

Are we ready for personalised prices?

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In the 1870s, John Wanamaker introduced the "one price and goods returnable" concept in his Philadelphia department store. Up to that time, the price of an article had largely depended on negotiation between seller and customer: the former tried to establish how much the purchaser could pay and the latter to conceal how much they wanted the product. 150 years after the "one price" for all innovation, the question is whether society is ready for another innovation in which data analysis takes us back to a new version of the personalised prices of the past.

Higher information processing capability provides ever better information about customers, what they need or do not need, whether or not they are willing to pay more, and what their financial situation is. What challenges and opportunities does this new capability present for companies, customers and economic authorities?

Are companies ready to apply personalised prices? To do so requires knowing the customer through the processing of structured and non-structured information from different sources. This involves preventing the customer from "gaming" the system of offers addressed to other types of customer, or from reselling the product. But not just technical skills are required. Personalised prices must not be perceived as an abusive, unfair practice or one that restricts competition from other companies (the latter is usually illegal in countries like the U.S.). In short, achieving a successful personalised prices system that does not lead to a public relations problem is not such an easy thing.

Are consumers ready to accept personalised prices? Here there will be great disparity. Normally, consumers with a greater purchasing capability and a greater preference for the product or service will end up paying a higher price than other customers. Consumers with less purchasing power will be delighted to pay less, or even, that a lower price makes the product affordable whereas a uniform price would exclude them from the market by making it unaffordable. In this way, one of the criticisms of personalised prices, the lack of fairness, would lose much of its force if customers with less purchasing power ended up paying less.

Are legislators and regulators ready to allow personalised prices? The important thing is to make sure that these differentiated prices do not affect competition in other markets (for example, when different prices are charged for the same input to companies competing with each other). They also have to ensure that personalised prices do not end up reducing the total supply in the market compared with a uniform price for all. For a regulator to allow personalised prices, they should at least make it possible to "open markets", in other words there should be consumers who can now access the product or service who would not have been able to do so at a uniform price for all. Of course, this means analysing hypothetical and counterfactual situations, and therefore it is a complicated task that does not admit of simple formulas such as blanket prohibition or authorisation of personalised prices. It will be necessary to analyse case by case.

In short, the greater availability of data and the ability to process them poses interesting questions about how ready we are to accept different prices being paid for the same product or service. Price discrimination is a highly stigmatised term, but there are real situations in which both producers and most consumers and society as a whole stand to gain if we allow them to. However, of course, we have to have a vigilant authority to permit its use and avoid abuse. At the end of the day, we have to recognise that we are already surrounded by cases where a certain price personalisation exists, which society and consumers accept without misgivings and which also benefits the seller. Discounts for the elderly, deductions for students, lower airline ticket prices for staying overnight on Saturday at the destination, grants for students with fewer resources, are just a few examples of price discrimination.

Creating Opportunities

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