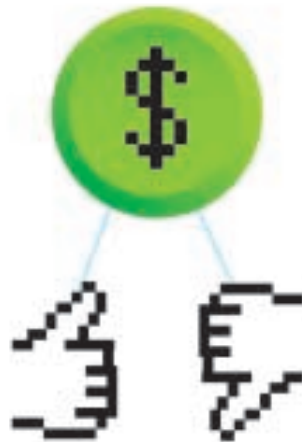


Managing brands in the realm of Dynamic Pricing

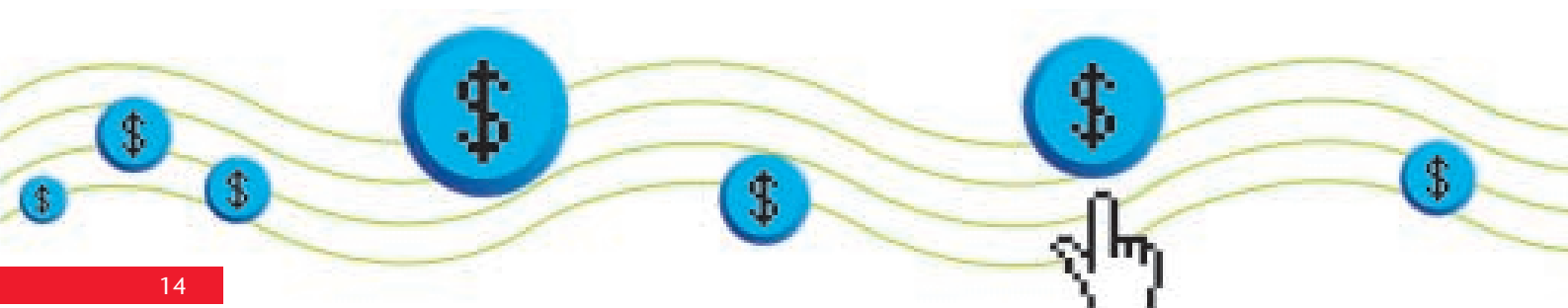
It's here. It's undeniable. And it's a phenomenon none of us can afford to ignore any longer. It's called Dynamic Pricing – and thanks to the Internet, its presence is making itself known in alternatives to traditional fixed pricing.

According to Forrester Research, by the end of 1999, Web auctions (a prime example of Dynamic Pricing) accounted for more than 35% of online purchasing – almost \$55 billion in sales a year. This gives rise to an interesting paradox. Traditionally, moving away from established pricing schemes might appear to undermine a brand's value. Yet the truth can be quite the opposite.



OgilvyOne emphasizes the need to be where the customers are, employing every possible technique for acquiring and retaining them – and, if they're increasingly found in the realm of Dynamic Pricing, it's where you need to be as well. You can manage your brand in this era of fluid pricing.

Welcome to the new realm. Prepare to make yourself at home.



What is Dynamic Pricing, Anyway?

With Dynamic Pricing, the price of goods and services reflects real-time changes in price-variables. Via the wealth of consumer information online, Dynamic Pricing more truly reflects the value that consumers place upon goods and services. It also gives marketers an opportunity to engage customers on a deeper level.

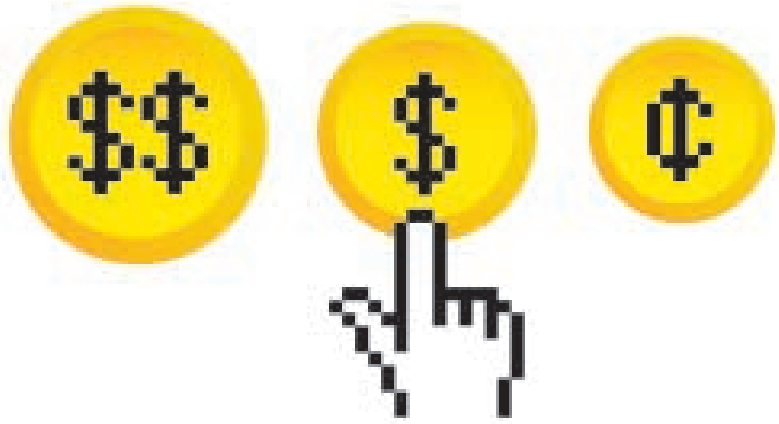
Dynamic Pricing recognizes customers (those who participate in online auctions, for example) as individuals; as unique purchasers. It allows marketers to target personalized offers to them – including price offers – based on knowledge of their purchasing history, preferences and the competitive landscape.

Dynamic Pricing creates a Moment of Truth – that exchange between customer and brand that significantly impacts the customer's decision to leave or deepen his/her relationship with the brand. Applied correctly, the individualized, personal nature of Dynamic Pricing can create a positive Moment of Truth.

Yet, neither Dynamic nor fixed pricing alone shapes consumers' brand loyalty, as you will see.

Not by Price Alone

Price alone is generally no guarantee of a sale. Online customers also care about value in the broader sense, a component of the brand loyalty that they carry over from



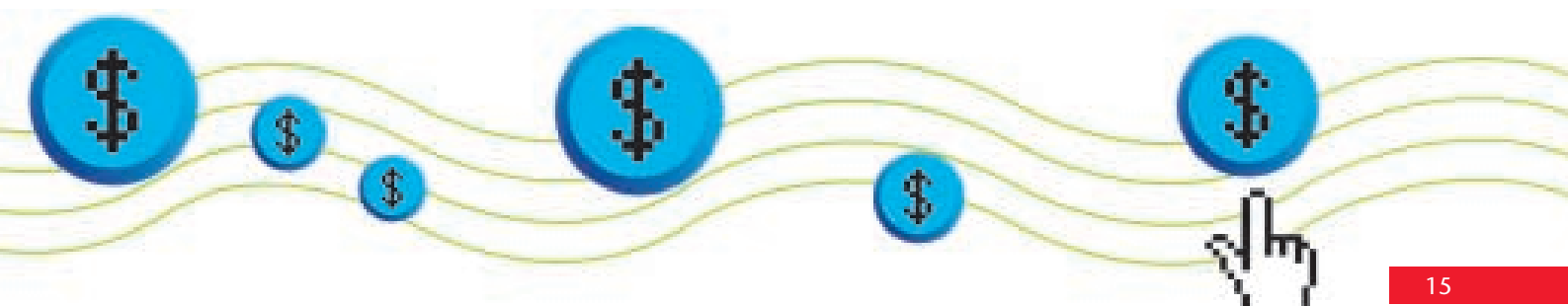
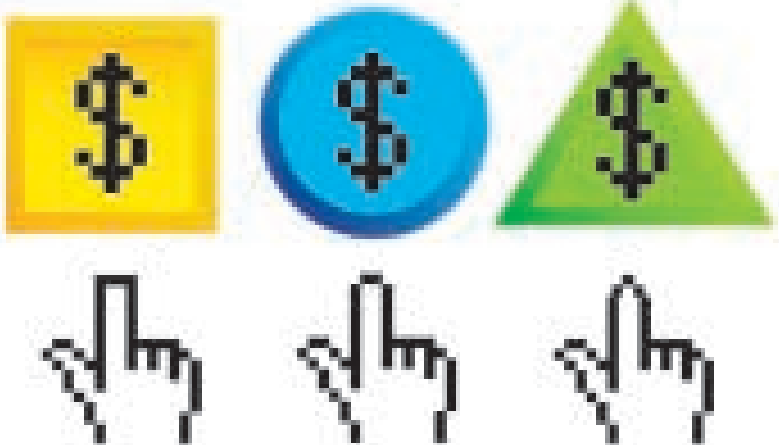
the off-line world. "Contrary to the common view that Web customers are fickle by nature and will flock to the next new idea, the Web is actually a very sticky space in both the business-to-consumer and the business-to-business spheres. Most of today's on-line customers exhibit a clear proclivity toward loyalty; and Web technologies, used correctly, reinforce that inherent loyalty." (Frederick F. Reichheld)

Take buying a car. Price is just one element of the sale, along with style, warranty, service plan, and brand affinity. What matters is the

composite buying experience. Thus, the lowest priced car is not necessarily the best overall value to a customer, nor is it necessarily the car he/she will buy. Even though the Internet may seem a bargain-hunter's delight – other forces are powerfully at work. The brand remains key, with considerable room to flourish.

How Brands Can Thrive Online

Loyalty isn't something marketers can sell at auction. Building a strong brand requires creating a positive, enjoyable experience for the customer. By gaining customer



trust, retailers can pave the way for an ongoing, mutually beneficial relationship.

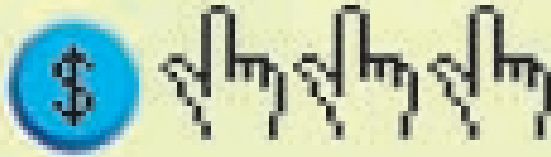
Here's an example: Amazon.com does a good job of attracting and retaining customers, not necessarily by giving them the lowest prices, but by creating an efficient, enjoyable online environment. Amazon provides an easy search/purchase mechanism and a wide selection and availability of attractively presented products. This has created trust and loyalty, so that many of their customers won't search elsewhere for lower priced goods.

As marketers gather increasingly sophisticated information about their customers, they can react more immediately and specifically to their customers' needs and desires. This allows them to treat customers more and more as individuals, with a virtual "over-the-counter" familiarity. For instance, an online customer who usually heads for the Cheap Deal of the Day may appreciate being notified when products have been discounted – but not necessarily when new products arrive. Dynamic Pricing can help you use the immediacy of the Internet to tailor individually relevant messages to customers, creating warm feeling toward the brand.

New Pricing Models

To help you understand how Dynamic Pricing works, you may find it useful to look at some current pricing patterns for online auctions:

Four basic auction models



One seller, many buyers: Individual buyers come together to purchase a specific product within a specified time, collectively receiving a discount for the bulk purchase (Mobshop.com).



Many sellers, one buyer: A buyer indicates what she/he wants to buy and sellers compete for the chance to sell (Nexttag.com).



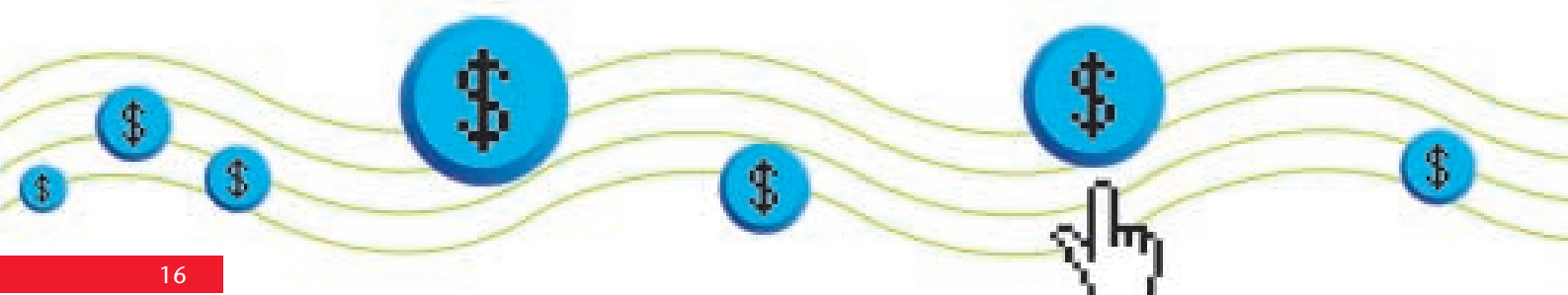
One buyer, one seller: Two parties bargain toward a mutually agreeable price for a product or service. (Hagglezone.com).



Many buyers, many sellers: These are mostly B2B sites, where sellers and buyers interact to arrive at a clearing price (metalsite.com).

Online marketplaces can bring together an enormous pool of bidders, most of whom would be unknown to the seller offline. This expanded pool is likely to include

buyers willing to pay a higher price than offline buyers might, thereby generating higher yields on excess and scarce inventory, with no lengthy search needed.



Pitfalls to Avoid

1. Lack of a true price. Dynamic Pricing may overwhelm the consumer, who may feel that he/she has no idea what something costs. Consumers realize that searching for lower priced goods takes time. Learning a whole new system and entering personal information – all without a guarantee that the new channel is as reliable as the current one – can be a deterrent to engagement. The question of trust – “How do I know that I’m getting a fair price?” – may also become an issue.

SOLUTION:

The security a customer feels shopping on your site – plus the perceived value of goods and services and well-established brand loyalty – can help establish a trust-based relationship and diminish consumer concerns.

2. Failure to differentiate customers – A major Internet retailer who recently experimented with selling the same DVDs at differing prices was forced to stop the practice – and refund customers who paid higher prices. The retailer failed to segment its customer base by purchase practices and preferences.

SOLUTION:

Different customers will accept different prices if the combination of goods and services on offer are not identical.



3. Cannibalization – A danger of Dynamic Pricing is the potential for cannibalization: lower-priced goods causing a drop in the purchase of higher-priced goods.

SOLUTION:

Create a separate site for discounted/auctioned goods.

Dynamic Pricing & Customer Ownership

Dynamic Pricing is an excellent arena in which to apply Customer Ownership, OgilvyOne’s systematic and holistic approach. Customer Ownership uses customer, company, and market insights to develop strategies and communications that interconnect customer and brand – and connect both to the

company. Loyalty to brands is not just a rational endeavor, but involves an emotional response, one built up at every interaction between customer and brand.

Auctions, which require registration to participate, offer a number of these touchpoints. Auctions are competitive endeavors; participants take a vested interest in the outcome, making frequent visits to the auction site and spending more time there. The extended interactions between retailers/marketers and customers make possible the development of highly detailed user profiles, and increase the likelihood of establishing a trust-bond.

Brands can also implement Customer Ownership by using knowledge of individuals’ preferences and purchasing patterns to target discounts and special offers to them.

Conclusion

Today, it might still seem natural that the price of goods and services don’t respond to a customer’s individual needs or to changing, short-term circumstances. But nature has a way of changing things – fast. Technology and the Internet are offering up some of the most powerful, persuasive changes for marketers in recent memory. Dynamic Pricing is a new tool worthy of your attention. It is a realm of influence that deserves to be part of your value proposition; a most valuable way to establish and maintain customer loyalty. 