Pricing Strategies Application Amongst the Top E-commerce Southeast Asian Countries

Muhammad Masyhuri
Faculty of Business & Economics, University of Pecs
Corresponding Author: Muhammad Masyhuri masyhuri.muhammad@pte.hu

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The Internet economy plays an important role in the development of the country's economy. In fact, more than 60% of customers worldwide cite price as the first reason for visiting an e-commerce website. The purpose of this study is to discuss the pricing strategy of the four current leading e-commerce marketplaces in Southeast Asian countries (SEA). The methodology used for this research was descriptive analysis, adapting and modifying the work of Rekettye & Liu (2018) and Skripak et al. (2018). It was found that the top four e-commerce companies use a strategy of market penetration and flexible pricing to compete and maintain their business in the market region.
INTRODUCTION

It is undeniable that the Internet economy now plays an important role in the development of the country’s economy. According to Keenan (2023), the global e-commerce market is expected to reach $6.3 trillion in 2023, and it is predicted that 21.2% of total retail sales will be made online by 2024. As one of the fastest growing Internet regions in the world, the total e-commerce platform of gross merchandise value (GMV) in Southeast Asia grew 1.8 times from 2020 to 2022 (Figure 1), and the revenue of e-commerce companies there reached $99.5 billion (2022) and will exceed $100 billion in 2023 (Momentum Works, 2023; Read, 2023). Furthermore, Southeast Asia’s total GMV is expected to reach $175 billion in 2028 under a normal scenario, with the potential of increasing to $232 billion in the best case scenario, with Indonesia contributing 52% of the region’s total GMV (Momentum Works, 2023). In addition, Shopee and Lazada are the two leading e-commerce platforms in most countries, except Indonesia.

Figure 1. South East Asia Ecommerce Growth Trend 2020-2022
(Source: Momentum Works, 2023)

Although we already live in the digital age, according to a research report by PwC (PricewaterhouseCoopers, 2016), more than 60% of customers worldwide cite price as the first reason when visiting an e-commerce website. This is confirmed by Netseva-Porcheva & Bozev (2020) who claimed that a good pricing strategy is essential for a successful e-commerce business to compete and survive. Therefore, Lancefield (2013) and Zhang et al. (2021) believe that the power of price and a good pricing strategy are one of the most important levers to maintain the top position of e-commerce companies in today’s competitive environment. Therefore, this paper aims to discuss the pricing strategy for current organisations and choose the most relevant pricing strategy for e-commerce companies within SEA based on the modification and adaptation of the classification developed by Rekettye & Liu (2018) and Skripak et al. (2018).
LITERATURE REVIEW

Price, Pricing Strategy and E-commerce Concepts

According to Rekettye & Liu (2018), price plays an important role in all aspects of business and society and can be defined as the value, expressed in money, that buyers pay for products and services. In addition, Kotler & Keller (2016) and Nagle & Muller (2018) elaborated that price is the ultimate factor of the marketing mix that generates revenue and also communicates as the intended value positioning of the company for its products and brand. In short, according to Rekettye & Liu (2018), there are three magic triangles of pricing policy that should be considered most when determining a pricing strategy, namely the company, the customers, and the competitors (3Cs) (Figure 2).

Figure 2. Magic Triangle of Price Policy

The company’s driven pricing, normally, is related to the company’s cost question in setting up its products’ price (Nagle & Muller, 2017). In this case, the company should consider the right cost questions in pricing. For example, how much revenue increase would be required to benefit from a price reduction, or how much revenue loss could be tolerated to benefit from a price increase? For the customers driving pricing should take into account that price is measured and set based on customers’ willingness to pay (WTP), not on product value. In competitive pricing, where the price is dictated by competitive conditions, the price should be set based on maintaining or strengthening market share.

Pricing strategy can be described as the method by which a company sets the price for its products or services by applying various pricing approaches to achieve a more efficient, profitable, and sustainable business for the company (Nagle & Muller, 2018). In addition, pricing strategy is called competitive pricing because companies always compare prices with similar products offered in the market. Therefore, pricing decisions should be consistent with the considerations and deliberations on all other areas of the business (Rekettye & Liu, 2018).

Meanwhile, e-commerce or electronic commerce can be described as when a company or website offers to transact or facilitate the sale of products and services through the online website (Kotler & Keller, 2016). The main areas of e-commerce include online retail, electronic markets, and online auctions. For a successful e-commerce business, the company should consider at least four
aspects, namely (1) a user-friendly website, (2) fast delivery of products/goods, (3) an appropriate pricing strategy, and (4) the ability to solve problems when they occur (Kotler & Keller, 2016 and Nagle & Muller, 2018). A user-friendly website means that the company should make the website fast, simple, easy to use, and understandable to customers. Fast delivery of products means that there are no delays for customers in getting their orders. A suitable pricing strategy means that the company should consciously choose the right price for its products and pay attention to customers' WTP. The ability to address current problems means that the company is able to respond promptly and quickly to customers' problems without leaving room for error in the next problems.

**Pricing Strategy, Tools Options and Their Implications**

According to the work of Rekettye & Liu (2018) and Skripak et al. (2018) on the classification of pricing strategies, the following pricing strategy approaches can be summarised for the company based on two dimensions: pricing strategy perspectives and pricing options (Table 1).

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<thead>
<tr>
<th>Pricing Strategy Perspectives</th>
<th>Price Options</th>
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<tr>
<td>Launching New Products</td>
<td>-</td>
<td>skimming</td>
<td>neutral (competition)</td>
<td>penetration (expansion)</td>
<td>-</td>
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<tr>
<td>Established Products</td>
<td>maintaining</td>
<td>increasing</td>
<td>-</td>
<td>reducing/price war</td>
<td>-</td>
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<td>Dynamic(price-flexibility) strategy</td>
<td>one-price strategy</td>
<td>-</td>
<td>-</td>
<td>flexible price strategy/price discrimination</td>
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<td>Product lines pricing strategy</td>
<td>-</td>
<td>differential price threshold</td>
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<td>Price bundling strategy</td>
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<td>pure; mixed and unbundling package</td>
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Sources: Rekettye & Liu (2018) and Skripak et al. (2018)

**Pricing Strategy on Launching New Products (Introduction Stage of the Product Life Cycle)**

**Skimming pricing** is the strategy of setting a relatively high price in the early stages of a product life cycle (PLC). The goal of this strategy is to serve customers who are not price conscious while the market is at the high end of the demand curve and competition has not yet entered the market. In addition, this strategy aims to recoup a significant portion of the costs of advertising and research and development through a high profit margin. For this strategy to be successfully implemented, high advertising expenditures are required to introduce the product, educate consumers, and encourage early purchase, and direct competition and substitutes are not too great. The expected outcomes of this strategy are segmentation of the market by price-conscious and less price-conscious customers, a high profit margin that covers the cost of advertising and
research and development, and the ability for the company to lower its price and sell to the mass market before competitors enter (Skripak et al., 2018). Perhaps the best example of this strategy is the introduction of the new iPad tablet as an innovative product by Apple in 2010, for which a premium price was set and 3 million units were sold in the U.S. within 80 days (Huimin & Hernandez, 2012). However, by applying a high price, this strategy may delay the diffusion of new products and attract other potential competitors who offer a lower product price in the early stage of SPS (Rekettye & Liu, 2018).

Penetration pricing (expansion pricing) is the company’s strategy of setting a relatively low price in the early stages of the product life cycle, aimed at deterring competitors from entering the market by quickly capturing a large market share and achieving a cost advantage through the realization of economies of scale (Skripak et al. 2018). For this strategy to be successfully implemented, the product must appeal to a market large enough to support the cost advantage and demand must be very elastic for the company to maintain its cost advantage. The expected results of this strategy are high sales volume and market share, and lower unit costs compared to competitors due to economies of scale. This strategy was used effectively in the early days of cellular telephony by telecommunications carriers to gain enough subscribers to maintain their networks. Dot-com companies are particularly inclined to offer their products below cost or even give them away for free in order to build a strong customer base (Sammut-Bonnici & Channon, 2015). However, this strategy also has its pitfalls, as customers perceive poorer product quality due to the lower price and companies run into difficulties in the long term due to the lower return on investment (ROI).

Neutral pricing is the strategy of matching the price to comparable products/services already available in the market. Neutral strategy means that price plays a less important role in market and business policy (Rekettye & Liu, 2018). Therefore, this strategy is in the middle price range, that is, it is proportional to the benefits that the products provide and is in the equilibrium zone between price and value. The main disadvantage of this strategy is that it can cause confusion and uncertainty among customers in the markets for the products sold.

**Pricing Strategies on Established/Mature Stage of Products Life Cycle**

The strategy of maintaining price for established or mature products may be appropriate when a price change is desirable but the magnitude of the change is indescribable. When customer and competitor reaction to a price change is unpredictable, maintaining current price levels may be appropriate. The goal of this strategy is to maintain the company’s product position in the market (i.e., market share, profitability, etc.) and improve its public image. To be successful with this strategy, the company should serve a market that is not significantly affected by changes in the environment, and the public image could be improved by responding to government or public opinion demands to maintain the price. A perfect example of this strategy is the selling price of sport utility vehicles (SUVs) in the U.S. during the 2008-09 financial crisis and the rise
in oil prices. Instead of lowering the selling price of SUVs, automakers (Honda and Toyota) maintain the selling price of SUVs due to the high demand for this type of vehicle by redesigning their products without affecting their sales performance during this period (Skripak et al., 2018).

The goal of the **price increase strategy** in the maturity phase of the product life cycle is to maintain profitability during an inflationary period, to exploit real or perceived product differentials, and also to segment the market currently served. To be successful with this strategy requires some factors, e.g., relatively low price elasticity but relatively high elasticity with respect to other factors such as quality or distribution; reinforcement by other components of the marketing mix, e.g., if a company decides to increase price and differentiate its product by quality, then advertising and distribution must take product quality into account. The expected results of this strategy include a higher sales margin, a segmented market (price conscious, quality conscious, etc.), and possibly higher sales if the differentiation is effective.

The **reducing price strategy** on the price of established products aims to act defensively and lower the price to meet the competition, act offensively and try to beat the competition, and respond to a customer need created by a change in the environment. In this strategy, a company must be financially and competitively strong to fight a price war if it becomes necessary, and it must know well the demand function of its product. If the company is successful, it can achieve a higher market share, but this depends on the price change compared to competitors’ prices and price elasticity, and also on a lower profit margin (assuming that costs are held constant). This strategy is used whenever the economy weakens and there is high competitive intensity among competitors. Rekettye & Liu (2018) give a good example of the price war between Aldi and Lidl supermarkets in mass retailing by keeping the prices of their products as low as possible by offering large discounts to their customers. However, not everyone agrees with this strategy because there have been so many false supermarket price wars in recent years, especially in retail markets.

**Dynamic (Price-Flexibility) Strategy**

**One-price strategy** means that the company charges the same price to all customers under similar conditions and for the same quantities. The goal of this strategy is to simplify pricing decisions and maintain good reputation with customers. In implementing this strategy, a number of factors should be considered, including a detailed analysis of the company’s position and cost structure relative to the rest of the industry, information about the cost variability that occurs when offering the same price to everyone, knowledge of the economies of scale available to the company, and information about competitive pricing, such as information about the price customers are willing to pay. The expected results of this strategy are decreasing administrative and distribution costs, constant profit margins, and a favourable and fair image among customers, as well as a stable market for the company’s products.

The **flexible pricing strategy** means that the company charges different prices to different customers for the same product and quantity. It aims to
maximize short-term profits and increase sales by allowing price adjustments up and down depending on competitive conditions and how much the customer is willing to pay for the product. Rekettye & Liu (2018) explain this strategy as price discrimination strategy by classifying three degrees of price discrimination, namely (1) the first degree or perfect discrimination, in this case, the company sets a high price for its products to customers. In this case, the company sets a high price for its products to customers, but it is not feasible in daily practice. (2) Second-degree price discrimination: in this case, the company sets prices based on the quantity of products sold, and (3) Third-degree price discrimination: in this case, the company sells its products to consumer groups at different prices based on demographic and demand factors. This strategy is widespread in today's economic activity. For example, a different price is set for the sale of public transportation tickets based on zone prices and customer demographics. To successfully apply the price discrimination strategy, Rekettye & Liu (2018) recommend three conditions, namely (a) the firm should exercise the ability to set prices; (b) the firm should be able to identify the consumer groups that have different price elasticity; and (c) these different consumer groups should be properly segregated.

**Product Lines Pricing Strategy**

**Product line pricing strategy** means that the pricing of a product line is determined depending on the impact of each product on the other products in that line and their relationship to each other, regardless of whether they are competing or complementary products. The goal of this strategy is to maximize profit from the entire product line, not just specific members of the product line. Successfully implementing this strategy requires knowledge and information about the differences between specific products. For a product already in the product line, the strategy is developed according to the product's contribution to its proportionate share of overhead and direct costs, while for a new product, a product/market analysis determines whether the product will be profitable. The notion of differentiated price threshold is proposed by Rekettye & Liu (2018) to explain this type of pricing strategy in differentiating certain product lines with certain benefits and certain price thresholds from the customers’ perspective. In short, each product line has its own prices and consumers can buy these individual products separately. The long-term results of this strategy are balanced and consistent pricing across the product line, higher profits, and better performance of the product line as a whole. General Motors’ pricing structure is a good example of this strategy. To compensate for lower profit margins on lower-priced small cars, the company is raising prices on its large vehicles. The prices of luxury cars are raised much more than those of standard cars (Skripak et al., 2018).

**Price Bundling Strategy**

The use of price bundling as a strategic tool is spreading rapidly in today’s market, especially in service sectors such as telecommunications, airlines, and horeca (hotels, restaurants, and catering). The **price bundling strategy** refers to
the inclusion of an additional margin in the price to cover a variety of support functions and services required to sell and maintain the product throughout its useful life. This strategy has four main objectives: (1) generating additional revenue to cover the expected expenses of providing services and maintaining the product; (2) generating revenue to support customer service personnel; (3) building a lasting relationship with the customer; and (4) deterring competitors with “free” customer support and service. Rekettye & Liu (2018) classified three types of price bundling strategies, namely pure bundling, mixed bundling, and unpackaged bundling. *Pure bundling* means that the products and services in a bundle are not sold separately and consumers can only get them by purchasing the whole package, which has an attractive component provided by sellers. In *mixed bundling*, consumers have the option to purchase the elements of a package either separately or in a bundle. The price of the bundle is generally lower than the total price of the individual elements. *Unbundled bundling* means that the vendor does not prepare bundles for its sold products. According to Li et al. (2018), the biggest advantage of the price bundling strategy may be that customers do not perceive the price and value of the products as unfair.

**METHODOLOGY**

The methodology used for this research was descriptive and comparative pricing analysis by adapting and modifying the work of Rekettye & Liu (2018) and Skripak et al. (2018) for the classification of pricing strategies previously mentioned in the literature review section. For the pricing data, information was taken from the websites of each e-commerce platform.

**RESULTS AND DISCUSSIONS**

Due to limited data and information, not all pricing strategies explained above can be implemented in the analysis of electronic trading. According to many researchers, due to the dynamic and new fast rhythm of this sector, only two pricing strategies can be applied, namely price discrimination/flexible pricing strategy and penetration pricing strategy (Chun & Kim, 2005; Ghose & Sundararajan, 2006; Gruber, 2008; Sammut-Bonnici & Channon, 2015; Sen et al., 2016).

For the e-commerce case study, the top four most visited e-commerce platforms (with more than 20 million monthly website visits on average) on SEA in 2021 are identified from the top ten e-commerce platforms, namely Shopee, Lazada, Tokopedia, and Bukalapak (Zhou & Gu, 2022) Figure 3. It is interesting to note that Tokopedia and Bukalapak are only known in Indonesia.
Intriguingly, from the e-commerce case study, all four e-commerce platforms use a fairly similar price penetration strategy when introducing new products or services to their customers by advertising the lowest price guarantee and offering free shipping with a minimum order value. This is confirmed by Dulay et al. (2022) who found that more than half of the young Filipino generation is sensitive to the higher price when they try to buy an electronic product through Shopee and/or Lazada marketplace. Similarly, most Indonesian students are sensitive to discounts when purchasing products from marketplaces such as Tokopedia (Amanah et al., 2018). As Sammut-Bonnici & Channon (2015) argue, this strategy is very effective when dealing with the very price-sensitive young customers and the demand and competition among sellers of these products are also high. In order to take a top position in the markets of SEA, Shopee, a Singapore-based e-commerce company, intensively implements this type of pricing strategy and combines it with other strategies, including the strategy of focusing on mobile devices, hyperlocalizing famous brand representatives, and providing instant messages to its community through Shopee Feed and Shopee Live Chat (Sen et al., 2016; Shopee, 2018).

The second pricing strategy, i.e., flexible pricing strategy, is also implemented by Lazada and Bukalapak by intensively applying the third strategy of price discrimination for their offered products based on differences in demographics and demand of the customer group. Lazada is owned by Alibaba Group and is able to obtain a wealth of data and information on customer characteristics and behaviour through its logistics networks in the region. As a result, according to (Read, 2023), Lazada ranks second with 137.1 million visitors in 2020. Meanwhile, Tokopedia and Bukalapak can obtain their customers’ demographic data due to their highly connected platform in the Indonesian

![Figure 3. The most visited e-commerce platform in SEA 2021](Source: Zhou & Gu, 2022)
market. According to Suryawan et al. (2023), Bukalapak's flexible pricing strategy has a positive impact on customers' purchase decision.

In fact, there is another unique pricing strategy not mentioned by the previous pricing strategy that is used by Lazada and Bukalapak to attract more customers. It is known as odd-even pricing strategy or nine-price-tail strategy by putting the number “9” at the end of the offered price of the products. The aim of this strategy is to influence customers’ perception by the lower actual price (Skripak et al., 2018).

Tokopedia and Bukalapak were ranked third and fourth, respectively, among the top e-commerce companies within SEA because they are only present in the Indonesian market and not in the whole region SEA. Both e-commerce companies were founded by Indonesian entrepreneurs who are particularly focused on developing small and medium-sized businesses. The following table summarises the pricing strategy of the four leading SEA e-commerce platforms.

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<tr>
<th>Pricing Strategy Perspectives</th>
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<td></td>
<td>Fixed Price</td>
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<tr>
<td>Launching New Products</td>
<td>-</td>
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<tr>
<td>Dynamic (price-flexibility) strategy</td>
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Sources: Author’s own analysis

CONCLUSION

This paper discussed the implementation of pricing strategy in enterprises based on the adaptation and modification of the work of Rekettye & Liu (2018) and Skripak et al. (2018) on the classification of pricing strategies. The discussion of these five pricing strategies showed that only two pricing strategies are relevant to the development of e-commerce, namely penetration strategy and price discrimination/flexibility strategy.

ADVANCED RESEARCH

Due to limited data and information, this study could not discuss and analyse in depth the factors that influence these pricing strategies for each platform. Therefore, it is recommended that future research study should be conducted both quantitatively and qualitatively on the e-commerce platform, particularly Carousell and Zalora that includes more data and appropriate respondents in all regions of the South-East Asia Countries.
REFERENCES


