Match Your Own Price? Self-Matching as a Retailers Multichannel Pricing Strategy

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Multichannel retailing has created several new strategic choices for firms. With respect to pricing, an important decision is whether to offer a "self-matching policy." Self-matching allows a multichannel retailer to offer the lowest of its online and in-store prices to consumers. In practice, we observe considerable heterogeneity in self-matching policies: there are firms that offer to self-match and firms that explicitly state they will not match prices across channels. Using a game-theoretic model, we investigate the strategic forces behind the adoption (or non-adoption) of self-matching across a range of competitive scenarios, including a monopolist, two competing multichannel retailers, as well as a mixed duopoly comprised of a multichannel retailer competing with a pure e-tailer. Even though self price matching can reduce a retailer''s profits, as some consumers will pay the lower price, we uncover two novel mechanisms that can make self-matching profitable in a duopoly setting. Specifically, self-matching can dampen competition online and enable price discrimination in-store, and its effectiveness in this respect depends on the decision-making stage of consumers and the heterogeneity of their preference for the online vs. store channels. Surprisingly, self-matching strategies can also be profitable when consumers use smartphones to discover online prices in stores. Our findings provide insights for managers on how and when self-matching can be an effective pricing strategy to embrace.