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MP3 player "sale" exposes Amazon's flexible prices

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Customers are upset that Amazon.com has been offering random discounts on a popular MP3 player, revealing a little-known marketing practice that is gaining popularity among e-tailers.

Known as "dynamic pricing," the practice was revealed recently when customers comparing prices on a bargain hunter message board discovered that [Amazon](#) [\[http://www.amazon.com/exec/obidos/subst/home/home.html/103-8622382-4455855\]](http://www.amazon.com/exec/obidos/subst/home/home.html/103-8622382-4455855) was randomly offering the Diamond Rio MP3 player for up to \$51 less than the usual \$233.95 price.

Amazon said it was testing prices for the [MP3](#) [\[http://coverage.cnet.com/Resources/Info/Glossary/Terms/mp3.html\]](http://coverage.cnet.com/Resources/Info/Glossary/Terms/mp3.html) player, randomly offering different discounts to different customers. The company said it

routinely tests new features and items on its Web site.

"During a test period, it's likely that a customer may pay a much lower price for an item than another customer," spokeswoman Patty Smith said.

Analysts say dynamic pricing is common on the Web and may be the future of e-commerce.

For example, under some dynamic pricing models, price-conscious consumers could get lower prices, while people that demand high customer service could pay higher prices but receive longer warranties and express shipping for their items.

A company that develops software to test different marketing strategies, including dynamic pricing, said the model is not unusual in the online business.

"That's pretty common," said Hal Steger, vice president of marketing at Broadbase Software. "It's not unprecedented that Amazon may be trying this."

Steger said his company worked with another company several years ago to randomly test prices for videos sold through America Online.

Amazon's Smith declined to say how often the company runs price tests, saying only that they do not occur on a daily basis.

Brick-and-mortar retailers already charge different prices to different customers, but usually these decisions are based on geography. California customers might pay more at their local Wal-Mart for a particular item than Wal-Mart customers in Missouri.

Instead of targeting geographical areas or broad demographic groups, the Internet allows online stores to market to individual consumers, analysts say.

"The notion that someday Amazon may charge different prices to different users is not outside the realm of reason; in fact, I'd recommend it," said Ken Cassar, a digital commerce analyst at Jupiter Communications. "I believe pricing will increasingly become personalized."

But offering different prices may offend some consumers. While the Internet allows retailers to market to individuals, it also gives people the power to spread their experiences quickly and widely.

The price differences on the MP3 player, for instance, came to light on the popular AnandTech "Hot Deals" message board. People there quickly noted that while Amazon was offering some of them a great deal, that others were getting the company's normal list price.

Few Amazon customers knew at the time that they were taking part in a test, and the company did not alert them that they might be the victims or the beneficiaries of a test price. Several customers found the differences in prices disturbing.

Zach Iniguez, an Amazon customer from Rochester, Minn., said he had never seen anything like it before. "I dislike it, the thought that someone else is getting a better price than you," he said.

Smith said customers who paid higher prices for the MP3 player can ask for a refund.

Customers' negative associations are a warning for e-tailers that are considering giving some customers special deals, said Carrie Johnson, an analyst with Forrester Research.

Although consumers will understand companies offering discounts to loyal customers or charging more for added services, changing prices at random is likely to only upset customers, she said. Those people will be more inclined to shop around and make sure they are getting the best deal.

"Randomized pricing will anger and isolate consumers," Johnson added. "They'll never trust that retailer again."



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