The Daily Dish

Personalized Pricing

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Personalized pricing is the use of individual customer data to charge a customized price. The Federal Trade Commission (FTC) recently requested comments on a framework for enforcing a policy toward personalized pricing. Fred Ashton has a complete discussion. Here is the short version.

The first things to note are what this is not. It is not a ban on personalized pricing. It is how the FTC is currently thinking about personalized pricing. Personalized pricing is also not some very common variations in pricing: senior citizen discounts (age), early bird parking or rush hour tolls or subway fares (time-of-day), or off-season vacation rentals (time-of-year). None of these results in an *individualized* price.

Finally, personalized pricing is not just a way to raise prices. Yes, that can happen if firms identify an individual with a very strong demand for their product or service. But it could also mean offering a lower price to attract someone who would not otherwise make a purchase. As long as the low price covers the additional cost of that customer — without having to give the same discount to everyone — the firm can make more money. This is familiar from college aid awards.

Notice that in the last example both the firm and the customer are better off. Personalized pricing is not automatically a bad thing. So when does the FTC think it is undesirable? As Ashton puts it:

> *Where consumers reasonably expect that prices for a product or service will not vary based on their personal data, businesses that engage in personalized pricing should clearly and conspicuously disclose not just that the price is personalized, but also the basis for that personalization and the types of data on which the personalization is based. The failure to make these disclosures is likely to constitute an unfair or deceptive act or practice.*

The catch in this approach is the slippery phrase “consumers reasonably expect.” Strong enforcement stems from objective standards for behavior. This approach invites discretionary interventions based on subjective criteria, an undesirable approach.

No policy toward personalized pricing is better than a flawed policy.