PRICING AND ADVERTISING
1. Using personalization and targeting can raise profits >65%

2. Methods
   A. Dynamic Pricing
   B. Coupons & Targeted Offers
   C. Permission marketing
   D. Versioning
   E. Advertising

3. Evidence

4. All of these rely on consumer information
   A. How detailed is the data gathered by the site
PRACTICAL ISSUES WITH PERSONALIZATION

1. Consumers’ Ability to Undermine Price Differences
   A. Group Buying (Mercata)
   B. Arbitrage (Shopbots)
   C. Coupon Revealers (Amazing-Bargains.com)
   D. Community sites
   E. Competition from other Merchants

2. Evidence from Life Insurance

3. Legal Obstacles
   A. Privacy Law
      - Europe and the U.S.
   B. Customer loyalty and opinion
ADVERTISING

1. Targeting just as with prices
   - not as subject to legal sanction as is selling data

2. Tailoring is worth much more
   - can sites reduce the fixed cost of finding tailored sites
   - Portals vs. niche sites, CMGI

3. Practical questions:
   - will ad rates fall as more sites come online
     (2000 CPM ad rates were $30.52, down 8%)
   - will click rates increase for other than niche products
   - still have response rates of direct mail
A, B, C, D Inventory

- 50M+ Audience Reach
- 2M+ Audience Reach

- Tier 1 - $50 CPM
- Tier 2 - $35 CPM
- Tier 3 - $25 CPM
- Tier 4 - $15 CPM

- Targeted Acquisition
- Automotive Content Qualified Reach
- Demographic and Content Targeting, Events, Promotions
- Broad Reach
Types of advertisers

- **Brand**—concerned with everything you learned in marketing: brand awareness, category awareness, purchase intension, brand loyalty. Example: P&G

- **Direct Response or DR**—concerned with ROI. How many people saw this ad in this place and actually bought something. Example: Amazon.com

- There has been some blurring
  - P&G and Yahoo!
  - Amazon.com in today’s market
**Figure A2:** Histogram of CD Price Changes. Internet CD retailers are substantially more likely to make small changes in their posted prices than are conventional CD retailers. (The figure only displays price changes smaller than $1 in keeping with the focus on menu costs.)
**Figure A8:** Kernel Density for Demeaned Full Prices for CDs, Observations Weighted by Screen/Market Share (Epanechnikov Kernel)