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Commentary

A general view on price discrimination

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DESCRIPTION

An enterprise might use a variety of pricing strategies when selling a product or service. Before determining the most successful pricing strategy, senior executives must first assess the company's price position, pricing segment, pricing capabilities, and competition pricing reaction plan. Pricing strategies and approaches differ from one company to the next, as well as across countries, cultures, and industries, as well as over time as industries and marketplaces mature and the economy changes.

Price discrimination is a microeconomic pricing technique in which the same provider sells identical or nearly similar goods or services at different prices in various marketplaces. Price discrimination is characterized from product differentiation by the greater variance in production costs for the variously priced products involved in the later strategy. Differentiation in price is based on differences in customers' willingness to pay and demand elasticity. In order for price discrimination to work, a company must have market power, such as a dominant market share, product uniqueness, sole pricing authority, and so on. All prices under price discrimination are higher than the equilibrium price in a completely competitive market. Some prices charged under price discrimination, on the other hand, may be lower than those charged by a single-price monopolist.

Differential pricing refers to the practice of charging different prices to different buyers for the same quality and quantity of a product, but it can also refer to a mix of price and product differentiation. Price discrimination can only be a feature of monopolistic and oligopolistic markets, where market power can be applied, in a theoretical market with perfect knowledge, perfect alternatives, no transaction costs, and no limitation on secondary exchange (or re-selling) to avoid arbitrage. Otherwise, when a seller tries to offer the same item at different prices, the lower-priced customer can arbitrage by selling to the higher-priced consumer with a small discount. Even in completely competitive retail or industrial markets, product heterogeneity, market frictions, or large fixed costs which render marginal-cost pricing unsustainable in the long run can allow for some degree of differential pricing to distinct consumers. The impact of pricing discrimination on social efficiency is unknown. When price discrimination is particularly effective, output can be increased. Price discrimination can diminish efficiency by misallocating production among consumers, even if output remains constant.

Price discrimination necessitates market segmentation as well as some way of preventing discount customers from becoming resellers and, as a result, competitors. This usually requires employing one or more methods to prevent reselling, such as separating price groups, making price comparisons difficult, or limiting pricing information. Market segmentation is the practice of breaking a large consumer or corporate market into sub-groups of customers (known as segments) based on shared criteria.

Price discrimination distinguishes between customers' willingness to pay in order to eliminate as much consumer surplus as possible. A corporation could utilize its market dominance to discover the consumers' willingness to pay by analyzing the elasticity of their demand. When there is price discrimination in the market, different people will pay different prices for the same commodity. When a business recognizes a customer with a reduced willingness to pay, it can utilize the price discrimination method to increase profits.

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