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THE CONVERSATION

Price discrimination isn't only about pink razors

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Pink ones are better? REUTERS/Paul Hackett

Would you pay more for a pink razor? High street stores Boots and Superdrug have been busy reviewing how they price their products after campaigners claimed products targeted at women were marked up on the shelves. Both retailers seem to have acknowledged that female customers may have been getting a bad deal. Widespread price discrimination like this might appear unfair but in truth, it's happening all the time, everywhere, to all of us.

It's not restricted to two shops, who are at least doing something about it by looking again at products and urging action from suppliers. Allegations of brands and retailers charging different prices to men and women have been seen on both sides of the Atlantic. A 2015 report from the New York City Department of Consumer Affairs surveyed around 800 products with male and female versions across more than 90 brands and concluded that on average products aimed at women cost about 7% more. Women's personal care products were 13% more expensive than comparable men's products; women's clothing was 8% more expensive.



REUTERS/Darren Staples

Discrimination by degree

When comparable products targeted at men and women are sold at different prices this is a straightforward example of price discrimination.

In economics there are considered to be three different types of product differentiation. First-degree or perfect price discrimination exists when sellers are able to charge a different price to each potential buyer, with the seller able to determine the unique maximum price that each buyer is willing to pay. It's difficult to find examples of this pricing strategy, but the souks of Marrakech may be one good one, where traders agree prices after assessing buyers' willingness to pay and their bargaining skills.

Second-degree price discrimination arises when consumers are charged different prices for products based on quantities purchased. So the price of a single toilet roll will differ depending on whether a pack of two, four, or nine are purchased, and retailers often offer multi-purchase discounts such as "buy two, get a third free".



Peter Clark, CC BY-NC

Then there is third-degree or multi-market price discrimination, when sellers charge different prices for similar products to different groups of consumers. This is where things can start to seem a little unfair.

In this case, sellers estimate the differing willingness to pay for products for groups of consumers and then price accordingly. So rail operators around the world often offer senior citizen or young person discounts on rail tickets whether they are required to or not, identifying these groups of consumers as more "price sensitive". Better to have them on board than not buying at all.

In other settings, sellers may realise that groups of consumers have a different willingness to pay but rely on these consumers self-selecting into more or less price sensitive groups. The

ubiquitous coffee shop is a great example of this. The economist and journalist Tim Harford describes how your local Starbucks or Costa chooses base prices for a “regular” cappuccino or latte, but then layers on mark ups for extra shots or flavoured syrup which are relatively large. It means sellers can make a greater profit from less price-sensitive consumers willing to pay for modifications to their drinks.



Upselling opportunity. Pierre-Olivier Carles, CC BY-NC-ND


By law, retailers cannot announce and charge different prices to men and women. But, if they think one group is less price sensitive than another, then they can differentiate products slightly and charge a higher price or higher mark up for the products bought by the less price sensitive group.

There have been many recent examples of products that fall into this category – as diverse as pens, jeans, razors and scooters – where seemingly minor differences, for example in product colour, result in very different prices which cannot be explained by cost of production differences. If a shop charges more for a razor with a pink handle, it is because the retailer thinks some consumers are less price sensitive, and will be willing to pay a higher price for a pink item. In theory, this is not necessarily gender-specific, of course, but it's pretty easy to surmise the thinking behind the strategy.

It is less a cause for concern when similar products are positioned near to each other in stores, including online stores, with prices easily identifiable. That helps consumers to compare products and prices, and choose the product most in line with their preferences. Some people will be happy to pay a bit more for a pink razor; others will not. One benefit of the recent media attention is that it highlights to consumers the choices they face. Hopefully it will lead to better informed purchases.

Anyone can buy a pink razor, but a line is crossed when price discrepancies occur for products which are gender specific but which cost pretty much the same to make as a similar item for the other gender. Jeans made from identical fabric but cut slightly differently according to gender, for example. Charging more in this case is unfair and should be ended. This could be enforced legally, but we should hope that better-informed consumers will choose products from retailers that do not discriminate in this way and which will give our high street retailers the incentive to drop the gender discrimination.

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