

## **DYNAMIC PRICING STRATEGIES AND CONSUMER BEHAVIOR: EVIDENCE FROM E-COMMERCE PLATFORMS**

**Vidushi Tewari**

Assistant Professor, Brihan Maharashtra College of Commerce, Pune.

### ***Abstract***

This study explores dynamic pricing strategies inside e-commerce structures, focusing at the interaction between purchaser conduct and pricing decisions made through both producers and e-trade companies in a global context. We establish a choice-making model where the e-trade firm acts as a pacesetter and the manufacturer as a follower. Two eventualities are analyzed: one in which the producer operates its own on-line save and any other wherein it makes use of the e-commerce firm's platform. Through mathematical modeling and numerical evaluation, we become aware of key equilibrium strategies and pricing behaviors for both members. Findings display that after producers preserve their own web sites, e-commerce corporations can provide lower costs to new clients to decorate competitiveness. Conversely, when manufacturers leverage the e-trade platform, their pricing strategy is prompted through the referral fee charge, with decrease costs for brand spanking new customers being not unusual. The results indicate that changes in referral expenses and franchise costs significantly impact the producers' desire to sell thru the e-commerce platform rather than establishing unbiased web sites. This studies affords precious insights into how dynamic pricing and consumer segmentation impact strategic decisions in the rapidly evolving panorama of on line income.

**Keywords:** Dynamic Pricing, Consumer Behavior, E-Commerce Platforms, Pricing Strategies, Manufacturer Decisions, Referral Fees, Franchise Fees, Online Sales, International Market, Competitive Strategy.

### **I. INTRODUCTION**

In nowadays aggressive market, dynamic pricing techniques have become increasingly more essential for companies searching for to optimize their pricing fashions and decorate profitability. Particularly in e-trade, in which purchaser conduct can be exactly tracked via generation, businesses leverage behavioral data to implement focused pricing strategies. This paper examines conduct-primarily based pricing (BBP) inside the context of online marketplaces, exploring its implications for channel individuals, purchaser surplus, and overall social welfare.

#### **1. Introduction**

The advent of facts era, which include member management structures and on line-selling websites, has enabled establishments to access and analyze client purchase records. This record permits businesses to differentiate between ordinary and new customers, leading to tailored pricing and carrier services. For instance, on line structures like TMALL and JD regularly

provide discounts or incentives to attract first-time consumers, while also supplying distinct offers to dependable customers. Such practices underscore the significance of expertise consumer behavior within the formulation of pricing techniques.

## 2. Behavior-Based Pricing (BBP) and Its Implications

BBP is a normal exercise in on line sales and O2O trade, in which businesses alter prices primarily based on consumer purchase history. Current literature predominantly makes a specialty of how firms set different prices for new and ordinary customers. Findings suggest a fashion in which businesses prioritize new clients by using offering them decrease charges to encourage trial purchases. However, there's also a widespread emphasis on profitable repeat customers via loyalty applications and exclusive offers.

## 3. Methodology

To look at the implications of BBP inside an online marketplace, we developed a two-period game-theoretic model. This model simulates a state of affairs wherein a manufacturer competes against an e-trade platform, promoting substitute merchandise. The manufacturer faces strategic picks: organizing its personal online keep or leveraging the e-trade platform. By studying pricing choices, earnings, purchaser surplus, and social welfare, we purpose to explain the impact of BBP on each entity.

## 4. Key Assumptions

Our evaluation rests on numerous foundational assumptions:

- **Market Dominance:** The e-commerce platform is assumed to be dominant within the market, with the producer as a follower. This aligns with present research that highlights the aggressive benefit of massive platforms.
- **Consumer Information:** Consumers are assumed to possess whole records about the pricing techniques in each interval, facilitating informed decision-making.
- **Product Consistency:** The products provided through both participants continue to be steady across periods, ensuring that the assessment among pricing techniques is coherent.
- **Cost Structure:** It is believed that the unit promoting cost on the e-trade platform is decrease than that on the manufacturer's very own website, reflecting the operational efficiencies inherent to big structures.

## 5. Findings and Contributions

Our analysis reveals nuanced insights into how BBP impacts channel strategies. Notably, whilst the referral charge charge is low and the franchise fee is slight, or vice versa, manufacturers are incentivized to partner with e-trade systems. This end contrasts with findings from unmarried-stage fashions, highlighting the dynamic nature of multi-duration pricing techniques.

## 6. Conclusion

This look at presents a complete examination of dynamic pricing techniques within e-commerce structures, emphasizing the have an effect on of consumer conduct on pricing decisions. By exploring the interplay among BBP, channel strategies, and purchaser welfare, our findings contribute to a deeper information of aggressive dynamics within the on line market. As e-commerce continues to adapt, the insights gained from this studies could be important for corporations aiming to optimize their pricing techniques and enhance purchaser engagement.

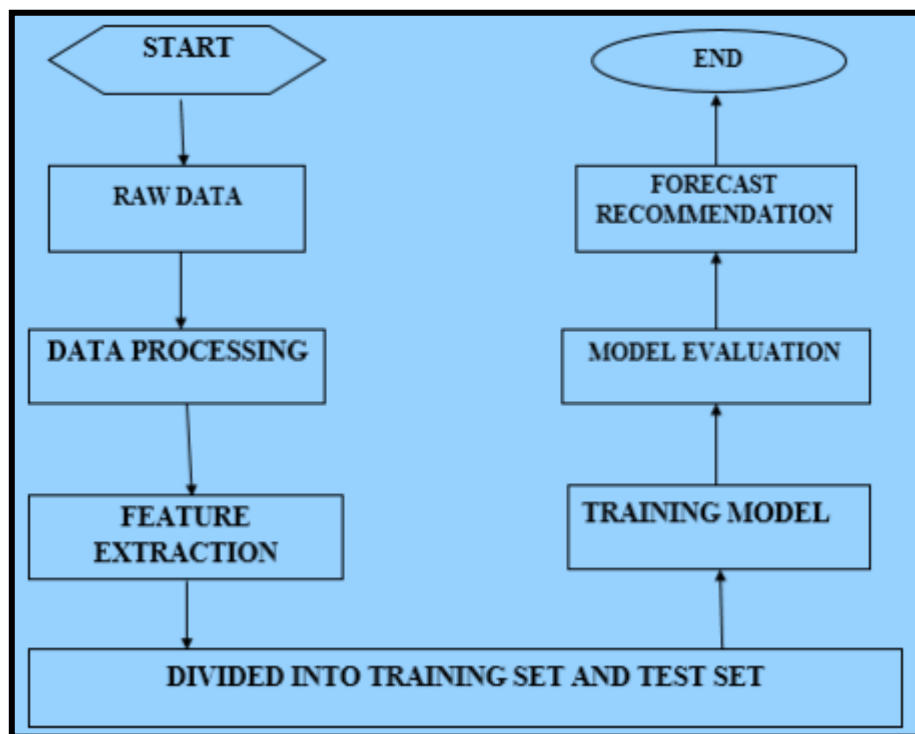


Fig:1 Behavior-Based Pricing (BBP)

## II. LITERATURE REVIEW

### 1. Introduction to Dynamic Pricing

Dynamic pricing, a method in which costs adjust in reaction to real-time supply and demand conditions, has emerge as more and more popular in the age of Industry 4. Zero. This strategy leverages huge statistics analytics to optimize pricing fashions across various sectors, especially in E-commerce. Companies utilize sophisticated algorithms to make pricing selections that could differ based on a multitude of factors together with patron Introduction to Dynamic Pricing

### 2. Evolution of Consumer Behavior

Historically, economic models assumed rational consumer behavior, wherein consumers aimed to maximize satisfaction through informed purchases . However, the 2008 global economic crisis shifted consumer behaviors towards more defensive and conservative purchasing patterns. The rise of E-commerce and the Internet of Things (IoT) has further complicated consumer decision-making processes, as consumers now have access to extensive information, enabling them to compare products and prices easily

### **3. Adoption of Dynamic Pricing in E-Commerce**

Dynamic pricing strategies have been widely adopted by both B2C and B2B firms in E-commerce due to the inherent advantages of data analytics in understanding consumer behavior and market dynamics. Retailers can tailor prices to individual consumers, potentially maximizing revenue while also managing supply shortages effectively. The transaction cost theory highlights that E-commerce firms benefit from reduced market transaction costs by utilizing data analytics for pricing recommendations

### **4. Consumer Perception of Dynamic Pricing**

Despite its advantages, dynamic pricing raises concerns regarding perceived price fairness among consumers. Research indicates that consumers often react negatively to rapid and significant price changes, leading to dissatisfaction and a potential loss of loyalty. Price fairness perceptions are closely tied to the transparency of the pricing process; consumers are more likely to accept price fluctuations if they feel adequately informed about the reasons behind these changes

### **5. Impact of Dynamic Pricing on Consumer Behavior**

Several studies have explored the effects of dynamic pricing on consumer behavior, noting that while increased revenues may be attainable in the short term, long-term success is contingent upon consumer acceptance of pricing strategies (Kimes, 2002). If consumers perceive dynamic pricing as unfair, they may engage in negative behaviors such as switching to competitors or voicing dissatisfaction publicly

Research has highlighted the importance of understanding consumer sentiment in the context of dynamic pricing. Factors such as the perceived value of the product, consumer demographics, and prior experiences with pricing can all influence reactions to dynamic pricing strategies

### **6. Methodological Considerations**

This study employs a comprehensive measurement approach to assess consumer behavior in response to dynamic pricing in E-commerce settings. By adapting and developing items related to online shopping experiences, privacy concerns, price fairness perceptions, and consumer engagement with dynamic pricing, the research aims to capture a holistic view of consumer attitudes. The questionnaire includes 27 items, reflecting both established measures and newly developed constructs tailored to the dynamic pricing context.

### **7. Conclusion**

Dynamic pricing presents a double-edged sword for E-commerce firms. While it offers the potential for increased profitability through tailored pricing strategies, consumer perceptions of fairness and transparency are crucial for sustaining customer loyalty and long-term success. Further research into consumer behavior in response to dynamic pricing will help refine these strategies, ensuring that they align with consumer expectations and market realities.



### III. METHODOLOGY

#### 1. Model Specification

- **Game Theory Framework:** We will rent a two-degree dynamic pricing version the use of sport theory

#### 2. Data Collection

- **Primary Data:** Conduct surveys and interviews with purchasers to accumulate insights on their purchasing behavior, preferences, and sensitivities to price modifications on e-commerce structures.
- **Secondary Data:** Collect historical pricing information from diverse e-commerce structures (e.G, Amazon) and manufacturer web sites to research pricing tendencies over the year

#### 3. Experimental Design

- **Choice Experiments:** Utilize conjoint analysis to simulate purchaser choices among distinct pricing strategies from each the e-trade platform and the producer. This will help identify consumer possibilities primarily based on price modifications.
- **Controlled Experiments:** Implement A/B trying out on actual e-trade platforms, various charges for the equal merchandise to examine customer response.

#### 4. Analytical Techniques

- **Equilibrium Analysis:** Solve for Nash Equilibria in the dynamic pricing game to recognize rate-putting conduct.
- **Regression Analysis:** Use multivariate regression fashions to investigate how adjustments in pricing strategies effect patron purchasing decisions.

- **Consumer Behavior Modeling:** Employ logistic regression or discrete desire models to assess the chance of consumers selecting a product based on rate and area.

### 5. Simulation and Sensitivity Analysis

- **Monte Carlo Simulations:** Use simulations to version numerous scenarios of pricing strategies and consumer responses. This allows in knowledge the robustness of the consequences underneath exceptional situations.
- **Sensitivity Analysis:** Assess how touchy patron behavior is to adjustments in prices set via both channels.

### 6. Validation and Testing

- **Cross-Validation:** Apply ok-fold move-validation techniques to make sure the reliability of the regression fashions.
- **Real-World Validation:** Compare version predictions with actual consumer behavior facts obtained from the e-trade platforms to refine the model.

### 7. Interpretation of Results

- **Utility Comparison:** Analyze the alternate-offs purchasers face whilst determining among products from the e-trade platform and the producer's internet site.
- **Behavioral Insights:** Draw insights on how dynamic pricing affects patron accept as true with and loyalty towards one of a kind channels.

### 8. Policy Implications

- **Recommendations for Manufacturers:** Provide strategic tips on pricing techniques that beautify competitiveness while thinking about purchaser conduct styles.
- **E-commerce Platform Strategy:** Suggest pricing frameworks for e-commerce systems to optimize sales whilst maintaining patron satisfaction.

### 9. Limitations and Future Research Directions

Acknowledge the constraints of the model and facts, which includes capability biases in consumer surveys and the simplifications inside the Hotelling version.

Propose avenues for destiny studies, together with exploring extra variables that have an effect on consumer conduct (e.G., brand loyalty, advertising and marketing techniques).

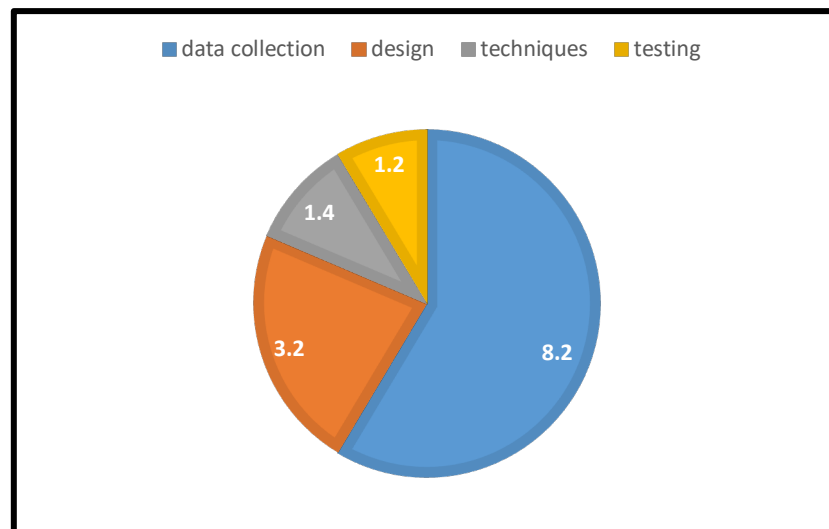


Fig:2, Consumer Behavior-Based Pricing (CBBP)

#### IV. DATA AND ANALYSIS

##### 1. Data Retrieval

The dataset for this evaluation incorporates the prices of the modern-day smartphones from Apple, Samsung, and Huawei, gathered thru e-trade systems over two months (August to October 2019). The series took place two times day by day to capture potential price fluctuations, resulting in 120 observations throughout 108 vendors.

##### 2. Pre-Processing

- **Data Cleaning:** To awareness on rate variations, time collection without a rate adjustments have been excluded. Notably, 39% of the providers confirmed no price variability throughout the observe, specifically amongst iPhone X listings.
- **Missing Data Imputation:** Out of 7986 observations, 40% were lacking. These gaps had been addressed using the Last Observation Carried Forward (LOCF) technique, assuming lacking facts indicated strong prices.
- **Stationarity Testing:** Price time series were tested for stationarity the usage of the Augmented Dickey-Fuller (ADF) check. After applying first variations, all time collection had been confirmed stationary ( $p\text{-fee} < \text{zero}.01$ ). This step ensured that subsequent analyses centered on price modifications in preference to absolute charges.
- **Log Transformation:** To cope with various magnitudes of charge changes, a logarithmic transformation was implemented to the charge variations. This transformation allowed for the identity of vendors using dynamic pricing techniques, addressing each massive and small rate modifications efficiently.

##### 3. Descriptive Analysis

The descriptive evaluation revealed wonderful common fee degrees for every telephone model. The summary data showed comparable minimum, most, and common charge variations across

smartphones, with Samsung S10 exhibiting the very best preferred deviation, indicating more fee variability among competition. Figures illustrating converted charge versions highlighted that the Samsung S10 marketplace had greater competitors, suggesting a better likelihood of dynamic pricing techniques as compared to the extra strong surroundings for the iPhone X.

#### 4. Model Estimation

- **VAR Model Configuration:** The Vector Autoregression (VAR) model turned into dependent with a lag parameter  $p=3$ , based on previous observations. This choice turned into encouraged by using overall performance metrics indicating no great enhancements beyond three lags.
- **Estimation Process:** Using the BigVAR package, a VAR version with Lasso penalization become anticipated, ensuing in a version that identified 71 non-0 parameters out of 13,068. The distribution of those parameters throughout the 3 lags furnished insights into the interdependencies between vendors' pricing techniques.

#### 5. Conclusion

The analysis correctly diagnosed patterns of dynamic pricing amongst cellphone carriers. The combination of facts cleansing, imputation strategies, stationarity checking out, and the software of a VAR model with Lasso penalization allowed for a robust exam of how rate changes are interrelated among different brands. Notably, the findings underscored the competitive nature of the phone marketplace, with varying pricing strategies influencing consumer behavior and dealer interactions.

#### V. Findings and Discussion

This examine highlights substantial insights concerning the dynamic interactions among producers and e-commerce platforms, particularly how these relationships are influenced by on line channel structures. The findings deal with numerous key questions, revealing strategic shifts in how producers and platforms treat new versus everyday customers, in addition to the pricing strategies that could attract manufacturers to participate in e-trade channels.

#### 10. Changes in Customer Treatment

- **Differentiated Customer Strategies:** The take a look at exhibits that each producers and e-trade platforms alter their techniques based totally on the web channel shape. Specifically, while manufacturers establish direct on-line channels, e-commerce systems reply by using offering more aggressive pricing to attract new customers. Conversely, while manufacturers leverage current platforms, they generally tend to provide higher pricing for brand spanking new clients based at the platform's referral quotes. This indicates that competitive dynamics in on line markets necessitate a nuanced information of purchaser segmentation and treatment.
- **Impact of Referral Rates:** The studies highlight the vital function of referral charges in shaping how manufacturers approach new and ordinary clients. When e-commerce platforms alter those fees, it at once influences manufacturers' pricing techniques and



their basic consumer engagement approach. This indicates that structures hold good sized leverage in defining competitive strategies, compelling producers to be agile of their advertising and pricing procedures.

### 11. Online Channel Mode Choices

- **Manufacturer Decision-Making:** The study emphasizes that producers have to navigate their decisions concerning on line channel modes based totally on platform strategies. As manufacturers assess the fees related to entry—particularly franchise expenses and referral quotes—they may be likely to pick alternatives that limit their expenses. The findings advise that a producer's entry is contingent at the e-commerce platform imparting favorable situations, underscoring the importance of strategic pricing in attracting companions.
- **E-trade Platform Strategy:** E-commerce structures have a twin method related to the manipulation of referral rates and franchise fees to maximize producer participation. By know-how the exchange-offs between these two pricing mechanisms—better referral charges paired with lower franchise costs or vice versa—structures can successfully attract manufacturers. The findings imply that a nicely-calibrated method to pricing now not most effective complements the elegance of the platform however additionally ensures a competitive area inside the market.

### 12. Implications for Management

- **Strategic Flexibility:** Manufacturers want to develop strategic flexibility in their method to client pricing based on platform behaviors and market dynamics. This manner constantly tracking competitor actions and adapting pricing techniques accordingly. The ability to pivot in reaction to platform policies may be essential for preserving marketplace share.
- **Cost Efficiency and Leverage:** Manufacturers ought to prioritize enhancing operational efficiency to reinforce their bargaining position with e-trade platforms. By reducing costs, manufacturers can enhance their splendor to systems, prompting extra favorable referral charges and franchise costs, ultimately reaping benefits their average marketplace strategy.

### 13. Conclusion

In precis, this have a look at gives treasured insights into the complex interaction among manufacturers and e-commerce structures. By recognizing how channel systems influence customer remedy strategies and pricing choices, each manufacturers and structures can optimize their techniques to beautify aggressive positioning. Future research ought to discover additional variables, including purchaser behavior and generation advancements, to further increase our information of those dynamics inside the evolving e-commerce panorama.

## VI. CONCLUSION

In end, this observe highlights the evolving dynamics of on line selling, particularly in how manufacturers technique their channel strategies inside the context of differentiating new and ordinary clients. By examining the selection-making techniques worried in establishing their

own online platforms as opposed to leveraging e-trade platforms, we display critical concerns for producers in a aggressive panorama.

Despite the insights received, the research recognizes numerous boundaries, particularly the idea of strength dynamics and the various practices concerning purchaser differentiation amongst companies. Future studies have to delve into situations where strength structures are greater balanced and discover the implications of uniform patron remedy. Additionally, investigating the impact of uneven statistics sharing among producers and e-commerce structures ought to offer a deeper knowledge of strategic choice-making in online income.

Overall, the findings emphasize the necessity for manufacturers to adapt their on-line channel techniques in response to aggressive pressures and client segmentation practices, paving the way for more nuanced and effective approaches inside the digital marketplace.

Key Points	Details
<b>Study Focus</b>	Manufacturer's online channel strategy in differentiating between new and regular customers.
<b>Main Considerations</b>	- Decision-making between own website vs. e-commerce platforms.
	- Impact of customer differentiation on competitiveness.
<b>Limitations</b>	- Assumption of power dynamics in e-commerce relationships.
	- Not all firms distinguish between new and regular customers.
<b>Future Research Directions</b>	1. <b>Power Structures:</b> Analyze scenarios with balanced power dynamics between manufacturers and e-commerce firms.
	2. <b>Customer Treatment:</b> Investigate effects of uniform customer treatment on channel strategy.
	3. <b>Information Sharing:</b> Explore asymmetric information sharing and its impact on decision-making.
<b>Conclusion</b>	Manufacturers must adapt strategies to the competitive landscape and customer segmentation practices in online sales.

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