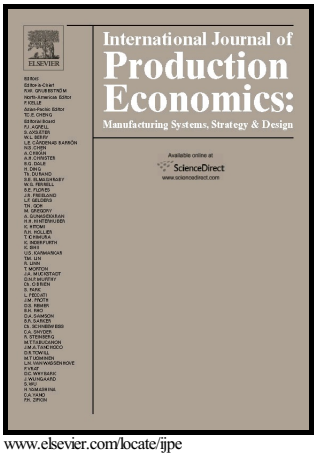

A hierarchical pricing decision process on a dual-channel problem with one manufacturer and one retailer

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A hierarchical pricing decision process on a dual-channel problem with one manufacturer and one retailer

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Abstract

In this paper, we consider a dual-channel problem with one manufacturer and one retailer. The manufacturer, acting as the Stackelberg leader, sells a single type of product through a traditional channel to the retailer and/or through a direct channel to customers. The retailer, acting as the follower, orders the products from the manufacturer and sells to the customers. We consider a hierarchical pricing decision process and find the joint optimal strategy for three prices: the wholesale price, the retail price in the traditional channel, and the selling price in the direct channel. Our framework involves various operational strategies, e.g., dual channels, a single traditional channel, a single direct channel, equal-pricing strategy in which the wholesale price is equal to the selling price in the direct channel, price-matching strategy in which the product is priced the same on the website and the retail store, etc. We provide criteria to identify different operational strategies, and compare the performance of the strategies. Our results show that operating dual channels is optimal for the manufacturer only under some conditions, and equal-pricing strategy and price-matching strategy may not always be optimal for the manufacturer. Our results supplement the findings for dual-channel problem in the literature in a comprehensive model framework.

Key words: pricing; hierarchical decision process; operational strategy; dual-channel

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