Measuring the Frictional Costs of Online Transactions

The Case of a Name-Your-Own-Price Channel
NYOP-Concept

- two strategies:
  - „one-shot“ model
  - „iterative-haggling“ model

- retailer
  - chooses strategy
  - sets price threshold
  - collects information rent

- consumer
  - suggests price
Information Rent

- difference between the price threshold and the suggested price by the consumer if higher than the price threshold
„one-shot“ Model

⭐ allows only one price suggestion per product by the consumer
„iterative-haggling“ Model

- allows more than one price suggestion per product by the consumer
Previous Studies

- product differentiation – segmenting customers acc. willingness to pay for customer service

- brand effects – perceived or real quality differences

- frictional costs – not yet targeted
Research Setting

- target: measuring frictional costs
- german online retailer
  - both strategies
  - consumer data
  - socio-demographic data by Claritas
- methodology
  - hypothesis
  - dynamic modelling
  - econometric analysis
Findings

- frictional costs:
  - disutility of EUR 6,08 to a simple online transaction of keying in a number
- negligible socio-demographic influence
- decreasing frictional costs with increasing experience
- decreasing information rent with new strategy („iterative haggling“) – decrease in profits
- problem: agents