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Departments: Finance

They've Got a Deal

But is this any way to plan a purchasing strategy?

By Michele Marinan
October 17, 2001

Marya Triandafellos heard the hype about auctions, reverse auctions, barter, and other variable-pricing structures that have become popular in the virtual world. Tempted by promises of major cost savings, she went on line late last year to purchase office furniture for MET Design Inc., her New York City-based branding and e-business solutions firm. The lack of selection she encountered forced her to go to IKEA instead.

"I wanted to get some good deals, and I was reading a lot about [dynamic pricing] at the time," Triandafellos says. "Everything suggested this was the next big thing, but it was a really clunky process. I felt like I was just spinning my wheels."

The concept of dynamic pricing is intriguing: prices change based on such factors as demand and buyer makeup. eBay.com, the ubiquitous online auction house, has implemented the model with great success, and Priceline.com remains a popular site, despite major stock drops. Other sites, such as uBid.com, AllBusiness.com, and Half.com, have also built strong companies based on dynamic pricing. In May 2000, Forrester Research predicted that the industry in the United States would grow to \$746 billion by 2004 from \$59.5 billion this year.

Keep It Simple

Simchi-Levi does not advise using dynamic pricing to purchase products that are vital to your operations. He says companies are better off confining dynamic-pricing activities to generic items, not the materials you need to manufacture the products you sell. Even Triandafellos, who had such a terrible experience trying to purchase office furniture on line, is thinking about buying office supplies through some type of dynamic-pricing site. Those products are more generic, so businesses can save money by buying according to price, not brand.

"You don't really care if your paper is from HP or Xerox or whatever," says Triandafellos. "You can basically get what you need when it's more of a generic product."

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Small Biz BUZZ


They've Got a Deal

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...Did people expect too much of dynamic pricing? Michael Granfield, Ernst & Young’s partner in charge of economics and transfer pricing...thinks so.

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