do not offer the lowest price online, you will not get any business in our category.” (Consumer electronics retailer)

#### Retailers Test New Pricing Strategies But Expect Fixed Pricing To Prevail

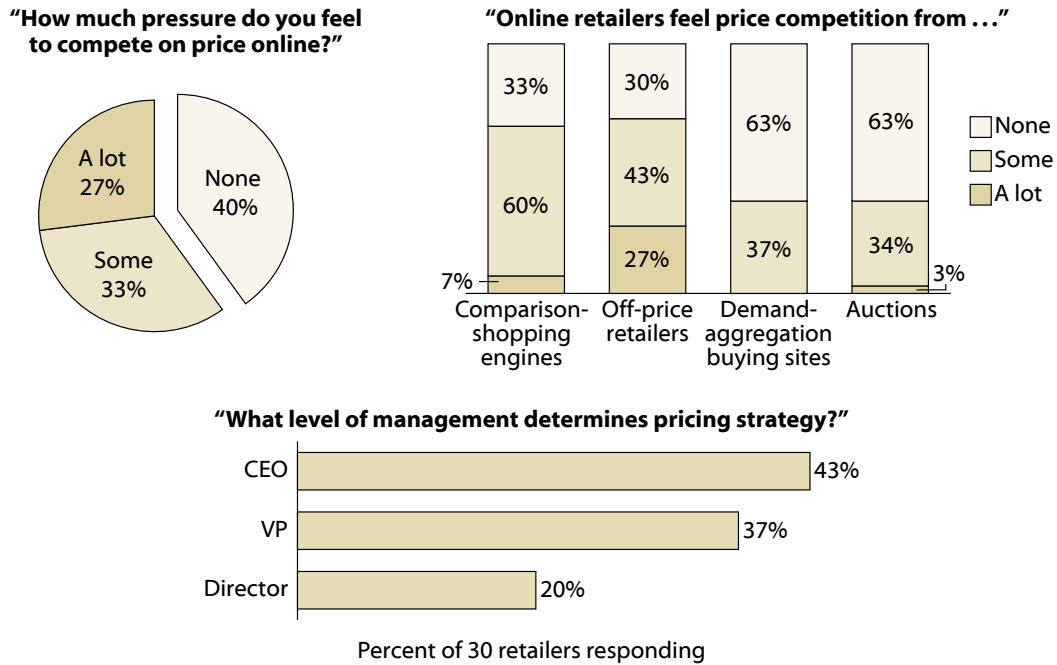
In response to this pressure, most retailers today experiment with clearance centers, auctions, or loyalty programs -- and almost all plan to do so by 2003 (see Figure 2-1).

“We will offer a closeout store with overstock items but will have a separate URL to keep the brand from becoming a discount brand.” (Office products retailer)

“We will offer a 10% discount to customers who make a repeat purchase within 30 days.” (Apparel retailer)

Fifty-seven percent of retailers surveyed plan to offer multiple prices for the same item, and 71% of that group expects that strategy to take the form of preferred pricing for regular customers. But more than two-thirds of all retailers think that multiple pricing strategies will be the exception not the rule; they believe that fixed prices are here to stay (see Figure 2-2).

**Figure 1** Retailers Experience Online Price Competition



Source: Forrester Research, Inc.

“New Internet pricing models are just aberrations.” (Consumer electronics retailer)

“Prices will be fixed across all channels and all regions. Multiple prices are too hard to manage and aren’t necessary.” (Office products retailer)

“There is more hype than substance when it comes to pricing and how the Internet affects it.” (Sporting goods retailer)

**Price Pressure Is Really Someone Else’s Headache**

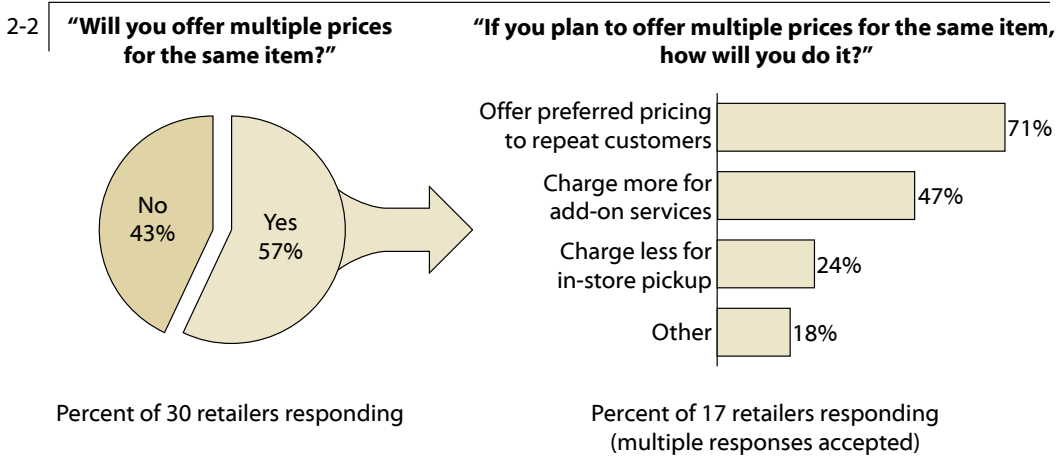
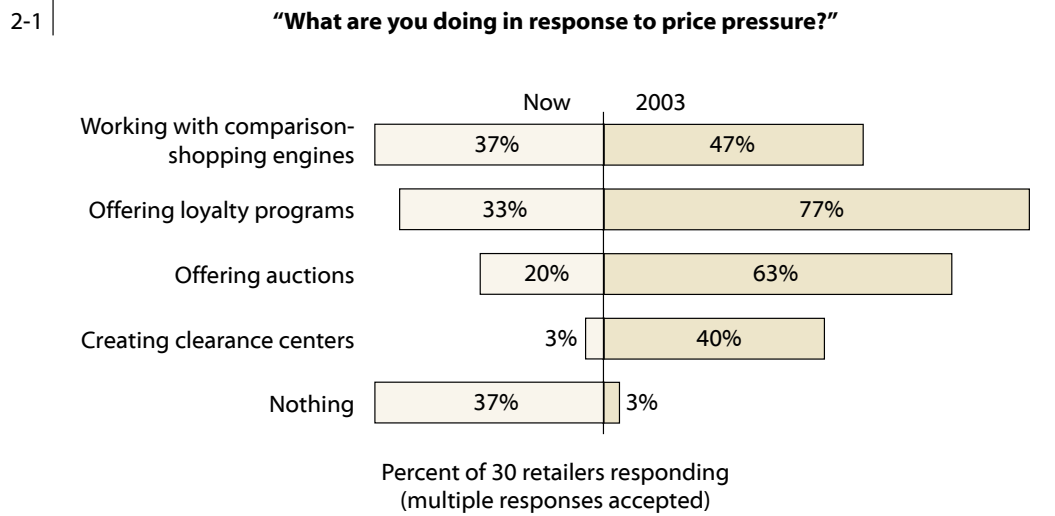
Although its presence is felt, price pressure doesn’t trouble retailers. They think that they can withstand the pressure -- it’s the *other* guy who’ll have a tough time.

“Because we are offering a strong user experience and exclusive products, the impact of comparison engines will be relatively small.” (General merchant)

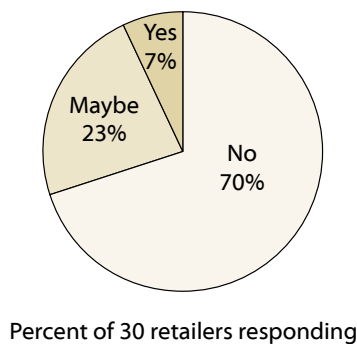
“Auctions work best for cyclical fad items, which we try not to carry.” (Toy retailer)

“The more sophisticated Internet consumer may want group buying or auctions for electronics, but this customer isn’t in our demographics.” (General merchant)

**Figure 2 Online Retailers Respond To Price Pressure**



**“Will multiple prices ever replace fixed prices?”**



Source: Forrester Research, Inc.

## INTERVIEW CONCLUSIONS

From our interviews with 30 online retailers, we conclude that:

- Most retailers are under price pressure from the Internet; they are trying auctions, loyalty programs, and other strategies to reduce that pressure.
- Retailers plan to introduce multiple prices for the same item but do not think that fixed prices will disappear in the long run.
- Although worried, retailers remain confident that *they'll* be able to withstand price pressure while other stores and products will not.

## ANALYSIS

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### Personalized Pricing Curbs Price Competition

Off-price shopping options, demanding consumers, and new Internet business realities shrink retail margins and co-opt the retailer's role in controlling prices. But retailers that adopt personalized pricing -- the delivery of customized offers to consumers -- will regain their equilibrium and restore margins, increasing conversion rates and growing loyalty.

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#### THREE FORCES MAKE ONLINE PRICE PRESSURE UNBEARABLE

We can't blame them for trying to look on the bright side, but retailers, quick to argue that online price competition won't affect them, are kidding themselves. With margins shrinking and profitability still a pipe dream, three Web-based forces -- off-price shopping options, finicky consumers, and new business realities -- are pushing retailers to the breaking point (see Figure 3).

- **New shopping agents increase the pressure.** Consumers no longer hunt for low prices -- deals find them. The evidence: iChoose automatically alerts moms at eToys.com about lower prices at KBkids.com; mySimon's wireless content on Palm VIs tells a Krups shopper in a brick-and-mortar store that Cooking.com has the same toaster for \$15 less; and ritzcamera.com emails an aspiring photographer when the camera he covets slips within his budget in an AutoMarkdown auction.
- **Tough customers put the squeeze on retailers.** Online shoppers, empowered by technology and information, pit one merchant against another (see the October 1999 Forrester Report "Empowered Consumers"). Armed with the invoice price from Edmunds.com, car buyers now go to priceline.com to demand the same price, or better. Forty-five percent of Generation Y shoppers use group buying sites, and 60% use comparison engines. When these 16- to 22-year-olds hit their prime earning years, they'll extend this buying behavior from CDs to big-ticket items like diamonds.
- **The Internet exposes inconsistent pricing.** The jig is up for retailers that price regionally. The dirty little secret that a Uniden phone sells for \$80 at Wal-Mart in Albany but \$65 on Wal-Mart.com is out. For consumers, other merchants' prices are just clicks away. Sites like WorthGuide monitor and chart prices at auctions

**Figure 3** Off-price Shopping Options Grow In Number

Tools			
Category	Description	Examples	Impact
<b>Comparison-shopping engines</b>	Spider online retailers for prices, product information, and merchant ratings	mySimon PriceGrabber.com DealTime.com Brodia BizRate.com	Competitors' prices and shipping fees are exposed
<b>Wireless shopping services</b>	Comparison-shopping information on cell phones and PDAs	mySimon To Go on Palm Vils, DealTime on Phone.com	The power of Web-based comparison-shopping moves into brick-and-mortar stores
<b>Downloadable browser companions</b>	Personal agents dynamically insert relevant targeted discounts	iChoose Dash zBubbles EntryPoint	Discounts and promotions delivered to deal hunters
<b>Guided selling tools</b>	Help consumers identify desirable vendors and sought-after product features	Active Research PersonaLogic Frictionless Commerce Perfect.com	Customers -- not marketers -- determine the key attributes of a buying decision
<b>Price reporting tools</b>	Track historical and current prices from merchants across a product category	WorthGuide Edmunds.com TheTrip.com	Consumers gain negotiating clout

Business models			
Category	Description	Examples	Impact
<b>Off-price retailers</b>	Sell below cost	CDnow BUY.COM	Pressures retailers to compete on price
<b>Promotion sites</b>	Consumers receive discount coupons or participate in loyalty programs to earn rewards	CoolSavings Netcentives MyPoints.com ebates.com	Margins shrink as retailers pay consumers to shop
<b>Retailer auctions</b>	Sellers post products to be sold at variable prices	JCPenney.com SharperImage.com ritzcamera.com	Variable pricing moves beyond collectibles to mainstream merchants with a range of consumer products
<b>Group buying</b>	Aggregates shoppers, who get a group discount	MobShop (née Accompany) Mercata BazaarE	Further emboldens empowered consumers -- the more of them, the lower the price
<b>Online swap meets</b>	Consumers trade products with one another	Half.com Swap.com priceline's Perfect YardSale	Makes shopping for secondhand goods a more respectable and orderly alternative to full-price buying

Source: Forrester Research, Inc.

just as E\*TRADE tracks stock prices. With 75% of *satisfied* online shoppers willing to click to a competitor, retailers can't afford to alienate their audience (see the March 1999 Forrester Report "Are Net Shoppers Loyal?").

### But Those Negatives Can Be Positives Too

Retailers can turn the lemons that the Internet hands them into lemonade by recognizing that:

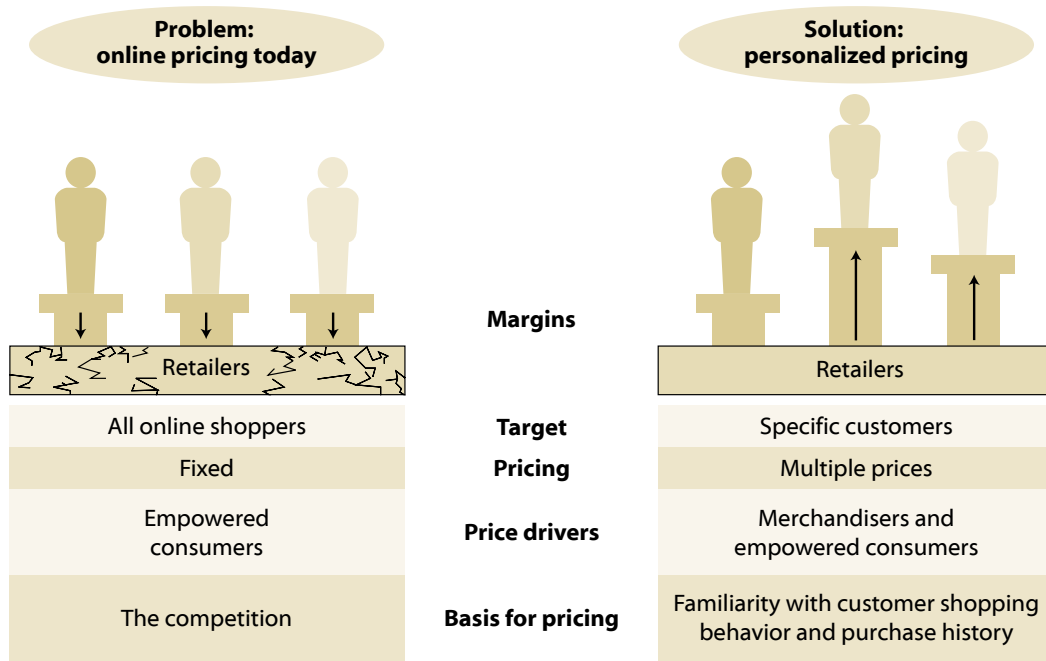
- **Shopping agents produce detailed profiles.** While Internet technologies like comparison-shopping engines highlight prices for customers, they also produce rich data for retailers. MySimon.com finds that only 20% of its users sort search results by price -- for the vast majority of online shoppers, other purchase considerations matter more. By partnering with a comparison engine like DealTime, retailers learn that young, male, Hispanic shoppers out for a DVD player are more interested in its brand than its feature set or price.
- **A little lovin' makes customers putty in retailers' hands.** Though pushy and demanding, online shoppers give retailers gobs of data if there's a clear benefit to doing so (see the September 1999 Report "The Privacy Best Practice"). jcrew.com customers give out their email addresses to find out about secret sales but waver before handing over personal info like household income and age. Shoppers on reflect.com, however, readily supply demographic data in return for shampoo that's packaged to their specifications, right down to the personalized label.
- **The Internet enables the creation of irresistible customized offers.** Shoppers don't want retailers pulling a fast one on them by offering one price to New Yorkers and another to Floridians. Still, they will flatter themselves thinking that they got a special deal not available to just anybody. Giving a big-spending Clinique.com customer a discount and a complimentary facial when she tries a new mascara makes her feel appreciated -- not duped by greedy marketers.

### PERSONALIZED PRICING WILL EASE THE PRESSURE ON RETAILERS

Retailers that strike a balance between these negative and positive attributes inherent in Internet retailing will regain control of margins and customers. They'll do this with personalized pricing, which Forrester defines as (see Figure 4):

*The delivery of prices to customers based on familiarity with that customer's buying behavior and price sensitivity.*

**Figure 4** Retailers Will Regain Control With Personalized Pricing

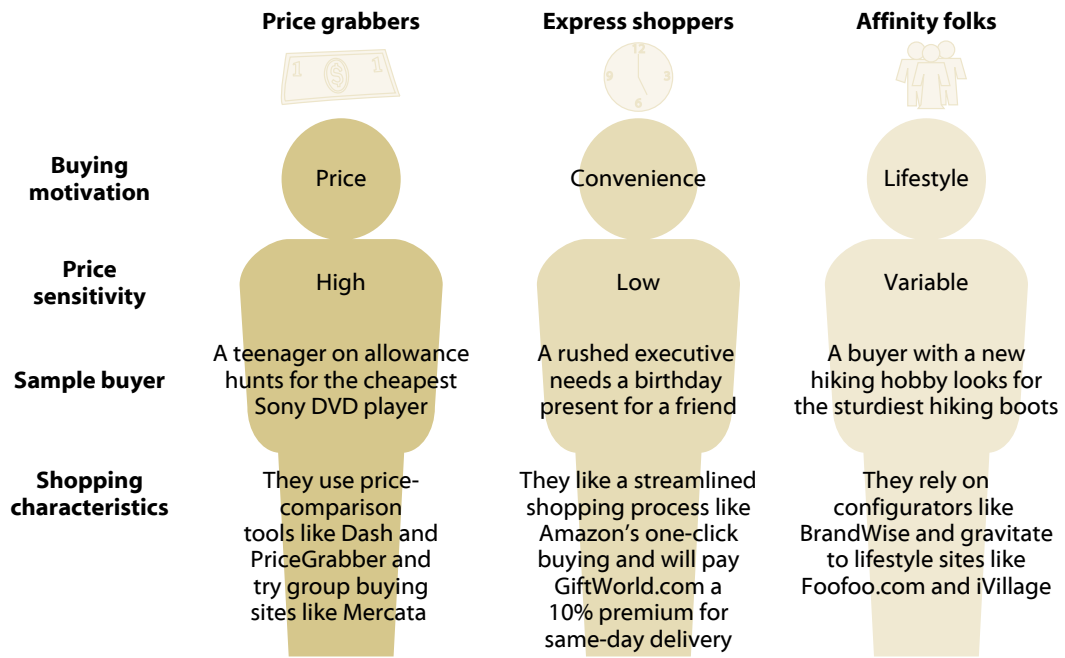


Source: Forrester Research, Inc.

Personalized pricing is a further manifestation of the difference between online and traditional retail -- and of the importance of anticipating customer needs and wants (see the September 1999 Forrester Report "Post-Web Retail"). Retailers will set prices based on knowledge of a customer's propensity to part with three online currencies: data, time, and money.

- **Data-gathering translates into familiarity.** Profiling tools from Personify and Net Perceptions that tell retailers that a customer who bought a used CD is back will also indicate that he won't go for high-priced goods or add-on services -- but is interested only in clearance merchandise (see the May 1999 Forrester Report "On-line Retail Data Strategies").
- **The efficiency of elastic merchandising saves time.** Presenting a customer with any old product isn't enough; he wants a personalized pitch (see the December 1999 Forrester Report "Making Merchandising Work"). And that pitch must reflect his ideal mix of product, price, and related services. Hardware.com won't waste its resources or a customer's time by presenting a Weber grill with delivery and assembly included to a thrifty, do-it-yourself customer.

**Figure 5** Consumers Move Between Three Buying Scenarios



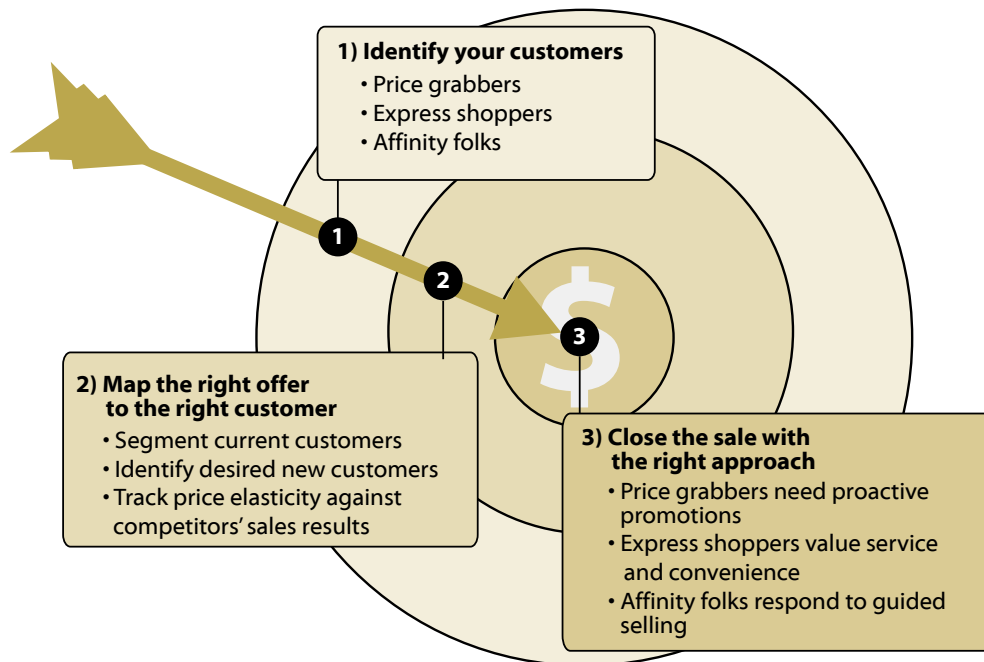
Source: Forrester Research, Inc.

- Hitting the right price point increases the likelihood of sales.** Just as sites calibrate the level of customer service resources to expend on specific customers, retailers will determine a customer's price sensitivity in order to extract as much money as possible (see the February 2000 Forrester Report "Managing Customer Profitability"). Costco.com won't bother offering \$500 cubic zirconium earrings to a customer who'll turn up her nose at knock-offs and whose purchase history shows she's willing to pay \$5,000 for two-carat diamond studs.

### CREATING A PERSONALIZED PRICING STRATEGY

Retailers will leverage consumers' willingness to part with data, time, and money in exchange for personalized offers aimed at distinct customer segments -- price grabbers, express shoppers, and affinity folks (see Figure 5). Offers will flow from a three-step process that incorporates buying scenarios designed for those consumer groups, price-mapping tools, and sales-closing techniques (see Figure 6).

Figure 6 Personalized Pricing Presents The Right Offer To The Right Customer



Source: Forrester Research, Inc.

### Step 1: Identify Customer Buying Behavior

Retailers don't offer one-size-fits-all swimsuits to teens *and* middle-aged matrons, and they shouldn't present one-*price*-fits-all offers to every online customer. It doesn't work. Why not? Because there are different kinds of shoppers -- some shop for price, others for style or convenience. Complicating matters, these shoppers are like chameleons; their focus changes depending on what and why they're buying. A new mom, for example, shops for safety when buying baby toys but for price when stocking her home office. Shoppers drift in and out of three general shopping scenarios.

- **Price grabbers shop for low prices.** Price grabbers want bargains, and they don't care how much effort it takes to get them. On the prowl for a Beck CD, these shoppers will comparison-shop at BizRate, check CoolSavings.com for coupons, and hit Half.com to see if there's a used copy. Even brand falls by the wayside; 2% of metro New York homes frequented priceline.com's WebHouse Club within 40 days of its launch to save pennies (OK, quarters too) on a tube of toothpaste. Colgate, Crest, Waldbaum's store brand -- or whatever's cheapest.

- **Express shoppers ignore price.** Express shoppers have little time but deep pockets -- more than a quarter of their purchases exceed \$500 -- and they focus on convenient, hassle-free buying. Getting ready to go on vacation, one of these shoppers will order the new Harry Potter book from Kozmo.com -- delivered to her doorstep in one hour -- and won't lose sleep over the \$4 she could have saved by buying it from Borders.com and waiting days for it to arrive.
- **Affinity folks focus on lifestyle first, price second.** Price and convenience take a back seat with affinity folks, whose buying decisions revolve around their lifestyle, personal interests, or stage in life. A cautious young college graduate, nervous about buying her first car, which she expects to keep for years, will consult autobytel.com to find out which model has the best power train warranty -- and then which is the cheapest.

### Step 2: Map The Right Offer To The Right Customer

While buying scenarios identify general shopping behavior, retailers still have to zero in on the composition of their mix of online shoppers to ensure that the appropriate offer is getting to the most receptive customer. By doing so, retailers will:

- **Maximize sales to shoppers "in the store."** There's nothing like losing a fish who's nibbled at the bait -- yet that's the risk retailers run when they don't size up their customers and snag them with an alluring offer. Personify can dynamically recognize first-time buyers with no known purchase history by observing their on-site behavior, enabling Patagonia.com to tag as price grabbers customers who make a beeline for the new clearance center. Broadbase will use purchase history from repeat customers to segment express shoppers for Pets.com by identifying those who repeatedly choose overnight shipping despite a \$15 charge.
- **Build their customer base.** Casting a wide net in which to snare new customers doesn't work -- as single-digit conversion rates for ad banners illustrate. Instead, retailers will pick their targets with precision. Toysmart.com will partner with Frictionless Commerce or mySimon to integrate its product, price, and promotion databases to identify and cater to the affinity folks they want and avoid the price grabbers they don't.
- **Keep tabs on the competition.** Watching which competitors reel in the biggest catches helps retailers figure out whether their offers match demand. Using Zilliant's Price Monitor tool to measure price elasticity or OneChannel.net to compare sales results with external aggregate data from other PC sellers allows Compaq.com's pricing analyst to see if express shoppers would pay more for a fully loaded Presario with 24x7 tech support -- or just click to Dell.com.

### Step 3: Close The Sale With The Personal Touch

Now it's time to move in for the kill by making sure that the right offer for the right customer is accepted. Retailers will replicate an ace salesman's technique -- knowing which of the customer's buttons to push and how.

- **Proactively push low prices to price grabbers.** Retailers will cut through the clutter of competitors' discounts and promotions with in-your-face offers. BUY.COM will partner with iChoose to dynamically undercut any competitor by 5%. Bluefly.com will become part of Brodia's merchant network to alert customers that all designer comforters are on sale. And to acquire new customers, BeautyMerchant.com will email its "beat any competitor's price by 5%" come on to well-heeled affinity lookers who've abandoned their shopping carts (see the April 2000 Forrester Report "The Promotion Commotion").
- **Stress value and service to express shoppers.** Retailers can milk express shoppers for premium prices if the overall value proposition is clearly exposed and appealing enough. To grab express shoppers enamored of the quick and easy, 800.com will tack on \$100 to the cost of a flat-screen TV while expounding on its red-carpet delivery service, which includes unpacking, setup, and popcorn for a movie. For an additional courier fee and service charge, Tiffany will deliver a corporate thank-you gift to an outstanding achiever only hours after he is complimented by his manager, who wants to reinforce the positive feedback.
- **Supply guided selling support to affinity folks.** The key to coaxing affinity shoppers through the buying process lies in enabling them to find an offer that meets their needs. Decide.com, for instance, will help a busy salesman from Boston who often travels to the Northwest configure a wireless phone plan with reasonably priced coverage in Spokane. CarsDirect.com will point the environmentally conscious to new search fields that surface cars that get good mileage. And eBags.com will hook up with lifestyle site Foofoo.com to help a young consultant buy his first Tumi bag.

### PERSONALIZED PRICING WILL BENEFIT THE BOTTOM LINE

By presenting the right offer to the right customer with personalized pricing, online retailers that have been whipsawed by empowered consumers and enabling technologies will regain their equilibrium.

- **Targeted prices will improve margins.** Personalized pricing will only make rock-bottom prices available to customers who wouldn't otherwise buy and increases margins on items targeted at less price-focused shoppers. Instead of deeply discounting all pet supplies online, Petopia.com will offer dog food

discounts only to price grabbers. It'll get more money out of express shoppers by charging full price to customers who depend on replenishment reminders and service.

- **Conversion rates will get a boost.** Instead of frittering away ad budgets and merchandising resources by making the wrong offer to the wrong customer, retailers will advertise and serve up specific prices to specific groups of consumers. The result: increased conversion rates. CircuitCity.com won't offer a Diamond Rio with expensive long-term warranties built into the price to a price-grabber teen, but it would hawk it to his quality-focused, express-shopper father.
- **Channel management will eliminate wasteful spending.** By understanding a shopper's motivations, retailers will incent customers to use the most efficient buying channel. For a price grabber seeking instant gratification, Crateandbarrel.com will discount an office desk that he picks up at the warehouse and save money on warehousing and store transfers.
- **Loyalty will surface in online retail.** Good overall value, which includes more than the price of goods sold, helps build customer loyalty. The novice, but ambitious, do-it-yourself homeowner building a sun deck will be hooked for life when Lowe's gives him a configurator to figure out which wood to use, how much to buy, and which tools to rent as part of its "Summer Fun in the Sun" promotion.

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# ACTION

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To successfully implement a personalized pricing strategy, retailers must:



### **Define their customers' price sensitivity.**

Online retailers must acknowledge that not all customers are created equal -- and that not all offers should be the same either. Price grabbers, express shoppers, and affinity folks have different buying motivations and require individualized handling. Retailers must determine which customers they have and which ones they want to keep. Spotting customer types with Personify will let Williams-Sonoma.com create and implement a personalized pricing plan; it will fine tune its marketing and merchandising to maximize the margins on the Calphalon it sells to weekend gourmets.



### **Match the right tools with the right buyers.**

Making the right offer to the right customer is one thing; clinching the deal is another. To capture sales, retailers must adopt the right sale-closing technique. BUY.COM, out to build a customer base of price grabbers, needs to partner with promotions-oriented shopping bots like eBoodle. Nordstrom.com must pamper express shoppers with online scheduling of next-day appointments with local tailors. And drugstore.com should partner with SeniorNet to create a cluster for affinity folks interested in healthy senior living.



### **Hire airline pricing analysts.**


Unless shopping information hubs OneChannel.net, Buystream.com, and Escalate snap them up first, retailers must raid the travel industry to acquire one kind of talent they haven't needed before: pricing analysts. Load balancing and yield management will become as necessary as open-to-buy and plan-o-grams -- to measure, assess, and respond to price elasticity and to determine when to use price to close a sale.





### **Explain pricing differences to customers upfront.**


Retailers must expose their pricing strategy so that consumers feel valued, not snookered. The better consumers feel, the more likely they are to part with personal data that feeds a retailer's personalized pricing strategy. Merchants get \$10 more for a Woman's size dress than for the same SKU in a Misses size, but that's OK since the prices are clearly marked, and the policy makes sense: An item that requires more fabric costs more. Amazon must tell shoppers that a DVD player will cost \$200 with warranties -- but \$175 without.

## WHAT IT MEANS

-  **Personalized pricing will migrate into brick-and-mortar stores.**

To offer customers the same personalized pricing that they love online, brick-and-mortar stores will get a high-tech makeover. Gap will equip its stores with Symbol scanners loaded with Blue Martini's merchandising software that dynamically creates customized offers. Shoppers will have the option of accepting a fixed price or waving their Palm VIs past the price tag to check for a personalized offer based on the in-store and online data that they've surrendered.
-  **Catalogs -- without prices -- will become magazines.**

Catalogers like Lands' End will get a pricing makeover of their own. To introduce personalized pricing, Pottery Barn will remove fixed prices from the pages of its glossy catalogs and instead drive customers to its Web site to log on and get a custom offer. Instead of relying on the prices in its catalogs to spark consumer consideration or to spur a purchase, Pottery Barn will partner with *Metropolitan Home* magazine to feature home furnishing trend pieces and photo layouts.
-  **Retailers will use price to rid themselves of unwanted customers.**

Retailers will seek revenge on bad customers with reverse personalized pricing. llbean.com will serve up a \$200 price tag for a \$70 pair of hiking boots to the annoying customer who returns 90% of shoes ordered -- and scare her away for good. By targeting egregiously bad offers to customers who habitually exchange merchandise or consistently pay bills late, retailers will ensure that these undesirables never bother them or sap their resources again.
-  **Profile hackers will manipulate buyer profiles.**

Today's eBay server hackers will grow tired of boring site outages and set their sights on new targets: customer pricing profiles. To get a laugh and wreak havoc with Gap's pricing profiles, computer geeks will hack into pricing databases and snicker when the male, executive express shopper receives a customized email with discounts for the new GapMaternity line meant for a female price grabber. Retail trade groups will huddle with lawyers and legislators to pass the Digital Identity Act, which would make fiddling with a shopper's online ID a federal offense -- not a laughing matter.

## RELATED MATERIAL

For the interview section of this report, we interviewed 30 online retailers to assess the impact of online price pressure. For the analysis section, we interviewed industry experts Yannis Bakos of the Leonard N. Stern School of Business, New York University; Reed Holden of the Strategic Pricing Group; Eric Mitchell of The Pricing Society; and Michael Smith of the Sloan School, Massachusetts Institute of Technology. We also spoke with executives at:

### Companies Interviewed For This Report

Active Research  
[www.activeresearch.com](http://www.activeresearch.com)

Basement.com  
[www.basement.com](http://www.basement.com)

BazaarE  
[www.bazaare.com](http://www.bazaare.com)

BizRate.com  
[www.bizrate.com](http://www.bizrate.com)

Compareitall  
[www.compareitall.com](http://www.compareitall.com)

ConsumerREVIEW  
[www.consumerreview.com](http://www.consumerreview.com)

Dash  
[www.dash.com](http://www.dash.com)

DealTime.com  
[www.dealtime.com](http://www.dealtime.com)

Deja.com  
[www.deja.com](http://www.deja.com)

Frictionless Commerce  
[www.frictionless.com](http://www.frictionless.com)

IBM  
[www.ibm.com](http://www.ibm.com)

iChoose  
[www.ichoose.com](http://www.ichoose.com)

iWant.com  
[www.iwant.com](http://www.iwant.com)

LiquidPrice.com  
[www.liquidprice.com](http://www.liquidprice.com)

Mercata  
[www.mercata.com](http://www.mercata.com)

MobShop  
[www.mobshop.com](http://www.mobshop.com)

mySimon  
[www.mysimon.com](http://www.mysimon.com)

Open Ratings  
[www.openratings.com](http://www.openratings.com)

Personify  
[www.personify.com](http://www.personify.com)

Virtual Markets  
[www.virtualmarkets.com](http://www.virtualmarkets.com)

WorthGuide  
[www.worthguide.com](http://www.worthguide.com)

Zilliant  
[www.zilliant.com](http://www.zilliant.com)

### Related Research

April 2000 Forrester Report “The Promotion Commotion”

December 1999 Forrester Report “Making Merchandising Work”

October 1999 Forrester Report “Empowered Consumers”

September 1999 Forrester Report “Post-Web Retail”

June 1999 Forrester Report “Making Net Shoppers Loyal”

March 24, 1999 Forrester Brief “Net Buyers Are Not The Same”

March 1999 Forrester Report “Are Net Shoppers Loyal?”

## GRAPEVINE

### **BestEdeal is the worst idea we've heard (this week).**

BestEdeal.com launched recently with great fanfare, bragging that it scours the Web for book, video, and music prices. Sorry, BestEdeal, the comparison-shopping market is overcrowded and ripe for a shakeout. The losers: sites like BestEdeal that crawl retailers for only a few categories and collect meager 5% to 15% affiliate commissions. The winners? BizRate and others that sell retailers data dumps with price sensitivity and sales figures and enable retailers to continuously refine their personalized pricing strategies.

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### **Caution: Auctions should not be used recklessly.**

Pity the online retail executives who make rash decisions about pricing strategies. One electronic store VP we spoke with said, "We'll use auctions because they're trendy, and everyone's doing them." This executive has a good idea, but poor reasoning: Auctions are a great way to unload excess inventory and appeal to price grabbers looking to save a few bucks. However, if all of a store's customers are express shoppers, auctions will sit unused and excess inventory will continue to pile up as shoppers leave in search of one-click buying offered elsewhere.

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### **Shopping in the basement again -- but this time with profits.**

We recently met with Basement.com, a new buying site featuring prices that drop as time elapses. East Coast shoppers may compare the site's eerily familiar pricing model and name to Filene's Basement -- the off-price retailer that filed for bankruptcy in 1998. But Forrester doesn't think the newcomer will suffer the same fate; unlike Filene's Basement, Basement.com plans to make money by providing demand and price-elasticity forecasts to retailers -- not by selling Joan & David pumps below cost.

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### **Accompany gets an "A" for effort, "F" for creativity.**

Accompany, the one-year-old group buying site, has changed its name to MobShop.com. What is it with this company and names? The name Accompany often invoked a rendition of "Who's On First" (What's its name? Accompany. I know it's a company -- what's its *name*?). The new moniker, though, isn't any better than the old. In an attempt to validate "MobShop," CEO Jim Rose claims it's more easily translated into foreign languages. Good effort, Accompany -- er, MobShop -- but next time, try a name that actually explains what the company *does*.

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With Lisa Allen

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### QUICK VIEW

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### ANALYSIS

- Bots and fickle customers create margin mayhem.
- Personalized pricing will restore order with targeted offers.

### ACTION

- Retailers must ditch one-price-fits-all strategies.
- Retail recruiters must find pricing analysts looking for work.

### WHAT IT MEANS

- Catalogs will turn into magazines.
- Retailers will actively turn away undesirable customers.

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## **ACTION**

To successfully implement a personalized pricing strategy, retailers must:



### **Define their customers' price sensitivity.**

Online retailers must acknowledge that not all customers are created equal -- and that not all offers should be the same either. Price grabbers, express shoppers, and affinity folks have different buying motivations and require individualized handling. Retailers must determine which customers they have and which ones they want to keep. Spotting customer types with Personify will let Williams-Sonoma.com create and implement a personalized pricing plan; it will fine tune its marketing and merchandising to maximize the margins on the Calphalon it sells to weekend gourmets.



### **Match the right tools with the right buyers.**

Making the right offer to the right customer is one thing; clinching the deal is another. To capture sales, retailers must adopt the right sale-closing technique. BUY.COM, out to build a customer base of price grabbers, needs to partner with promotions-oriented shopping bots like eBoodle. Nordstrom.com must pamper express shoppers with online scheduling of next-day appointments with local tailors. And drugstore.com should partner with SeniorNet to create a cluster for affinity folks interested in healthy senior living.



### **Hire airline pricing analysts.**

Unless shopping information hubs OneChannel.net, Buystream.com, and Escalate snap them up first, retailers must raid the travel industry to acquire one kind of talent they haven't needed before: pricing analysts. Load balancing and yield management will become as necessary as open-to-buy and plan-o-grams -- to measure, assess, and respond to price elasticity and to determine when to use price to close a sale.



### **Explain pricing differences to customers upfront.**

Retailers must expose their pricing strategy so that consumers feel valued, not snookered. The better consumers feel, the more likely they are to part with personal data that feeds a retailer's personalized pricing strategy. Merchants get \$10 more for a Woman's size dress than for the same SKU in a Misses size, but that's OK since the prices are clearly marked, and the policy makes sense: An item that requires more fabric costs more. Amazon must tell shoppers that a DVD player will cost \$200 with warranties -- but \$175 without.