

Research identifies new e-reader pricing strategy

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From Alexa to iTunes to Google Home, for the past few years, tech heavy hitters such as Amazon, Apple, and Google have been building strategic product combinations designed to lure in customers and lock down their loyalty.

Now, new research released by Hui Li, assistant professor of marketing at the Tepper School of Business, suggests a dynamic pricing [strategy](#) that also allows companies to capture these customers at their most profitable.

Li's research draws on five years' worth of Amazon data from consumer book and e-reader device purchases from 2008 to 2012. Consumers need to buy the e-reader device to read e-books. What she found was that, when considering adopting e-reading or not, avid readers focused more on the price of e-books, while more general readers focused on the price of the e-reader hardware. Both types of customers would wait for the price to drop before making a purchase, which limited profitability.

While working on "Intertemporal Price

Discrimination with Complementary Products: E-Books and E-Readers," published in *Management Science*, Li found that creating complementary products can help companies overcome this limitation. So Li proposed a strategy that targets both types of consumers and leverages the difference between the two types. She suggests when the e-readers are priced high initially, the e-books should be cheaper, which attracts the avid reader, who is willing to pay a higher price for the hardware to get the deal on the books.

After sales of the hardware peak, Li's strategy directs the company to drop the [e-reader](#) price, but to simultaneously raise the price of the e-books. Avid readers will continue paying for the books because they are locked into using the device they purchased; casual readers will buy the device at the cheaper price, but to use it, they'll have to pay the higher price for content.

"If you lock in the consumer using hardware, they'll buy more software from you," Li said. "This is the new phenomenon that you see: an ecosystem of products. Video games and consoles are another example, but this strategy can also be applied to more traditional, non-tech complementary products such as razors and blade cartridges."

The built-in exclusivity of the content is what makes the pricing strategy work, she notes. To use Amazon's Alexa personal assistant to buy products on Amazon, the customer needs to buy the company's Echo smart speaker.

"The reason companies launch these products is to lock in [consumers](#). It's a big competitive advantage for them to leverage," Li explained, adding that she expects to see the trend continue growing. "As you see more fierce competition, you'll probably see more of these kinds of ecosystems."

More information: Hui Li, Intertemporal Price Discrimination with Complementary Products: E-

Books and E-Readers, *Management Science*
(2019). [DOI: 10.1287/mnsc.2018.3083](https://doi.org/10.1287/mnsc.2018.3083)

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