Schumpeter

Flexible figures

A growing number of companies are using "dynamic" pricing

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IF A cynic is someone who knows the price of everything and the value of nothing, as Lord Darlington observes in Oscar Wilde's "Lady Windermere's Fan", then it is getting progressively harder to be a cynic. A growing number of companies keep their prices in a constant state of flux—moving them up or down in response to an ever-shifting multitude of variables.

spread to other airlines, and thence to hotels, railways and car-rental firms. But it only became the rage with the arrival of e-commerce.

The price of goods and services sold online can be varied constantly and effortlessly, in accordance with the numbers and characteristics of those making purchases, and factors such as the weather. Competitors can be monitored constantly, and their prices matched. Amazon updates its price list every ten minutes on average, based on data it is constantly collecting, according to Econsultancy, a research and consulting firm.

The practice is spreading to physical retailers, which are installing electronic price displays and borrowing pricing models from e-retailers. Kohl's, with nearly 1,200 stores in America, now holds sales that last for hours rather than days, pinpointing the brief periods when discounts are most needed. Cintra, a Spanish infrastructure firm, has opened several toll roads in Texas that change prices every five minutes, to try to keep traffic moving at more than 50mph (80kph). Sports teams, concert organisers and even zookeepers have embraced dynamic pricing to exploit demand for hot tickets and stimulate appetite for unwanted ones.

The dynamic-pricing revolution provides plenty of benefits for businesses. Besides helping them smooth demand (which can spare them the cost of maintaining extra capacity for peak times), it makes it easier for them to squeeze more out of richer customers. Travel websites have experimented with steering users of Apple computers—assumed to be better-off than Windows PC users—towards more expensive options. Airlines have been caught charging loyal travellers more for a ticket than infrequent travellers, on the assumption that they are more likely to be on a work trip, so their employer will probably be paying. The technology is far from perfect: ever since buying a coffee machine online your columnist (who is not good at newfangled tasks such as clearing browser cookies) has been inundated with offers for coffee machines, as if the purchase was proof not of a need that had been satisfied but of an

New York, Uber capped its surge prices for its regular taxis at just 3.5 times the normal fare.

Psychological resistance can be fierce when companies use data collected from their customers to charge them more. That is why, in 2000, Amazon quickly dropped a scheme to charge some customers more for DVDs based on their personal profiles, and why it has trodden carefully since. Customers are learning to play the game. Some are searching for flights from an internet café instead of their living-rooms, to get lower fares. Others are piling goods into their online baskets and then failing to click "buy", hoping this will prompt the seller to offer a better deal.

Price-fixation

The second risk with dynamic pricing is that it ends in a race to the bottom. Companies that sell online have long been caught up in a war for the top slot on price-comparison sites: even being cheaper by a penny can make all the difference. Physical retailers are being caught in the same logic: those adopting dynamic pricing are mostly doing so to avoid being turned into mere showrooms by customers who inspect the goods but then buy online. The Nebraska Furniture Mart constantly watches what competitors such as Amazon and Best Buy are charging, and updates its in-store electronic displays each morning to meet its guarantee of offering the lowest price. This is obviously good for customers. But getting fixated on prices can distract businesses from seeking ways to make their products and services so attractive that customers will be less fussy about their cost, as the most successful purveyors of luxury items, from Ferraris to Hermès scarves, do.

The oldest form of dynamic pricing was practised in ancient bazaars, where merchants would size up their customers before the haggling began. Those retailers might not have been able to compute as many different variables as today's algorithms. But they still have something to teach today's dynamic pricers about the imp[illegible]ce of establishing trust and playing on

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