

How Amazon Tricks You Into Thinking It Always Has the Lowest Prices

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[Amazon](#) is known for having low prices. But a study conducted by a startup called [Boomerang Commerce](#) reveals that Amazon's pricing strategy is much more nuanced than simply undercutting the competition.

Boomerang, founded by Amazon veteran Guru Hariharan, makes software that tracks prices on shopping sites that compete with its clients, then recommends price changes dynamically. Those changes are based on rules its clients set about which products to match prices on and which to boost higher or drop lower than a competitor's to boost profit or sales, respectively.

The study of Amazon's pricing uncovered some interesting tactics. First, Amazon doesn't have the lowest prices across the board, which may not surprise industry insiders but might surprise Amazon shoppers.

Instead, according to Boomerang's analysis, Amazon identifies the most popular products on its site and consistently prices them under the competition. In one example, Boomerang observed Amazon testing price reductions on a \$350 Samsung TV — one of the most popular TVs on Amazon — over



the six months leading up to Black Friday. Then, on Black Friday, it dropped the price to \$250, coming in well below competitors' prices.

But when it comes to the HD cables that customers often buy with a new TV, Amazon actually pushed up the price by 33 percent ahead of the holidays. One reason is that the cables weren't among the most popular in its category, meaning that they have little impact on price perception among shoppers. Secondly, Amazon most likely figures (or knows) it can make a profit on these cables because customers won't price-compare on them as carefully as they would on more expensive products.

In another example, Amazon priced one of the most popular routers on its site about 20 percent below Walmart's price. But when it came to a much less popular router, Amazon priced it almost 30 percent higher than Walmart did. Again, Amazon knows which products will drive price perception among shoppers.

"Amazon may not actually be the lowest-priced seller of a particular product in any given season," the report reads, "but its consistently low prices on the highest-viewed and best-selling items drive a perception among consumers that Amazon has the best prices overall — even better than Walmart."

The study was part of a [white paper Boomerang released](#) on Tuesday to bring attention to the idea of price perception in e-commerce. The startup has created a "price perception index," which it described as "a numerical pricing model that captures customer psychology of price perception. It does so by providing a tangible statistic of how a company's products ... are priced, relative to the competition, weighted by customer interest."

The goal of the index is to highlight how a nuanced approach to pricing — such as Amazon's — can be a smarter, more cost-effective option over simply price-matching across the board. This is where Boomerang enters the conversation: The startup wants to help Amazon competitors think about pricing in as sophisticated a way as Amazon does.

"Amazon is doing it at scale, with what is estimated to be 10 billion pricing changes across the holidays," CEO Hariharan said. "Some retailers are doing it every three months."

Link: <http://recode.net/2015/01/13/how-amazon-tricks-you-into-thinking-it-always-has-the-lowest-prices/>