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BUSINESS DAY

Amazon Is Quietly Eliminating List Prices

By DAVID STREITFELD JULY 3, 2016

SAN FRANCISCO — In a major shift for online commerce, Amazon is quietly changing how it entices people to buy.

The retailer built a reputation and hit \$100 billion in annual revenue by offering deals. The first thing a potential customer saw was a bargain: how much an item was reduced from its list price.

Now, in many cases, Amazon has dropped any mention of a list price. There is just one price. Take it or leave it.

The new approach comes as discounts both online and offline have become the subject of dozens of consumer lawsuits for being much less than they seem. It is also occurring while Amazon is in the middle of an ambitious multiyear shift from a store selling one product at a time to a full-fledged ecosystem. Amazon wants to be so deeply embedded in a customer's life that buying happens as naturally as breathing, and nearly as often.

“When Amazon began 21 years ago, the strategy was to lose on every sale but make it up on volume,” said Larry Compeau, a Clarkson University professor of consumer studies. “It was building for the future, and the future has arrived. Amazon doesn’t have to seduce customers with a deal because they’re going to buy anyway.”

Or so Amazon hopes. Digital stores live by Alec Baldwin’s maxim in “Glengarry Glen Ross”: “Always be closing.” The retailer has been experimenting with another

method of closing a sale. It tells the potential buyer what the price used to be on Amazon.

For example, Amazon originally promoted the Rave Turbo Chute as being discounted by 36 percent. Then, all mention of a discount was dropped and the 60-foot water slide was simply listed at \$1,573.58, with an explanation that it used to be \$1,573.59 — one penny more. Then, it dropped the old/new price comparison. Then, it dropped the price to \$1,532.01 and put the comparison back.

“They still need to showcase deals, but the question is, How?” said Michael Kovarik, who runs a comparison-pricing start-up called Rout.

That is why stores love big discounts: they work. In studies by Mr. Compeau and others, the perception of a deal is often what makes the purchase happen.

“We’ve been conditioned to buy only when things are on sale,” said Bonnie Patten, executive director of TruthInAdvertising.org, a consumer information site. “As a result, what many retailers have done is make sure everything is always on sale. Which means nothing is ever on sale.”

Amazon has both benefited from that conditioning as well as encouraged it, which is most likely why it is changing cautiously. It began eliminating list prices about two months ago, pricing specialists say, both on products it sold itself and those sold by other merchants on its site. The retailer did not return multiple requests for comment.

“Our data suggests that list prices are going away,” said Guru Hariharan, chief executive of Boomerang Commerce, a retail analytics firm. Last spring, Boomerang compiled a list for The New York Times of 100 pet food products that Amazon said it was selling at a discount to a list price. Only about half of them still say that.

“Amazon is a data-driven company with very few sacred cows,” Mr. Hariharan said. “At the very least, it is conducting a storewide test about whether it should change its pricing strategy.”

With a majority of Amazon products, the presentation of a bargain used to be front and center. Take, for example, the Breville Infuser Espresso Machine. A few

months ago, Amazon said this was an \$800 machine that it was offering for \$500, a discount of 38 percent.

Two articles in The Times earlier this year on the problems with online list prices drew on a randomly assembled list of 47 discounted housewares, leisure and other products on Amazon, including the Breville Infuser.

Over the Fourth of July weekend, the list price was gone for 39 of those products. The Infuser page, for instance, simply said what it would cost to buy at that moment, which was \$483. Nineteen of the product pages tried to encourage a sale by pointing out that the price used to be higher on Amazon, although no time period was given.

“Amazon is showing it can fix the problem if it wants to,” Ms. Patten said.

The problem with list prices or, as they are sometimes called, manufacturers’ suggested retail prices, is that they are regularly more of a marketing concept than what anyone is actually charging. When Amazon was saying the list price of the Breville Infuser was \$800, Breville itself was selling the machine for \$500 — about the same as Amazon. Other retailers sell it for \$500, too. Breville confirmed the price was \$500.

Bargains online and offline that are not real bargains are breeding legal action, much of it using a tough California law against deceptive advertising. New cases have been filed in the last few months against Macy’s, J. Crew, Gymboree, Ann Taylor, Ralph Lauren and the website Wines ’Til Sold Out, according to TruthInAdvertising.org. Twenty-four cases were filed in the first six months of 2016, nearly as many as the 25 in all of 2015.

There have been at least 10 settlements. In April, a Los Angeles judge gave preliminary approval to a \$6 million offer by Kohl’s Department Stores. That deal came on the heels of a \$50 million preliminary settlement by J. C. Penney.

Amazon itself was the target of a fake-discounts suit — an unexpected development, because all Amazon customers agree to go to arbitration instead of court. A judge dismissed the complaint but the plaintiffs are now appealing, saying

the arbitration clause is “unconscionable” and should be invalidated. Amazon declined to comment on the suit.

The shift away from list prices is taking some merchants on Amazon by surprise. A seller named Travis complained in an Amazon forum that the list price on his product — which he did not identify — had disappeared from the site. “I’m well aware that it is bogus but it is a common marketing tactic that works very well at boosting sales,” he wrote.

Amazon also appears to have stepped up its monitoring of a vendor system that allowed some sellers to insert data that listed their products as 99 percent or even 100 percent off. Another Amazon seller who complained that his list prices were not showing up said he was told by the retailer that it was routinely checking list prices on other sites.

Mr. Kovarik of Rout said his analysis indicated that Amazon was regularly eliminating more list prices. “In early May, about 29 percent of the products we saw were missing list prices, but now the number is up to about 70 percent,” he said.

Amazon has always focused on driving revenue while disregarding profits. That had many implications: It was driven to try new things; it could undercut any competitor who focused on price; it could literally buy customer loyalty.

In Amazon’s third decade, with its complete domination of the e-commerce landscape, there are signs it is beginning to emphasize the value each customer brings.

“They are trying to figure out what product categories have customers who are so tied into the Amazon ecosystem that list prices are no longer necessary,” Mr. Compeau, of Clarkson, said. In some categories, like groceries, Amazon seems to be using just one price, the buy-it-now price.

If Amazon brings the milk and music into your house, not to mention videos and e-books and the devices to consume them on, as well as a hot dinner and just about any other object you could want, that presents a pricing challenge of a

different sort. Untangling what those deals are worth — as opposed to what they cost — is probably impossible.

“Twenty years ago, we were hesitant to trust online companies with our credit card information,” Mr. Compeau observed. “Now we’re being asked to trust them completely.”

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