

Prices hidden in plain view; Some economists say e-tailers resort to the same kind of pricing tricks consumers always have faced - bait-and-switch, impossible-to-compare model numbers and hard-to-discover shipping costs. Star Tribune (Minneapolis, MN) January 27, 2002, Sunday, Metro Edition

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"Shop bots" and search engines, computer devices for comparing the offerings of hundreds of retailers, were supposed to create intense price competition on the Internet, the sages of the 1990s predicted.

As with many other technology forecasts, this one is proving wrong.

Economists who have studied pricing on the Internet have found companies resorting to the kind of tricks consumers always have faced _ bait-and-switch, impossible-to-compare model numbers and hard-to-discover shipping costs.

These gambits are among the strategies used to erode the power of shoppers to compare prices at the touch of a keyboard.

But even if the Internet doesn't always deliver "rock-bottom prices," the Web yet may offer plenty of benefits to canny consumers and savvy retailers, some researchers conclude.

"I think it's an open question how much the Internet will improve the efficiency of product/price searches," said Sara Fisher Ellison, an economist at the Massachusetts Institute of Technology (MIT).

She and her husband, MIT economist Glenn Ellison, were authors of one of many papers examining the Internet marketplace at a recent conference of the American Economic Association in Atlanta.

"My sense is it's easier for consumers to search for goods and compare prices than it used to be," she said. "But, at the same time, firms are becoming more sophisticated." By sophisticated, Ellison said, she meant more adept at making price comparisons a challenge.

The Ellison study examined small e-retailers selling computer components, such as memory upgrades and central processing units, on the Internet. The Ellisons focused on consumers shopping on Pricewatch, a popular retail search engine that compares the prices of hundreds of retailers.

The Ellisons found that sometimes the prices posted by retailers providing information to Pricewatch were too good to be true.

Consider the price of a wafer-thin computer memory module. Some firms post a standard price of \$10 to ship the product in a package that weighs a few ounces. But others, the Ellisons discovered, charge a shipping fee as much as \$40 _ a fee that is visible only after the customer has filled out name, address and

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What's more, the lowest price may point to an inferior product. For example, a computer central processing unit without a fan may look cheap only when compared to a CPU with a fan (that promises longer product life). But the retailer selling the cheaper fan also may want a 15 percent "restocking fee" if the CPU is returned _ a fee that makes comparing prices difficult.

Confusing the consumer

Another gambit employed by Web retailers: "proprietary" model numbers. The same product made by the same company may bear different model numbers at different retailers _ a ploy used for years by bricks-and-mortar retailers to obscure price comparisons for products such as mattresses.

"This notion that consumer search would be costless, frictionless and ubiquitous is not at all clear," Sara Ellison said.

Don't expect new technology to make shopping easier.

University of Minnesota economist Mark Bergen said consumers should expect to spend more time at the computer keyboard _ if not in their cars _ comparison shopping in the future.

Bergen, who teaches marketing at the university's Carlson School of Management, said manufacturers and retailers already are turning to more "store brands" and models with small variations to make comparison shopping a challenge and to bolster profits in the process.

"My guess the Internet is going to spur more product change," Bergen said. "Firms will create more complexity."

What's more, companies can use the Internet to send one another price signals _ a phenomenon that Bergen's research suggests may more often lead to small price increases than incremental price cuts.

Experimenting with prices

Consumers are unlikely to reduce consumption significantly in the face of a 5 to 10 percent price increase, and they don't boost consumption significantly in response to a price cut of similar proportions, according to a study by Bergen, University of Minnesota economist Haipeng (Allan) Chen and Emory University economist Daniel Levy.

Bergen expects retailers to experiment more with raising and lowering prices as technology makes changes easier to implement at companies with tens of thousands of products in their inventories. But caution will prevail, he believes.

"When you change prices, you impose costs on your customers," Bergen said. "When they see it as unfair, then there's trouble."

Amazon.com backed away from marketing books at different prices for customers in different regions of the country after the experiment came to light. And Coca-Cola executives quickly retreated from the suggestion that Coke machines could be programmed to charge higher prices on warm days.

Still, prices do vary considerably on the Web and may be borne directly, or indirectly, by consumers.

The cost of Palm electronic organizers, for instance, varied considerably on a Web search done by Johns Hopkins University economist Matthew Shum and Princeton University economist Han Hong.

Based on price differences for the same model, Shum and Hong calculate that the median "search cost" for consumers shopping for a Palm is \$11 _ the "price" of the time it takes to find the cheapest choice, determined by the degree of difference in the posted prices.

"It's hard to say whether that's a lot or not," Shum said.

For a low-paid worker, it could be more than an hour of after-tax-pay; for an executive, the equivalent of

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Establishing a reputation

Nevertheless, some researchers say the Web may offer advantages _ other than price comparisons _ for Web shoppers searching for goods and services and for companies that sell them.

"You always think new technology helps makes markets more efficient and leads to lower prices, better products and more choices for consumers," said Shum, the Johns Hopkins University economist. "On the other hand, firms find ways to keep some degree of market power."

One way the interests of shoppers and sellers may be compatible on the Internet: establishing the reputation of the retailers.

"Firms always try to differentiate themselves to avoid competition that lowers their profits," Shum said.

On the Internet, that may translate into more firms offering same-day delivery, liberal return policies, or free product warranty extensions to encourage consumers to shop for quality rather than price, Shum said.

Search engines such as MySimon.com and Cnet.com already play a part in building reputations by attaching "star ratings" based on reported customer experience with retailers.

"When the seller doesn't see you and you don't see the seller eye-to-eye, reputation will be important," Shum said. "For some, it may be more important than price."

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Web pricing: More than meets the eye

Web retailers can charge widely different prices for the same product, with shipping and handling sometimes adding plenty to the cost. In the case of the DVD "Roots," the highest price is 16 percent more than lowest price posted on one Internet search engine.

RETAILER	PRICE	SHIPPING	TOTAL
DeepDiscountDVD	\$43.19	\$0.00	\$43.19
CDUniverse.com	41.99	2.99	44.98
BigCD.com	44.99	0.00	44.99
EntertainME.com	42.99	2.50	45.49
DVDEmpire.com	47.98	1.30	49.28
Outpost.com	45.99	3.95	49.94

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