**BM.de: A New Pricing Strategy**

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**Abstract.** As an online and offline retailer of baby products, BM.de is facing fierce competition from other baby product online retailers such as windeln.de as well as other B2C E-commerce platforms such as Amazon. If we take a look at Amazon, it is not difficult to find out that Amazon is using dynamic pricing as a main strategy to stay competitive in the market, price for a single product on Amazon sometimes changes every 10 minutes. This leads to its constant level of lower prices compared to other online retailers. This case introduces the overall market for baby products and market position of BM.de, facing price pressure from all kinds of channels, what should BM do to increase its market share? Should it conduct a dynamic pricing strategy when it is also exposed to certain risks once customers find out? If conducting dynamic pricing, should it apply both online and offline or should it stay price harmonious in brick-and-mortar stores?

**Introduction**

On a sunny day in May 2016, Baby Price, the recently appointed marketing manager at BM.de, stood waiting outside the execution conference room. Bastian Siebers and other members of the executive board would soon hear her plan for launching a dynamic pricing strategy. Price reflects over the hard work of the past three months in which she worked together with its new marketing team members to design a new strategy for BM in Germany.

BM was a leading online retailer for baby and toy products with revenues of €125 million in 2016. Although BM was successful with its current business model, the company also saw itself confronted with a variety of online retailers offering similar products. Apart from the omnipresent Amazon, other retailers with very similar approaches and product portfolios like Babywalz and windeln.de were leading a hard fight with BM on market share. This competition drove BM’s management team to rethink how to differentiate itself from the other online and offline providers of baby and child products.

In the first months of her office, Baby Price had the task to reconsider BM’s pricing strategy, since e-commerce retailers like Amazon were starting to adjust their prices online more frequently than in the past. Amazon was intensively implementing a dynamic pricing strategy, employing all available data (e.g. competitors’ prices and stocks, seasonal and current demand for the product, etc.) in real time to maximize sales, profits, and customer loyalty. Unlike Amazon, BM was not a large multinational company, but a medium-sized one expanding from its home market in Germany to other markets while intensely investing in its physical stores. Would a dynamic pricing approach also be viable for BM? Would it be possible to apply a dynamic pricing strategy for a company that was not only active on the internet but also in physical stores? How would BM’s customers react to the changed pricing strategy?

**Company History**

The roots of BM GmbH were laid in 1989, when Albert Lütgenau opened its first store in Dortmund. Following the success of the flagship store, the company opened eight stores in other German cities such as Lübeck and Hamburg in the years until 1999.

With the increasing dispersion of internet and the concomitant start of e-commerce business models, Lütgenau decided to explore the opportunities of e-commerce for his company. He started a collaboration with the back then unknown auction platform eBay which quickly showed its
promising development. Already in 2004, Lütgenau decided that he wanted to operate independently in online retail and therefore opened the first own online shop in Germany. Customers could now explore the wide variety of baby and child equipment easily from home onBM.de.

The rapid growth of BM presented the company with logistics problems. It was no longer feasible to ship products from the different stores to customers. Consequently, BM opened their own logistics center at Indupark in Dortmund in 2006. With a share of 90 percent, the Tengelmann group took over BM in 2010, with the remaining 10 percent held by ProSiebenSat.1 group. The new managing board, consisting of Thomas Drerup and Frank Scharmansky, decided to sell all brick-and-mortar stores to focus on the company’s growth in e-commerce.

BM established additional online shops in Austria, Poland, the Netherlands, Denmark, France, Czech Republic, Switzerland, Sweden, Italy, Belgium, Finland, and China in the years 2011 to 2015 to respond to the growing international demand for its products.

In 2015, a change in management took place and it reshaped the strategic importance of e-commerce in BM’s operations. Bastian Siebers replaced Frank Scharmansky as managing director beside Thomas Drerup. With many years of experience in e-commerce he would contribute to BM’s success in the upcoming years. In the same year, BM invested in a new design and appearance. The new design and the motto “pink or blue” from then on united all online shops and stores.

Both online and offline, BM was far from coming to a standstill. Instead of concentrating only on existing online shops and stores, the company invested heavily by expanding its online presence to other countries and by opening additional brick-and-mortar stores in Germany. In 2017, a new online-shop in Norway would be added to the existing ones. To increase its presence in German cities, a fifth store would open in May 2017 in Münster [1].

The Baby and Toy Industry

The baby and toy industry had been flourishing in the past years and this trend was expected to continue also in the upcoming years. In Germany, the overall market volume aggregated to €6.8 billion in 2015 and was expected to reach a total of € 7.037 billion in 2018. While e-commerce players in the German market had generated revenue of € 2.088,7 million in 2015, this number was expected to increase to € 2,599.3 million in 2017 and eventually amount to €3,655.3 million by 2021. The largest share of this revenue could be attributed to equipment products such as strollers, car seats, and walkers [2].

The increasing importance of e-commerce had been heavily affecting the baby and toy industry in the past 20 years. Customers were still more likely to purchase baby products in physical stores, however, the shares of revenue generated from online and offline activities were slowly changing. Whereas 25 percent (€1.7 billion) of the market volume in Germany had been sold online in 2015, this share was expected to increase to 27 percent (€1.9 billion by 2018). The GDP, which is used as a proxy for the purchasing power, was assumed to increase by 9.2 percent between 2016 and 2021. Presumably, this would increase customers’ willingness to pay. As a result, e-commerce in the toy and baby market would continue to gain importance, resulting in a higher share of market volume sold online [3].

Companies in the toy and baby market offered diverse products to their customers ranging from low-margin consumable goods such as diapers, food, and care products to high-margin products such as car seats, strollers, and toys. Depending on the type of product, there were different factors that customers paid attention to during the purchasing decision process. For strollers and car seats, safety and practical handling were the most valued attributes, along with purchase trends and word of mouth, whereas price generally played a less important role. For this reason, customers’ willingness to pay for these products was normally high. Overall, the market for baby products was characterized by a trend towards luxury products. Major reasons for this development were an improvement of the economic situation in Germany, but also the growing number of older parents with higher disposable income.
It was straightforward that customers in the baby and toy market were parents and especially mothers. Even though there had been a transformation in the traditional roles of men and women, raising and taking care of children was still mostly carried out by mothers. In comparison to the general population, the share of smartphone ownership was higher for new mothers which equally applied to their average time spent on devices such as computers and smartphones. This online time was mainly spent on shopping, search, and social media websites, which rendered this population group a target for e-commerce companies in the baby and toy industry.

**Competition**

Like the customers in the baby and toy industry, the competitors were very diverse. BM had traditionally been competing with specialist stores for baby and child products, especially regarding equipment such as car seats and strollers. These competitors provided their customers with personal advice and relationship. Moreover, customers could inspect and evaluate aspects such as material, safety, and practical handling which were particularly important for these products.

In addition to these traditional competitors, more and more online retailers were entering the market to gain foothold in the e-commerce segment. One of BM’s biggest rivals in that segment was Amazon. In 2016, 44 million users shopped on Amazon.de, representing 73 percent of all German internet users [4]. Customers were already used to buy from Amazon and believed that Amazon provided them with every product they needed for a low price. In addition, Amazon offered a greater assortment than BM’s other competitors.

Another established online retailer that entered the baby and toy market was eBay. Since 1995, eBay provided sellers with a platform on which they could offer their products and brought them together with buyers on an open online marketplace. On its website, new and used baby and child items were up for auction or direct purchase.

Besides Amazon and eBay, an increasing numbers of online retailers had entered the market for baby and toddler items offering services comparable to Amazon. One of BM’s biggest German competitors was windeln.de. The online retailer for baby products was founded in 2010 in Munich with an initial focus on products for daily use such as diapers and care products, gaining a large market share in Germany. Windeln.de put a high emphasis on growing its business internationally. They mainly did so by acquiring existing companies. As a result, approximately 75 percent of its revenues were generated from international business activities.

Another player in the baby and toy industry was baby-walz.de belonging to the VersandhausWalz GmbH. The mail-order selling company founded in 1952 opened its web shop baby-walz.de in 2000. Besides baby products, products for housewives, children, and health were sold in separate online shops. In contrast to other companies in the market, baby-walz was also present with 48 branches offering customers specialized advice during the purchase of baby products in Germany, Switzerland, and Austria [5].

Overall, the market became increasingly competitive due to the entrance of new competitors, both from general online retailers and from e-commerce companies specialized in baby and toddler products. Therefore, it was crucial to build up market share rapidly and raise brand awareness. In addition, there was a booming demand for cross-channel retailing which combined the personal advice in brick-and-mortar stores with the convenience of shopping online.

**The Cross-Channel Strategy**

BM had already established itself as one of the big players in the German market for baby and child products and its business had been prospering in the past years. In 2015, the company engaged 264 employees and offered its customers more than 100,000 articles from all popular brand manufacturers as well as its own brands pink or blue and anna & tom. Whereas its revenues amounted to €74.6 million in 2015, this figure was expected to increase to €120-130 million in 2016, which equaled a growth rate of more than 60 percent [6].
This was largely due to changes in strategy by its manager Bastian Siebers. Before 2015, the company aimed at attracting customers mainly through cheaper consumer goods such as diapers and care products. In a second step, customers were then expected to buy more expensive products with a higher margin such as strollers and car seats. As a result, according to this strategy, unprofitable first-time customers were expected to be turned into revenue-generating loyal customers. However, Siebers realized that this strategy was not working in practice because parents shopping diapers online already possessed a first equipment and therefore were unlikely to buy higher-margin products at BM.

Under the leadership of Siebers, BM started to place a greater emphasis on equipment again. As a result, BM’s new strategy focused on attracting new customers through strollers and car seats and making them return to BM for diapers, care products, and apparel.

BM’s growth could also be attributed to increasing marketing efforts through TV spots and online marketing to increase customers’ awareness for. In addition, the international expansion with the opening of new online-shops contributed to its positive development.

Furthermore, the company already started adopting a cross-channel strategy for its business activities. The current four branches not only generated offline revenues, but also contributed to the increase of brand awareness and popularity in customer regions in which the stores were situated. Consequently, online-revenues had been increasing in these regions as well. Therefore, Siebers saw an enormous potential to boost sales by opening new branches. The company planned to open three new branches each year with the aim to be present with 10 to 15 shops in large German cities.

Overall, BM had invested heavily in the last years to increase its presence in the market through additional online shops, especially in other European countries, and new brick-and-mortar stores. In this way, the company planned to increase customers’ awareness in the face of an increasingly competitive online market. Growing rapidly and establishing a strong market presence had been at the center of BM’s operations in the last years.

Despite the good results that the company was able to achieve during the last decade, BM had not yet been profitable and aspired to break even in 2017, after this expansion period.

**Dynamic Pricing: The New Trend in E-Retailing**

Baby Price was triggered with the idea of dynamic pricing back in 2000, during her PhD in retailing at the University of Cologne. Back then, Amazon was still a developing e-commerce provider operating only in the US, and no one could forecast its exceptional future success. While writing her thesis about the rising trend of e-retailing she read an article about a scandal that threatened the future of Amazon. The company had been facing allegations of offering different prices for TV sets to different customers based on their personal data such as location, shopping history at Amazon, etc. “We’ve never tested and we never will test prices based on customer demographics,” founder Jeff Bezos, reported in the article. Nevertheless, the online retailer had been forced to apologize, issue refunds, and appease angry customers who discovered the price discrimination that Amazon pursued using a new dynamic pricing strategy [7].

This was the first time that dynamic pricing appeared in the online retailing industry. Dynamic pricing is based on the changes in real-time product supply and demand. It considers factors such as price fluctuations in the market, monitors competitor activity, and individual product demand and supply. As a result, it gives e-commerce retailers data and information that can be used to set optimal product prices and stay profitable despite price fluctuations.

Many years passed after the scandal of 2000, and in 2015 Amazon used its dynamic pricing strategy intensively. The online retailer reportedly changed the prices of 15 to 20 percent of the products in its assortment at least once per day, resulting in varying prices on average every 10 minutes. Amazon undertook 3 million daily price changes through the month of November 2013, outperforming other retailers with a 27.2 percent increase in sales from 2012 to 2013 and generated over 44 billion in sales. This resulted in Amazon being named one of the top 10 retailers in the US for the first time [8].
Many players in the e-commerce environment already implemented software and strategies to exploit this new technological approach, and many more were expected to follow suit also in the industry for baby and child products. Those strategies could help them to increase revenues and margins by matching the willingness to pay of different customers offering them the most suitable price for the searched product.

**Dynamic Pricing for BM**

BM had never employed a dynamic pricing strategy before, but Baby Price knew that the online retailing industry was undergoing some radical changes and traditional pricing strategies would need to be revised. Therefore, she was not surprised when, few days after being appointed as marketing manager of the German retail company, the managing director Bastian Siebers approached her:

“Our market is getting extremely crowded, we have to find a way to differentiate ourselves and remain competitive, or we will risk falling behind despite our current growth. The online market is more dynamic than ever, we have to change our approach and strategy.”

Three days later, during the first meeting with Johannes Beck and Sandra Jung, sales and online operations managers, the concept of the new dynamism of the industry was brought up again by Sandra Jung:

“Amazon changes prices thousands of times per day, it seems as if they found the magic algorithm for price setting, we don’t know how to react and be successful in this extremely dynamic market!”

The aggressive price competition that the most popular e-retailers had initiated, especially Amazon and eBay, was creating many problems for less popular players in the online market. Sales promotions, bundle offers, targeted online advertising, and constant price adjustments were disrupting the industry, and small to medium online retailers struggled to find innovative strategies in order to avoid being forced out of the market by the above-mentioned titans in e-commerce.

Baby Price decided to ask for the help of Andreas Mayer, a consultant that could suggest some possible solutions for BM. Once again dynamic pricing appeared to be the most effective solution for the company, as Mayer stated:

“Dynamic pricing does not only boost revenues for online providers, but it has a positive impact also on cross-channel retailers as the examples of Walmart and BestBuy clearly show. Both were able to increase their revenues by 25 percent in the first year of dynamic pricing application. Furthermore, it enhances customers’ price perception and therefore strengthens customer loyalty.”[9]

One major challenge for BM was the fact that a dynamic pricing approach was not easy to implement, given the raising importance of the physical retail stores that have been opened in the last years. The company planned to cover the entire country in the next decade, in order to increase its offline service-oriented presence. And dynamic pricing was far from being easy to implement in brick-and-mortar stores, as Jonas Kaufmann, shop manager of BM in Dortmund underlined:

“We cannot change our prices every hour, our customers will get so confused and angry that they will never come back to our stores. We cannot risk losing our loyal offline customers by changing our prices right under their noses!”

Baby Price got similar remarks and feedbacks from all the shop managers that she met in her first month at BM, and her mood was getting worse and worse. Another concern for Baby Price’s project of restructuring the pricing strategy of BM was the financial viability of it.

“We are massively investing in opening new offline stores, we cannot afford to lose resources and energy by focusing on groundbreaking strategic changes. Finding the right locations and the right store managers for our shops is already hard enough.” reported to her Martin Wolf, CFO of the company. The solution to the problem was not easy and straightforward, and a new pricing strategy had to be thoroughly designed.
The Way Ahead

After the first month in office, Baby Price already felt a huge pressure on her shoulders. During the first corporate assembly, Bastian Siebers clearly stated that the company needed a new pricing strategy in order to remain competitive in the upcoming years, but at the same time underlined the strategic importance of the offline shops for the market presence of BM in Germany.

“We already offer the best products on the market, and provide optimal services to our customers. Nevertheless we do not stand out from our competition. Prices are now the key for success!”

Siebers was known for his openness towards disruptive innovations in the new high tech retail market, and his ability to understand how markets evolve was renowned in the company. And once again he probably understood which problems BM had to tackle in order to maintain its strong presence in its changing market.

Now Baby Price had the crucial task of designing a pricing strategy that could satisfy everyone, from the general director to the online operations manager and all the concerned shop managers. The strategy had to give the right flexibility to BM, to cope with the new dynamic environment, but at the same time should be financially viable and not infuriate customers, especially the ones loyal to traditional physical shops. She had many questions in her head, and the answers seemed all but trivial.

Could dynamic pricing help BM to increase its profitability in the next years? How would a specific dynamic pricing strategy at BM look like? Should BM introduce dynamic pricing at all online shops at the same time? Should the company implement the same strategy also for its offline shops?

After three months of hard work with her marketing team, she had to convince BM’s management of the new pricing strategy. Now, standing in front of the conference room door, Price patted nervously the document she was holding. Here was her opportunity to lay out her strategic plan to the executive board.

References