INTRODUCTION TO THE SPECIAL ISSUE ON ONLINE PRICING

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Interactive marketing now exceeds a trillion dollars in sales and is growing at 10% per annum (www.census.gov/estats). The growth in online transactional activity raises a fundamental question: Is there anything *really* different about the theory or practice of pricing strategies online versus off-line? In other words, do pricing phenomena change simply because transactions have migrated from stores and catalogues to computer-mediated interfaces? Can pricing theory and strategies remain invariant regardless of whether firms post prices online or off-line and regardless of whether customers access and respond to prices online or off-line? This special issue provides insights into these questions by examining a wide variety of online pricing phenomena. Top scholars in the fields of marketing and economics shed light on important issues regarding consumers' participation in setting prices, the use and abuse of online ratings, the processing of price and coupon information, and the economics of online price dispersion. Next, we elucidate these four issues and highlight the contributions of the nine articles comprising this special issue.

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CONSUMER PRICE SETTING

In interactive environments, consumers can more easily participate in the process of setting the prices of goods and services than in off-line environments. For example, eBay and Priceline enable geographically dispersed consumers to transact with each other via computer-mediated interfaces. This consumer empowerment, however, is not without risk, as consumers could experience auction fever on sites and begin to bid repeatedly and/or snipe (i.e., submit substantially high bids just before the closing of an auction). This bidding behavior suggests that a consumer's valuation of the given product changes over the course of an auction in response to price dynamics of other bidders. James Heyman, Yesim Orhun, and Dan Ariely propose two explanations for auction fever: quasi-endowment and opponent effect. The former refers to a (false) sense of ownership of the product that bidders develop during the course of an auction, and the latter pertains to an increased subjective value of winning the auction because of the competitiveness with other bidders. Consumers can avoid such changes in valuation by committing to a predetermined maximum price (i.e., resisting the temptation to increase it as an auction progresses).

On the other hand, name-your-own-price firms (e.g., Priceline) can learn critical information such as consumers' willingness-to-pay based on their bidding patterns. A novel method for extracting this information from bidding data is presented in the article by Martin Spann, Bernd Skiera, and Bjorn Schafers. When this information is coupled with consumer identification and socio-demographic data, the seller can offer an individualized price closer to the consumer's willingness-to-pay, enabling price discrimination among consumers and thereby empowering the firms. Indeed, interactive environments enable customers to play a greater role in setting the prices than they do in traditional bricks and mortar retailing and allow geographically dispersed customers to interact more easily than the physical auctions.

CONSUMER RATINGS AND FEEDBACK

Another source of empowerment for consumers in interactive environments is the ability to rate a firm (or its products) and access feedback or satisfaction ratings provided by other consumers. Such ratings should increase consumers' power in influencing market prices. But does it? In other words, are consumer ratings effective signals of product quality or seller reliability? To answer such questions, Norris Bruce, Ernan Haruvy, and Ram Rao build an analytical model to show that feedback ratings are useful for inexpensive items (e.g., books and DVDs), but not for expensive ones (e.g., PCs and laptops). For these latter items, customers will rely on insurance, rather than ratings, as a means of safeguarding their purchases. These authors also caution that some sellers of inexpensive items can abuse these ratings by building their online reputations and then defaulting on their agreements in the penultimate period before going out of business.

Yong Cao and Thomas Gruca investigate the impact of satisfaction ratings on the prices that consumers pay. These authors find that consumers are likely to pay significantly higher prices when they are satisfied with post-purchase service (e.g., on-time delivery) rather than prepurchase service (e.g., site navigation). This finding does not suggest that prepurchase service is unimportant; indeed, leading retailers work towards improving both the pre- and post-purchase satisfaction ratings to sustain premium prices.

ONLINE INFORMATION PROCESSING

In addition to consumer empowerment, the online medium differs qualitatively from both print and television media in that the online medium combines textual and visual elements with sound and motion effects, and it allows the firm to track site visitors. As a result, do consumers alter how they process price information? Or do sellers present or utilize information differently? Three articles examine these questions via the use of controlled laboratory experiments.

By investigating how consumers process coupon information differently in online versus off-line media, Rajneesh Suri, Srinivasan Swaminathan, and Kent Monroe find that online coupons are effective for purchases that involve substantial time and effort, whereas print coupons are effective for low involvement purchases (e.g., grocery items).

Lan Xia and Kent Monroe show that online sellers can benefit from "partitioning" the price information, i.e., separating the base price from the shipping and

handling fees or other surcharges and taxes. Price partitioning enhances consumers' purchase intentions, value perceptions, price satisfaction, and it reduces further search intentions. However, these positive effects may decline, as additional surcharges are included.

Dhruv Grewal, Gopalkrishnan Iyer, and David Hardesty explore the unique feature of interactive environments, namely, the firm's ability to collect and track buyer identification via cookies and login information. Using this information, the firm can segment its customer base and charge different prices to the various segments. While price discrimination by itself is not new, we do lack clear understanding of how customers' awareness of such pricing strategies affects perceptions of the firm, particularly in an environment in which the customer is aware that the firm may be collecting and tracking customer activity at their site. The results indicate that pricing based on buyer identification leads to lower levels of trust and repurchase intentions. Hence, firms need other forms of differentiation (e.g., product features, service, etc.) to justify price premiums.

ONLINE PRICE DISPERSION

Online markets possess several characteristics described in the economic theory of perfect competition. For example, consumers can search prices at low cost, new firms enjoy low barriers to entry, and existing stores can change prices efficiently. Based on economic theory, both managers and scholars expected that the law of one price should prevail due to the emergence of perfectly competitive markets. Yet, online markets did not corroborate this expectation. Why? This intriguing question permits several explanations, each revealing a part of the puzzle.

One explanation suggests that online environments have led to the creation of new "information gatekeepers" who enable some or all consumers to access a list of prices from competing firms (e.g., Hotels.com, Nextag.com, or Bizrate.com). These information gatekeepers continue to persist because of price dispersion. In this context, Michael Baye, John Morgan, and Patrick Scholten find that firms will offer short-term price promotions at random time intervals to avoid outright price competition. These authors refer to this practice as "hit-and-run" price promotion strategy and present empirical evidence based on data collected at Shopper.com site over a 2-year period. They argue that hit-and-run price promotions are effective relative to the strategy of maintaining either high or low price because, in the latter case, the firm would be vulnerable to competitors who adopt a similar pricing strategy.

Xing Pan, Brian Ratchford, and Venkatesh Shankar summarize other explanations for online price dispersion. Furthermore, these authors conduct a comprehensive survey of the empirical and analytical studies in the literature. The resulting literature review indicates that online price dispersion is substantial and it prevails across product categories and over time, regardless of the number of online retailers for the product. They discuss managerial implications of the findings, including the role of differentiation, information provision, random pricing strategies, and multichannel retail strategies to support price-based segmentation.

In closing, we emphasize that the above nine articles draw on multiple approaches—analytical, empirical, experimental, and survey methods—to generate findings that augment our understanding of the unique challenges associated with online pricing. We hope this knowledge stimulates scientific research and influences managerial thinking. Finally, we express our gratitude to all the reviewers and Barbara Hruska for their outstanding efforts in the co-creation of this special issue.