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# Pricing in online fashion retailing: implications for research and practice

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## ABSTRACT

Drawing on 55 interviews with executives across five online fashion retailers, this paper explores the challenges of price setting and management. We develop a descriptive model of 'locked-in' pricing practice to explain organisational routines focused on cost-plus pricing, alignment with competitor prices and historical pricing. Drivers include the complex and uncertain outcomes of pricing, and lack of investment in leading-edge pricing methodologies, together with inadequate training and pricing ownership. Outcomes comprise an aversion to price risk-taking, sees decisions guided by heuristics and a lack of openness to alternative pricing methods. We offer implications for pricing practice to overcome these locked-in behaviours and suggest that research addresses challenges encountered in the implementation of new pricing techniques in organisational settings to narrow the gap between theory and practice.

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Online retail; big data; retail pricing; merchandising; pricing practices

## Introduction

Online retailing is commonly framed as an intense disruptive force affecting the competitive nature of retailing, with structural implications for the reconfiguration of retail management processes (Doherty & Ellis-Chadwick, 2010), challenging traditional store-based retail business models and, by association, leaving town centres struggling amid gales of digital creative destruction (Teller et al., 2016). Yet, digital retailing offers an array of advantages including the ability to offer vastly expanded product ranges (Brynjolfsson et al., 2013), permits tailored online advertising (Spilker-Attig & Brettel, 2010) and allows consumers to make more informed decisions given price visibility and online consumer reviews (Grewal et al., 2017). During the recent COVID pandemic, the geographical and temporal flexibility offered by mobile commerce (Huré et al., 2017) aligned with increasingly convenient forms of delivery and pick-up (Saghiri et al., 2017) has presented digital retailers with notable benefits.

From the retailer's standpoint, there are an array of advantages that online and omnichannel approaches might exploit, including mass customisation (Cho & Fiorito,

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2009), the use of augmented and virtual reality (Heller et al., 2019) as well as a relative reduction in barriers to international expansion (Schu & Morschett, 2017; Wood et al., 2019). Yet, perhaps the area that offers the most potential is in retail pricing. Retail pricing is a key domain within retail marketing that has been long recognised as challenging both in terms of developing a distinctive and sustainable pricing strategy amidst intense competition (Ahmetoglu et al., 2014; Bolton & Shankar, 2003), but also then developing capabilities within the retail firm that translate pricing strategy into resilient and serviceable routines and practices (Dutta et al., 2003; Watson et al., 2015). The reservoirs of big data that online retailers have on customer behaviour combined with availability of real-time information on competitors (specifically their ranging and pricing) permit analysis and the generation of insight through analytics, artificial intelligence and machine learning (Harsha et al., 2019). The corollary of such analysis is that large-scale customer value-based pricing as well as the ability to pursue dynamic/responsive pricing becomes realistic (BenMark et al., 2017; Grewal et al., 2012).

While there is significant evidence of the benefits of digital retailing for pricing, in uncritically accepting overly optimistic interpretations that emphasise technical capability rather than practical implementation, we risk under-emphasising the challenges online and omnichannel retailers face in (re)framing their organisational structures, data management practices and customer engagement amid rapidly developing technology. In this context, it is notable that Halbardier et al. (2020) find that only 40% of consumer-goods companies that have made digital and analytics investments are achieving returns above the cost of capital. Indeed, recent research has assessed the micro foundations of pricing – that is to say, how individual traits and activities by pricing stakeholders relates to the price setting infrastructure and outcomes within retail organisations (Hinterhuber & Liozu, 2017). Such work has identified significant gaps between pricing potential and practice (Töytäri et al., 2017). Yet, these insights tend to be the exception as we see little research evidence from retail marketing situated from *within the retail firm* to explore how senior managers, merchandisers (known as ‘planners’ in a US context) and buyers actively make sense of these issues and seek to confront them.

This research paper adopts a firm-level perspective and seeks to start to fill this gap. More specifically, we seek to: first, critically examine the contemporary practical pricing challenges online and omnichannel fashion retailers face; and second, conceptualise a descriptive theoretical framework of ‘locked-in’ pricing practice that leads us to offer both management implications and identify avenues for empirical research for retail pricing in a digital age. We achieve this through our privileged access to senior executives across case studies of five online fashion retailers of various sizes. By accessing executives across a range of hierarchies of the retail firm – including merchandisers, pricing managers, buyers, IT directors and CEOs – involving 55 semi-structured interviews, we gain a multi-layered understanding of the challenges across a variegated set of online fashion retail firms.

In the following section, we briefly examine how the academic literature within retail marketing and management has considered the implications of online retailing for price setting and management. We then contrast such perspectives with our insights from our sample of online fashion retailers.

## Retail pricing strategy and practice in a digital environment

In this section, we first summarise traditional assessments of retail pricing strategy before, second, focus on research exploring retail pricing in digital and omnichannel environments given the potential of big data and machine learning as well as the challenges of operating multiple channels. Third, we review the contribution of recent studies assessing pricing routines and practices at the level of the retail firm.

### Pricing strategy

Traditional perspectives adopted in the retail marketing literature have argued that retailers should adopt a discernible pricing strategy within the market. Kopalle et al. (2009) argue the approach adopted is situational – that is to say, it is affected by a range of factors including in- and cross-channel competition, customer factors, product type, manufacturer interaction and the medium (e.g. store-based, online or omnichannel). Popular strategies include *Everyday Low Pricing* (EDLP) that emphasises ‘offering consistently low prices on many brands and categories’ as well as *Hi-Lo* pricing, which ‘is characterized by steep temporary price discounts on high regular prices for many brands and categories’ to drive shopper footfall (Shankar & Bolton, 2004, p. 31). Further, there are an array of promotional pricing strategies that might be employed including free offers; bait pricing; bundled offers and time limits (see Ahmetoglu et al., 2014).

Commonly, retailers are known to pursue two particular pricing strategies that offer the advantages of relative simplicity in execution and a degree of risk aversion yet overlook customer behaviour or their willingness to pay. *Cost-plus* approaches to pricing are based on uplifting the cost of the product to the retailer by a fixed percentage or additional cash margin irrespective of prices at competitors. Meanwhile, *competition- or market-based pricing* uses observed or assumed prices at competitors as a basis for price setting (Hinterhuber, 2008). A conceptually more attractive pricing strategy has increasingly come to the fore over the past decade: *customer value-based* pricing, which is framed around the perceived value of the product to the customer (Grewal et al., 2012; Liozu & Hinterhuber, 2013). Such an approach has the appeal of putting the customer’s perceived value at its centre but does present particular challenges in acquiring relevant data and operationalising the price setting process.

### Pricing in digital and omnichannel retailing

The arrival of online retail seemingly offered a ‘pricer’s paradise’ (Ancarani, 2002) – a view that has, in recent years, become more realistic due to ‘the increased availability of demand data, the ease of changing prices due to new technologies, and the availability of business analytics and tools to support rapid price changes’ (Bolton & Shankar, 2018, p. 123). Increasing volume and quality of real-time data related to consumers and the pricing of competitors, aligned with machine learning techniques, has led to opportunities for retailers to realise *dynamic pricing* that sees ‘optimal selling prices of products or services, in a setting where prices can easily and frequently be adjusted’ (Den Boer, 2015,

p. 2; Grewal et al., 2011). This approach learns the price elasticity of demand of merchandise and uses real-time competitor data on pricing to recommend price adjustments (BenMark et al., 2017). Pricing capabilities in a world of online transactions and big data consequently revolve around principles of dynamism in responding to changed conditions, real-time pricing data of competitors, quantifying customers' willingness to pay, measuring and quantifying the price elasticity of products and designing price decision tools and associated processes (Liozu & Hinterhuber, 2014). Furthermore, these data offer the ability to run time-limited tailored promotions that are tracked in real-time (Begley et al., 2018).

The challenge for retailers in this environment is less in terms of acquiring data, but more in leveraging better quality data which comes 'from a mix of new data sources, a smart application of statistical tools and domain knowledge combined with theoretical insights' (Bradlow et al., 2017, p. 93). Doing so requires a transition from data to insight to action and ultimately the generation of loyalty among customers (Mason & Knights, 2019)

For consumers, online price transparency offers increased agency within the market as switching costs are modest and simply related to moving to a different website. Consequently, 'good deals appear more prominent as the actual act of comparing prices becomes simpler and faster through the prevalence of shopping bots and mobile applications to support the comparisons' (Grewal et al., 2012, p. 3). This means there are severe consequences for online retailers that become uncompetitive on price if they are not offering some additional service or added value that justifies a price premium. As such, the new environment requires an 'overhaul of retailers' pricing strategy and capabilities' (Kilroy et al., 2015, p. 3) – something that has been made more challenging when operating multiple channels.

### *Pricing between channels*

Research has repeatedly underlined the advantage retailers with *multiple* channels might potentially leverage if they attain a true omnichannel approach (Saghiri et al., 2017; Zhuang et al., 2018). While online stores only realise conversion rates of circa. 3–5% (Statista, 2020), bricks and mortar fashion stores achieve 7–25% conversion (Perdikaki et al., 2012). The synthesis between channels offers strong results as 'showrooming' in-store leads to purchases online and online consumer research informs subsequent in-store purchasing. Nevertheless, the complexity of managing multiple channels has led to significant pricing challenges.

A central concern for pricing managers has been the decision about whether to adopt a self-matching pricing policy between channels. Kireyev et al. (2017) advocate consistency between store and online, arguing that self-matching can dampen competition online and enable price discrimination in-store and be profitable when consumers use mobile devices to discover online prices in stores. Homburg et al. (2019) note concerns regarding the survival of physical retail stores and the desire to promote offline price premiums if possible. They find heterogenous customer responses but ultimately determine that there is only limited headroom for offline price premiums – of approximately 2%. Continuing this theme, Bertrandie and Zielke (2019) support the view that price differentiation between online and store impacts consumer perceptions of fairness and leads to confusion. Further, with online pricing,

they find that customers perceive the inclusion of shipping fees as fairer when prices are cheaper online but perceive including shipping fees as less fair when prices are integrated.

### ***Pricing practices and routines within the digital retail firm***

Weisstein et al. (2013, p. 501) note the ‘contradictory findings reported in both modeling and behavioral price research’; yet recent retail marketing scholarship has arguably also uncovered a similar gulf between price modelling optimisation research and actual management practice within large retailers. Dutta et al. (2003) observe that pricing is a capability that is honed within retailers that requires investment in embedding through pricing resources, routines and skills. Such a focus has seen recent research adopt a focus at the organisational level to understand the ‘micro-foundations of pricing’ to conceptualise how individual, group and institutionalised work practices influence the reality of pricing (Hinterhuber & Liozu, 2017). From this perspective, assumptions regarding rational principles of pricing by managers is questioned, as is the ability of the retailer to seamlessly implement intelligent data-driven models into retail operations given routines and practices that are likely to be already established and arguably ossified.

Töytäri et al.’s (2017) study of attempts to implement value-based pricing identified difficulties at three scales: the external scale (e.g. prevailing buying culture; incompatible time horizons); the organisational scale (e.g. product-oriented sales culture) and the individual scale (e.g. beliefs, experiences, skills). As such, adapting pricing practice becomes concerned with amending institutionalised norms and deeply held beliefs among stakeholders that are liable to hinder the renewal of pricing capabilities (Töytäri et al., 2017, 2015). Despite increasing data availability within retail firms, it appears that the required level of insight is more challenging to acquire. Dost and Geiger (2017) reflect that consumers’ willingness to pay – and therefore price elasticity – remains largely unknown, with the same true for consumers’ reference prices. As Hallberg (2017, p. 180) observe, with high complexity and uncertainty situations, ‘the application of programed and institutionalized solutions are ruled out in favor of more intuitive approaches, individual discretion and judgment’. Van der Rest et al. (2018, p. 39) note the role of dialogue between team members in setting prices as ‘the ability to sell, negotiate and explain prices largely depends on an ability to agree internally’. Consequently, there is an appreciation of ‘sticky’ prices (Gorodnichenko et al., 2018) or ‘pricing inertia’ (Watson et al., 2015), with a tendency towards mitigating risk and thus relying on historic prices, benchmarking against a market leader competitor or intuition and untested assumptions (Benoit et al., 2020; Bogomolova et al., 2017; Ingenbleek & Van der Lans, 2013). Given this backdrop, commercial research has suggested that tactical and coping mechanisms have become more of a focus for retail executives rather than strategic actions relating to pricing:

we found that merchants spent approximately two-thirds of their time gathering data, managing exceptions, “firefighting,” and participating in meetings to syndicate with colleagues and only one-third of their time working on critical strategy and analytics or insights. (Begley et al., 2018, p. 2)

Given this background, while the potential of big data and its associated online analytics clearly offer substantial opportunities for dynamic and responsive pricing, it is evident

there have been few studies from within online fashion retail firms exploring how these issues are actively negotiated – and what we might learn from such practices. This is the focus of this paper.

## Methodology

Given the quasi-inductive nature of our proposed research problem that demanded in-depth understanding of pricing practices, we adopted an in-depth case study approach, using a sample of five leading online fashion retailers. The key characteristics of these operators are presented in Table 1. They are all international operators based in the UK with varied turnovers – from less than £100 m through to > £1.5 billion sales. The retailers are varied – from fast fashion through to formalwear – as well as pure player (online only) retailers (e.g. Retailers A; C) and omnichannel operators that operate stores alongside their online operations (e.g. Retailers B; D, E). All retailers, except for Retailer C, are own brand merchants rather than selling manufactured branded garments. Retailers B and E operate significant wholesale business alongside their own retail operations by selling merchandise to third party store-based and online retailers.

Our selection of retailers was purposeful and based on our desire to ensure significant variation between the merchants in terms of their characteristics but also, more pragmatically, the links that one of the research team had with them in their role as a pricing consultant that secured access to executives. Between March 2015–December 2018, we

**Table 1.** Key characteristics of the case study international online fashion retailers.

Retailer retail sector	Retail presence	Fascia	Sales	Wholesale sales, e.g. through department stores or other online retailers	Online sales (as % of total) [est.]
A Fast fashion -teenagers, 20-something focus	Online, through third parties	Multi-fascia	> £300 m	No	Circa 100% of retail sales
B Fashion – middle-age focus	Online, physical stores, wholesale	Single fascia	> £100 m	Yes – domestic and international	Circa 35% of retail sales
C Fashion oriented department store – all age groups	Online only	Multi-fascia	> £1.5 billion	No	Circa 100% of retail sales
D Formal fashion retailer – menswear	Predominantly mail order and online. A modest physical store portfolio in high profile locations	Single fascia	> £200 m	No	Circa 70% of retail sales
E Lifestyle fashion orientation – 20-something – middle-age focus	Online, physical stores, wholesale, concessions	Single fascia	> £700 m	Yes – domestic and international	Circa 25% of retail sales

conducted 55 semi-structured interviews with management of these five retailers, accessing various hierarchies of the pricing and merchandising process, including CEOs, directors of buying, merchandising and e-commerce through to lower level employees administering processes of price and merchandise planning and management. We captured how issues relating to pricing and merchandising were interpreted differently depending on seniority and one's space within the firm. We organised our thematic interview schedule according to themes of pricing strategy, positioning, management, operations and then channel and territory pricing that relates to consistency between online stores and physical stores and wholesale partners, including international selling locations. This framework was determined by our reading of the academic literature as well as our own experience in this field; both as academics and with one of our research team also being a pricing consultant to retailers. However, the interview protocol was flexibly employed to ensure that it did not restrict us from exploring interesting points as they emerged in the discussions. Interviews were held at the headquarters of the relevant retail firms typically with two of the research team present lasting between 40 and 90 minutes and were audio recorded. The subsequent transcription generated more than 1,000 A4 pages of text.

Our transcribed data were subject to a rigorous analysis, following a thematic analysis approach embracing an interpretivist research strategy. Transcripts were scrutinised using qualitative coding involving a process of data reduction according to key themes (Leech & Onwuegbuzie, 2011). First-order or meta codes were deductively derived *a priori* from the literature and used to inform the interview schedule. Using NVivo to facilitate efficient data management, retrieval and coding, we used first-order codes to initially segment the transcript text into broad pricing categories (see Figure 1, i.e. 'types of pricing', 'pricing tactics', 'pricing strategy', 'pricing challenges', 'pricing decision-making processes' and 'miscellaneous'). Second-order or sub-codes (see Figure 1) comprised further sub-themes which emerged during the interpretative analysis phase of collated empirical evidence. During this phase, we moved back and forth recursively between the data, literature and emerging interpretations in order to jointly develop and agree the second-order coded thematic sub-categories. These sub-themes were therefore identified from the interview transcript text itself during the second stage of analysis involving more iterative qualitative coding (Glaser & Holton, 2004) and further unpacking of the text previously coded as per the first order meta code segments.

We thereby coded all transcripts as per the resultant coding tree framework that we developed, represented by Figure 1. We also ensured that each transcript was analysed multiple times to ensure rigour and coding consistency, with two members of the research team coding together. Repeated readings served as interpretative 'code checks' to enhance reliability, with any variation in coding identified, discussed and agreement on categorisation reached. Where direct quotations are used in this paper, to maintain the anonymity of interviewees, we refer to the job role of the respondent and use an interviewee number as a data source and interview transcript identifier.



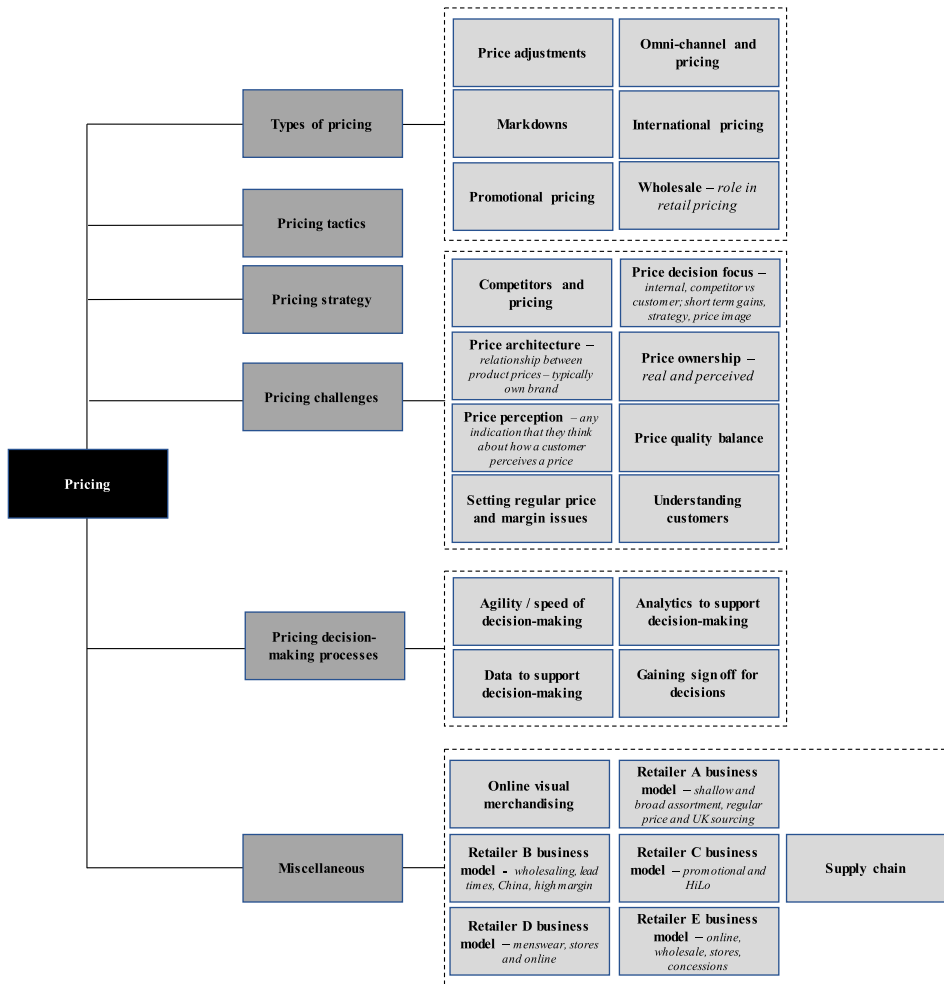


Figure 1. First- and second-order coding of interview data relating to pricing.

## Results – practices of pricing in an online fashion environment

### *The organisational structure of the pricing function and the pricing decision-makers*

Despite the recognition of pricing as an essential element in the marketing mix with wide ranging implications for profitability, we found that pricing decision-makers tended not to occupy a prominent position in the organisational structure of the retailer. Rarely was there a role of a pricing manager. Instead, the buyer would be responsible for sourcing merchandise and then setting the first price, with the merchandiser then managing subsequent pricing, promotions and markdowns – that is to say, balancing achieved margin with managing the product's sell-through. Only Retailer C had a 'pricing team' and this tended to act as an approval filter that merchandisers had to approach when they wished to amend a price. Not one of our respondents suggested there was ever

a standardised training programme to ‘teach’ price setting or pricing management. The views of one merchandiser at Retailer A are representative:

*WSSI<sup>1</sup> was already there so [I] got brief training on that, and the rebuys and mark downs and trade. That was it, the rest of it was up to you – it’s the only way to learn in this business, to go away and find out for yourself because it’s so complex and there are so many different processes [...] [There was] no official training. (Retailer A, Interview 4)*

Similarly, pricing was never regarded as a career but rather a responsibility that our respondents tended to willingly accept – sometimes with minimal up-front knowledge – and they then learnt the established retailer pricing processes.

### ***Pricing strategy: objectives, competitive positioning and consistency***

Far from the picture painted in the research literature advocating customer value-based pricing (Grewal et al., 2012; Hinterhuber, 2008), the pricing strategy pursued by our sample of online fashion retailers tended to be oriented around three main principles to varying degrees – a combination of historical pricing practices, alignment with the prices of equivalent merchandise at key retail competitors and driven by buy-in-margins (BIMs). BIM was used to ensure that enough potential profit existed in a range. While reference to the previous year’s actuals and performance was used, the BIM itself is merely a normalised percentage measure of cost-plus pricing. BIM was given as a target to teams to achieve based on top-down financial plans that reverse-engineered projected final gross profit based on expected markdown spend and promotions/marketing spend. As such, it was a simple heuristic for decision-making and not calculated by teams based on customer willingness to pay, except it referenced the previous year’s values and its relative success (in the aggregate):

*Buyers are KPI’d on the BIM, merchandisers KPI’d on achieved [margin]. (Retailer A, Interview 8)*

*The price is set on buy-in margin expectations and also on what we think is the right price in terms of pitching against our competitors and like-for-like products. (Retailer B, Interview 3)*

As price is just one aspect of buying and merchandising, its product-level decisions were owned by the category/department teams with overall margin and sales targets owned by the chief product officer (or their equivalent), who only had to report on BIM and gross margin on an aggregate level. For new product assortments, the price and product (styles, colours, sizes) along with store distribution had to be signed off by senior management or at category level. While some styles were individually scrutinised, the assortment sign-off process often saw an entire collection reviewed in under two hours so discussions on specific prices tended to be by exception. Though, at Retailers B and E, the owners often insisted on using their experience to price, based on their personal opinion.

The pricing strategy was also widely influenced by a few key competitors that each retailer regarded as being located in – or close to – its market position. For example, fast fashion online Retailer A was cognisant of benchmarking low-price fashion-forward competitors:

*We do a lot of comp[arison] shopping and benchmark ourselves against ASOS, New Look, Missguided, Top Shop, so when we do our pre-season analysis we look at where we are with*

*the market and try and be as price competitive as we can, particularly with New Look. (Retailer A, Interview 4)*

Competitors were typically defined based on a shared customer wallet and professional judgement. There is no quantitative method that we are aware of that has determined the competitor effect and price match/parity that is available to retailers. Therefore, the competitor focus was somewhat anecdotal in nature. Indeed, there remain a plethora of new, small online 'pure play' retailers that are ignored unless they gain critical mass, though their *collective* impact is considerable. While benchmark retailers were often used as an anchoring heuristic when considering pricing strategy and positioning, in other instances they were hard measures that led to pricing at a price point at or below the key competitor. For example, Retailer C initially targeted a price point below UK mid-market retailer, NEXT and this progressed to ensuring pricing parity on key like-for-like merchandise:

*There is a pricing policy [...] on high level strategy [...] on own-brand clothing that is to match NEXT from a pricing point of view. Now, you can never quite match own-labels, so I think there's always elements of subjectivity in there. My view on that is I am sure, if I go back a couple of years, that used to be a price point lower than NEXT or 10% lower than NEXT. [Now ...] it seemingly is "match NEXT". (Retailer C, Interview 6)*

*There are certain lines that we must match, and then it's a negotiation piece for myself and the buyer to find ways to get the same look across for the same price. (Retailer C, Interview 17)*

Yet, often it became clear that pricing strategy was based on margin and competitor benchmarking – far from the customer-focused pricing imperatives demanded in the retail marketing literature (e.g. Grewal et al., 2017; Hinterhuber, 2016). At its most extreme, for Retailer C, there was an implicit acknowledgement that 'there's not a pricing strategy as such'. (Retailer C, Interview 6) beyond benchmarking a key competitor's pricing. In fact, buyers and merchandisers were given latitude to pursue an approach to pricing that they wished, as the Head of Merchandising for Footwear commented:

*I would say everybody is free to come up with whatever pricing strategy they feel best suits their area, taking into account all of the different things that we need to recognise, and then coming up with what you think is best for your area. (Retailer C, Interview 16)*

Remarkably, one Senior Merchandiser for Retailer C went as far as to suggest that the approach to pricing adopted was largely driven by who trained the particular merchandiser concerned and therefore pricing practices were organic and locally constituted:

*It's quite hit and miss - I think it's down to who they are trained by, what their upbringing is, where they've come from. If you are brand new into the business and you've only ever been in this business it's pot luck as to who you are with on that journey. (Retailer C, Interview 1)*

In this instance, there had been a lack of coordination between the buying and merchandising functions that fed the inconsistency and lack of clarity:

*Over the last 6–8 months - probably even a year I would say - the merch and buying teams have been running quite a lot in isolation. Prior to the last 12 months we were all joined at the hip, making decisions and range decisions together and I feel like we've gone down two separate roads in the last year. And I think those roads need to marry again. Because I think the buyer needs to articulate to the merch why it's different and we will be able to start selling at this price*

*point that we've not had before because sometimes the merch needs convincing [...] And I think we've created that problem by having buying and merch objectives rather than combined.* (Retailer C, Interview 1)

A key constituent of the overall pricing strategy was the importance of a pricing architecture that afforded a coherent and identifiable merchandise offer often across 'good-better-best' price points. For example, Retailer A's Merchandising Director remarked on, 'a very deliberate pricing structure – in dresses £8, £10, £12, £15, £18, £20, £25, £30' (Retailer A, Interview 1). As the Head of Merchandising for Retailer A contended, the range and pricing architecture was important to protect rather than being driven obsessively by the cost price:

*From a buying point of view, it's about making sure we've got a pricing architecture – not a fixed pricing architecture, but one that can move all the time and something that we're referencing rather than just driving the retail prices from the cost price.* (Retailer A, Interview 5)

However, rather than being codified, range and price architecture was tacit and existed in buyers' experience – yet again though, the role of BIM lurked in the background:

*[With the] original selling price, the pricing architecture exists but is not written down. The architecture exists in experienced buyers' minds as they will know what price to set from comparison with competition [...] More junior buyers are more driven from BIM (Buy-In Margin).* (Retailer A, Interview 2)

Pricing might be relatively straightforward to devise at the point of merchandise launch, though any coherence risked being compromised when price changes were deemed necessary. These were driven by an ill-judged initial price being set, subsequent competitor price changes on equivalent merchandise or poor sales performance of garments.

### ***Pricing management and changes – 'silent repricing', 'promotions' and 'markdowns'***

The data and analytics available to online retailers offered a basis upon which to make informed and timely decisions regarding price adjustments in three main ways:

#### ***'Silent repricing'***

First, in instances where it was considered that the first price was misaligned and required adjustment, there was the opportunity for a 'silent reprice' online – that is to say, an adjustment of the price online but without this price reduction being publicised through a '% off' or 'was/now' sticker. Frequently, the need to 'silent reprice' was discussed as related to buyers being overly optimistic regarding the opening price point – partly due to the rather unscientific approach discussed earlier as well as the apparent misalignment of buying and merchandising functions:

*If you're using silent [re]pricing it's because you're not quite getting your market price right. That's a buying problem [...] Do we need our buyers to be more realistic in the price they're putting on their buying sheet if they know that's not an achievable price?* (Retailer A, Interview 6)

Similarly, there was a conflict between silent re-pricing of the original price and highly visible discounted price (stickered 'was/now' or '% off') that would push the relevant merchandise to a more prominent position on the website or app to attract customer attention:

*We've had quite a bit of success on lines where we've repriced it and it's not done much, but if you move it into markdown and keep it at that same price, because you're showing the "Was" saving now and the reduction, you see an uplift and get to protect your margin but clear it through.* (Retailer A, Interview 8)

### Markdowns

Second, there were instances when merchandise was not selling sufficiently well, leaving the retailer with too high levels of cover. These situations required a price *markdown*. Markdown is the management of stock out of the business through a progressive set of permanent price reductions. The objective function used is a combination of achieving a target sell-through % versus maximising realised profit. Therefore, markdowns tended not to be scrutinised for success within our retailers; with the total aged stock (or season coded product) measured. As total gross profit is made up of so many factors, it proved difficult to isolate the markdown effects so it was simply not done. Such price changes were explicit to consumers either in '% or £ off' or 'was/now' to attract additional customer attention and – by the nature of the price change – had the effect of pushing the merchandise into a more prominent position on the website:

*If something's not performing it gets pushed down the website so the customer doesn't see it. Once we do a reprice we get it pushed back up the website thereby increasing its visibility at that lower price point.* (Retailer A, Interview 4)

Markdowns were more or less aggressive based on the merchandiser's projection of sell-through at the end of the season – they tended to be quite conservative with initial markdowns trying to maintain profit except on very obvious (what were often labelled by merchandisers as) 'dogs' or very high-risk products like Christmas jumpers (that have poor salvage value on 26th Dec) – but then second/third markdowns were calibrated based on product sales uplifts after the initial markdowns.

Another form of markdown was driven when there were unfavourable competitor price changes on equivalent merchandise. Commonly, our case study retailers used a 'web scraping' tool such as Cogenta/GFK or WGSN that offered near real-time insights into the pricing of a selected range of equivalent merchandise at key competitors. Such data-driven insights were deemed highly important given the customer's own visibility of pricing and the push nature of these data rather than having to physically visit competitor stores to gauge alignment:

*Cogenta and some of the price-matching tools which have made a huge difference [...] so we've literally gone from, in a couple of years, where we'd get an Excel file once a week to daily and almost live feeds.* (Retailer C, Interview 26)

However, the matching process of the retailer's own lines with those of a competitor were often difficult given the lack of standardised fashions – something that required human intervention and judgement:

*Just physically how it looks alike, and then we'd go into the fabric composition. So, say, for instance, we might look at how much elastane is in something, or in something more formal, like how high viscose mix there is, if there's any sort of special kind of metallic fibres or any sort of properties to it, and then we'd try and get as close as possible from that point of view. (Retailer C, Interview 13)*

Nevertheless, being too proactive in response to competitor price changes had the potential to compromise a well-constructed range and price architecture. This was deemed to be highly destructive and therefore required human consideration and reflection rather than being an automated response to competitor pricing data:

*More often than not, it just seems to come back to force us into making tactical changes to our pricing that [...] undermines your architecture to the point where, over time, it disappears. (Retailer C, Interview 16)*

### **Promotions**

Third, price *promotions* were undertaken less due to excessive cover of merchandise but more as a device to drive online store traffic. At times, this led to a degree of frustration – as expressed by a Senior Merchandiser at Retailer C:

*[...] you don't really want to change that price because you are doing really well at the original price – sometimes it's the needs of the business. And that can be quite frustrating as an individual because you can see your demand has been doing well and you don't want to give that margin away but it's for the greater good. (Retailer C, Interview 1)*

At Retailer B, strategic price promotions tended to blur with more tactical markdown activity to the extent that it often bought stock specifically for immediate markdown with no intention of selling it at 'full price'. Indeed, the retailer effectively became locked into such activity for two months every year due to its high profitability (60% margin), despite the obvious disadvantages associated with such brand inconsistency:

*We do occasionally [buy especially for markdown/sales] – it depends on how our stock position is looking throughout the season. There is a mentality that we do live off our sales a little bit and that they're important and make us a lot of money in Jan and Feb. (Retailer B, Interview 3)*

Concerns regarding excessive promotion and markdown were common elsewhere; particularly in terms of educating the customer away from the integrity of retailer price positioning:

*If you're spending more and more on mark downs you create a culture whereby people don't buy from full price, [they] come to you for mark downs. (Retailer A, Interview 6)*

Furthermore, across all online fashion retailers interviewed, there was minimal appreciation of any analytical or evidence-based understanding of consumer responses to price changes. The Head of Insight at Retailer A, for example, offered a common perspective in conceding there was no depth of understanding of the price elasticity of demand associated with price reductions, though this was a point of future focus:

*We're trying to build in some reporting and understanding of price elasticity – for example, what's the uplift when we take 20 or 30% off? We're hoping to get to point where we can say, this line's on 30 weeks cover, we've got a target on this line of 8 weeks cover, what's the level of discount we're going to need to take to get from A to B? (Retailer A, Interview 5)*

Indeed, even in Retailer C where there was a specialist pricing operations team, there remained scepticism regarding the depth of the analysis that underpinned decision-making:

*[...] from gut-feel, they will say "I think this one needs a 30% discount, this one needs a 50%." [...] They'll probably have had similar products in previous seasons and years that they may have some experience of. But how detailed and granular [...] do they go back, do they review, do they go back and say a similar product last year did that, didn't get enough sell-through [...] I'm not sure. (Retailer C, Interview 6)*

Such lack of clarity over cause and effect between price and sales was also often evident in terms of identifying whether an uplift in demand for a product line was due to the price reduction undertaken or simply the subsequent relocation of the garment to a more prominent position on the retailer's website. Furthermore, the uplift in demand in one garment line due to a price reduction often led to a decrease in demand for a similar fashion item listed at full price.

### ***Pricing operations: the processes for price changes – freedom to adjust and approve***

The latitude offered to merchandisers to adjust pricing was highly variable between our case study retailers. Fast fashion Retailer A freed their merchandisers to make decisions regarding repricing quickly and placed very few rules of processes in their way. The modus operandi was on rapid decisions and price changes to achieve their high stock-turn targets, accepting low margins if necessary, and to reinvest in new fashion ranges. A merchandiser summarised the difference from her experience at a lower-mid market store-based retailer prior to starting work at Retailer A:

*Coming from [lower-mid market store-based retailer], where it was very tightly controlled and if you wanted to change a price you had to get it signed off by everyone, [Retailer A] is completely different - something comes in at a price, it hits the website and when it goes live we might look at it and decide that it shouldn't be that price because it doesn't sit with other things. If something's not selling, we'll drop it down a price point or two just to try and encourage it on a bit. From there we look at marking it down so it's a very fluid thing, there's no set right price. (Retailer A, Interview 8)*

Yet, this dynamism presented its own problems, with the same merchandiser noting:

*[I would like] to have some kind of guidelines in place – not that they're completely strict and you have to work them to the letter, but so that everyone's working to the same page. (Retailer A, Interview 8)*

Indeed, the Head of Merchandising reinforced such a view regarding the need for consistency in approach to balance proactivity with retaining margin where possible:

*It is definitely destructive. [We are] too quick to mark down, change things very quickly and not very good at sitting still and letting something take its natural course. [We're a] Bit hasty to mark down and not been bold enough in terms of marking up. (Retailer A, Interview 6)*

Such proactive changes in pricing based on minimal evidence were, to some degree, mirrored at Retailer B, where overeager approaches towards repricing risked the integrity of pricing architecture and led to some frustration from its Commercial Director:

*We get internal pressures – sometimes I've had to stand strong and say we're not doing it. We have internal debate and get a lot of personal opinion – an individual who will override all of a pricing architecture. (Retailer B, Interview 7)*

In contrast to the freedom afforded at Retailer A to individual merchandisers, at Retailer B, markdowns were agreed by one person rather than the merchandiser concerned with the relevant merchandise range. As its CEO explained, this led to more subjective decision-making:

*One person makes all the markdown decisions across the categories which I think is wrong; each merchandiser should be doing their own. As we move to that, it's even more important that we have a consistent approach otherwise emotion comes into it. (Retailer B, Interview 4)*

But, perhaps more concerning was the situation at Retailer C where, although the ability to make price changes was repeatedly noted as beneficial ('we can affect quite significant changes to the website very quickly' [Retailer C, Interview 8]), the use of a separate pricing operations function led to a highly bureaucratic approval process:

*[A price change] comes through to me to approve, and then, once I approve, it goes to "the head of" to approve, and once they approve it, it goes to Pricing Ops to approve, and then it gets actioned, which sometimes that can take a couple of days [...] That [then] influences the cost price, at that point then, the Buying Assistant would have to raise a new form to change the selling price [...] That then goes to Pricing Ops for them to action. So, again, that can take a couple of days. (Retailer C, Interview 10)*

Clearly then, while the potential existed to make rapid price changes and the competitor price data commonly informed decisions, the degree to which changes were made in short order were rather more limited. In addition, concerns were voiced by relatively junior colleagues given their responsibility for making important price changes – as Retailer C's Operations Manager conceded:

*The people [you have] working [are] actually quite low-level people, you know, [these aren't] massively high grades, but the impact of an error is tremendous. You know, we can lose half a million within half a day just off a simple keying error, so I think [...] It's quite a stressful job. (Retailer C, Interview 8)*

### **Channel & territory pricing – consistency between online – physical stores and wholesaler partners, including international selling locations**

For those retailers in our study that were not online pure play operators, there was an additional challenge of reconciling virtual store operations and product offer alongside the legacy business of retail stores. Consistent with the findings of recent research (e.g. [Bertrandie & Zielke, 2019](#); [Homburg et al., 2019](#)) achieving pricing and promotion consistency between these retail channels was widely considered essential:

*We always take a view that you can always redeem [promotional offers] online or in-store so although most of the take up may be digital, if a customer walks into a store and says 'Can I have this offer?', then yes they can. If you have different online and in-store prices it generally upsets both customers and staff so best to avoid that conflict. (Retailer B, Interview 2)*



Our respondents' reasons for adopting price consistency between channels commonly centred on not upsetting customers nor risking losing lifetime baskets of sales. There was also mention of UK press stories suggesting retailers were 'cheating' their customers, creating a backlash of mistrust that our executives were keen to avoid. Sometimes, achieving price consistency proved challenging with the arrival of new product lines as stores were utilised as a channel through which to quietly liquidate stock:

*I'm trying to mark down the old season one [jacket] and the new season one's coming in as well. We try and manipulate that, or move it offline and sell it through our retail stores so you don't have the two almost identical garments [online] at different prices. (Retailer B, Interview 7)*

Challenges of online price visibility were also felt beyond the fashion retail firm itself, particularly when it chose to sell its products through wholesale partner retailers. While selling fashion lines to wholesale partners represented an important source of additional revenue, there were challenges in managing these extra-firm networks; both in ensuring consistency of the brand offer and positioning as well as in restricting the ability to make further price changes during the season. If price changes were required, close relations with wholesale retail partners and a considerable degree of inter-personal trust was necessary.

For example, while Retailer B developed some distinct fashion merchandise for wholesale clients to reduce overlap with its core offer, there remained extensive common ranges. On the one hand, this restricted the number of price changes that Retailer B could make to these lines over the season without compromising its relationship with its wholesale partner (in this instance, a well-known department store). This had the effect of imposing pricing discipline and consistency:

*Sometimes wholesale is a good conscience for us [...] With wholesale, you're not as free to do what you like with your own stock as you would be with just retail and online because you do have that customer who's taken that stock off you. (Retailer B, Interview 7)*

*We turn it into a positive as in it keeps us on the straight and narrow in terms of protecting the brand. (Retailer B, Interview 4)*

On occasions, when promotions and price reductions were deemed necessary, careful relationship management was required with wholesale partner buyers. This would commonly involve some sharing of the cost of the markdown or promotion:

*We manage the relationship – we might stock swap with them or if they price match we might give them some support. (Retailer B, Interview 7)*

Only rarely would there be differential pricing between the retailer and the wholesale partner such was the importance of managing the retail fashion brand.

Occasionally retailers identified what they regarded as dishonourable wholesaler partners leveraging the online medium to discount their product beyond their direct control. In such instances, Retailer B attempted to reign in such behaviour by making veiled threats regarding limited access to subsequent ranges if such conduct continued, as its Director of Wholesale explained:

*We supply Amazon with about XX% of the range in Womenswear as well as a lot of stockists who also trade on Marketplace. The pricing wars that then ensue are 'bonkers'! Our lack of control*

*over that [...] [We] only give them a small range, but [we are] keeping close to Amazon because fashion is going to be a big thing for them and they want so much more of our range. (Retailer B, Interview 1)*

Online price visibility thus provided considerable opportunities but also threats to the online retail brand.

Sophistication in retail pricing comprehensively attuned to the nuances and variegated demands of heterogeneous international markets was rarely in evidence in our online fashion retailers. While the international retail marketing literature consistently advocates customer and competitor research to inform pricing and ranging (e.g. Alexander & Doherty, 2009), there was an overriding tendency by our operators to simply base their international pricing on their home market pricing and then to apply a premium prior to a currency conversion.

*I think one of the overriding things is making it not too complicated for us, as a business, to operate, which is why we will take a base price and do a multiple. So, it's only unless something sits really contrary to where we are competitively, would we do something different. (Retailer D, Interview 1)*

*To key markets we apply a simple multiple to UK prices, not differentiated between product category. Haven't had the IT capability to be able to do that. Others (e.g. ASOS) have also struggled to bring in differential pricing for international markets - they haven't quite cracked it either, not an easy thing to do. (Retailer A, Interview 6)*

Only Retailer E operated differently by applying consistent prices across the EU:

*What we have moved to are equivalence tables, by category, by country, albeit [...] all EU countries have the same price. (Retailer E, Interview 1)*

Partly, such arm's length approaches owed much to low degrees of sunk cost in realising access to many international markets through global websites with a currency conversion capability. Therefore, suboptimal pricing was accepted given the limited turnover levels in many country operations and the various other pricing duties executives were tasked with, though such simplistic approaches contrast markedly with the thrust of the retail marketing literature regarding pricing to market conditions.

## Discussion and conclusions

The advent of digital retailing offers fashion merchants significant opportunities to adopt data-driven dynamic and responsive approaches to setting and managing price (Bolton & Shankar, 2018; Grewal et al., 2017). The research literature has explored these techniques in the light of real-time data and machine learning technologies, including dynamic pricing and value-based pricing (Den Boer, 2015; Grewal et al., 2012; Hinterhuber & Liozu, 2014). Yet, as Dutta et al. (2003) note, pricing is a capability within retail organisations that is developed and then embedded within routines and practices. This implies such context is important and itself governed by the leadership and culture within the retail organisation as well as the individuals within it (Töytäri et al., 2017).

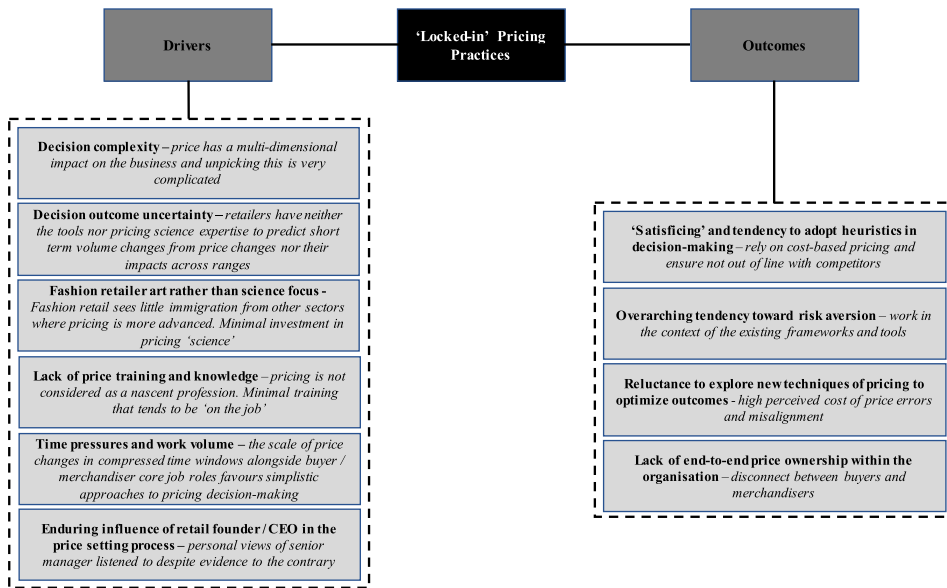
Given this backdrop, this research project has accessed the practices, routines and perspectives of pricing decision-makers within five online fashion retailers. We identify pricing practices that had become embedded within a portfolio of organisational routines

and governed by institutionalised retail logics. Yet, these pricing practices remain sub-optimal, focused – to varying degrees of importance between retailers – on variations of a cost-plus approach, alignment with competitor pricing and historical pricing, rather than any consistent leveraging of data related to the customer. Remarkably, international pricing tended to be set independent of conditions in the host market but instead on the home market price complemented by an uplift. These routines and behaviours were related to the established internal imperatives or norms of the organisation. Compounding this issue, was a common disconnect between buyers who were responsible for price setting and motivated by cost price, and merchandisers who managed price and merchandise until the product was sold through.

Processes for managing the markdown of fashion merchandise also varied substantially – from an innovative fast fashion retailer (Retailer A) that had few rules governing the markdown process and readily devolved authority to merchandisers (that, it was felt, was too quick to sacrifice margin), to a fashion-oriented department store retailer (Retailer C) that had a specialist pricing team yet suffered from a highly bureaucratic process for amending prices. In more extreme cases, our findings uncovered pricing practices relating to localised and uncoordinated price setting and management with contrasting individual interpretations within the same firm. Hence, price setting and management was commonly characterised by institutionalised silos that were slow to adapt to the availability and potential of data and analytics, with familiar ‘rules of thumb’ continuing to be relied upon (cf. Bogomolova et al., 2017; Watson et al., 2015). This is not to say that managers were not cognisant of the shortfalls of their current practice – they often were and there were reported efforts to start to assess price elasticity for example, – but the focus was largely on managing or coping (similar to Herbert Simon’s ‘satisficing’) given the challenging growth of their businesses rather than redesigning processes for pricing given the data available.

While the visibility of garments and their prices online was a significant advantage for fashion retailers, it also served to occasionally restrict their agency to manage price, given their ranges had on occasion been purchased on a wholesale basis by third parties. This required careful inter-firm management and negotiation to share the cost of the markdowns to ensure it was consistent between the parties. Meanwhile, price visibility online was costly to fashion retailer brand positioning and integrity when third party retailers discounted their ranges online beyond the retailers’ authority. These environmental conditions placed considerable importance on both the wholesale relationships that fashion retailers might consider engaging in as well as the appropriateness of sharing specific fashion ranges.

Our analysis leads us to develop a descriptive theory of ‘locked-in pricing practices’ (see Figure 2). It identifies drivers of behaviour that lead to a range of sub-optimal outcomes. These include executives’ perceptions of decision complexity and uncertainty that stem from the multi-faceted and highly complex nature of pricing, both in terms of its effective management and wide-ranging implications for the business. These issues were compounded by the somewhat detached nature of fashion retailing compared to other retail sub-sectors that were actively investing in more data-driven pricing methodologies, as well as the tendency of some senior management to impress their opinions on price over data or evidence. The corollary of this was that those responsible for pricing were typically partially trained ‘on the job’ and left with minimal time to dedicate to numerous pricing



**Figure 2.** 'Locked-in' pricing practices in online fashion retailers – drivers and outcomes.

duties that they had to combine with other core responsibilities. These drivers led to a range of outcomes that included a lack of central ownership of price decision-making, encouraged a reliance on heuristics, intuition and significant pricing risk aversion, with executives reluctant to experiment with new pricing techniques.

Our findings raise several implications for retail marketing practice that are detailed in Table 2. These include a need for openness to new data sources and associated techniques across junior and senior management within the organisation. This would require open-mindedness in order to depart from established routines and behaviours, with consistency in pricing 'rules' between actors in the price setting and management process. Interestingly, these challenges of shifting institutional logics of the retail firm from heuristics towards data-driven methodologies are mirrored in debates concerning retail location decision-making (Wood & Reynolds, 2011).

For the academic discipline of retail marketing, we argue there is a need for research concerning pricing to become more engaged with the organisational context where pricing decisions are made. Our findings suggest there is a gap between much of pricing optimisation work undertaken in theory within marketing and management science journals that remains unmet by an understanding of the challenges involved in implementing these techniques in an organisational setting. This would demand that we explore how customer-focused pricing might be materially grounded within a retail firm that already has ossified practices. It would mean that we should consider how incentives between buyers and merchandisers might be aligned to ensure consistency. It would require reflection on how the retailer might exhibit responsiveness through price changes that maintain margin yet are operationalised in rules and procedures that can be codified for relatively junior merchandisers. These are issues that require rich

**Table 2.** Pricing practices – potential, reality and implications.

Potential practices	Reality of practices	Implications/suggestions for future practice
Value-based pricing based on consumer perceptions and willingness to pay (e.g. Grewal et al., 2012; Hinterhuber & Liozu, 2014)	<ul style="list-style-type: none"> <li>• Pricing driven by combination of historical pricing practices, alignment with the prices of key retail competitors on equivalent merchandise and driven by buy-in-margins (BIMs).</li> <li>• Lack of data from a customer perspective that gauges value perceptions.</li> <li>• Lack of reliable data on – and consideration of – price elasticity</li> <li>• Price and range architecture inconsistent and often not clear or codified</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in assessing consumer responsiveness to price changes (price elasticity) by exploring current data.</li> <li>• Use of AI techniques to uncover true customer pricing attributes and predictive algorithms</li> <li>• Align incentives for buyers and merchandisers with desired outcomes</li> <li>• Be definitive within the retail firm regarding price architecture and ensure this is retained in subsequent price management</li> </ul>
Pricing operations: data-driven, consistent and informed price management and markdowns (e.g. BenMark et al., 2017; Grewal et al., 2017; S. Liozu & Hinterhuber, 2014)	<ul style="list-style-type: none"> <li>• Ability to change prices exists but often bureaucratic price change approval processes prevent responsiveness.</li> <li>• Over-reactive price changes based on competitor prices risks the negative effects retailer's own range/price architecture and brand consistency/integrity</li> <li>• Tension between repeated tweaking through silent repricing of the original price and highly visible markdowns ('was/now')</li> <li>• Tension/lack of communication between buyer and merchandising functions</li> <li>• Over-optimistic BIM from buyer results in the need for early requirements for markdowns/silent repricing</li> <li>• At times, markdowns became more of a promotional tactic that ran contrary to the integrity of the more aspirational brand thereby confusing brand positioning</li> </ul>	<ul style="list-style-type: none"> <li>• Review relations between buyers and merchandisers. Encourage closer cross-working and shared objectives.</li> <li>• Streamline the approvals process for merchandisers on markdowns based on clear rules, rather than a bureaucratic central pricing team</li> <li>• Depart from targets based solely on BIM as this removes a focus on the customer</li> <li>• Clear impact forecasts from making any policy-led price changes.</li> <li>• Depart from numerous small price changes to braver more substantial modifications</li> </ul>
Managing online channels: increased control and visibility for both retailer and consumer of merchandise (e.g. Grewal et al., 2017; Doherty & Ellis-Chadwick, 2010)	<ul style="list-style-type: none"> <li>• Consistency of pricing between online stores and physical stores and wholesale partners</li> <li>• Inter-firm challenge of managing price changes with owned online site given the same merchandise is sold by wholesale partners due to high degree of price visibility which results in it being contentious and (negatively) impactful</li> <li>• Risk from highly visible online discounting from third parties that have acquired merchandise.</li> </ul>	<ul style="list-style-type: none"> <li>• Be judicious in the selection of third party/wholesale partners that are cognisant and respectful of price integrity and whose brand and market positioning complements, enhances, own brand positioning</li> <li>• Consider separate merchandising ranges, packaging, for wholesale partners to provide some flexibility in price management</li> </ul>
International expansion: reduced friction of distance in international expansion as online nature of fashion retail business allows control from a central point which is also aligned with lower risk (e.g. Schu & Morschett, 2017)	<ul style="list-style-type: none"> <li>• Ease of sales overseas but pricing practices lack sophistication – typically based on home market prices with an additional uplift and currency conversion. Minimal host country insight into customer or competitor data to inform practices.</li> </ul>	<ul style="list-style-type: none"> <li>• With increased scale of sales in specific overseas markets, adopt greater analysis of competitors and customer behaviour to ensure pricing is aligned with host market conditions.</li> </ul>

levels of industry engagement to achieve impactful research within the online fashion firm.

## Note

1. 'WSSI' stands for Weekly Sales, Stock & Intake that is a tool to plan and monitor sales, stock and profit on a weekly basis.

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No potential conflict of interest was reported by the authors.

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