

Now Prices Can Change From Minute to Minute; Online sellers have used dynamic pricing for years, but now others are taking advantage of software that analyzes consumer habits

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ABSTRACT

Since introducing such dynamic pricing last year, the zoo's admission revenue has grown 12%. Online sellers have used such tactics for years, but frequent price changes are increasingly common in the physical world, amplifying the effects of supply and demand on everything from parking spots to golf-course greens fees.

FULL TEXT

Adult passes to the Indianapolis Zoo used to cost \$16.95. Now they set customers back \$8 or \$30—or almost anywhere in between.

The zoo prices tickets like airmiles, changing prices daily based on advance sales and expected demand. It discounts cold weekdays in February and boosts prices after school groups book dozens of tickets. Since introducing such dynamic pricing last year, the zoo's admission revenue has grown 12%.

Michael Crowther, the zoo's chief executive, jokes that his tombstone will read, "He brought dynamic pricing to the Indy Zoo."

Backed by vast amounts of data and powerful software, more businesses are varying prices by the day, the hour, or even the minute. Online sellers have used such tactics for years, but frequent price changes are increasingly common in the physical world, amplifying the effects of supply and demand on everything from parking spots to golf-course greens fees.

A Dallas highway can shift toll prices every five minutes depending on traffic. Kohl's Corp. uses electronic price tags in 1,200 stores to change prices for busy and slow times. More than 250 ski resorts in North America adjust the price of advance-sale tickets daily, based on tickets already sold.

On average, consumers pay more as a result of these moves, economists say. Dynamic pricing also affects who gets the goods in highest demand, favoring those willing to pay the most, while creating deeper discounts for shoppers who can buy when prices are low.

Previously, a taxi at rush hour went to "the person who happened to be on the right street corner," said Ian McHenry, the president of Beyond Pricing, which helps homeowners price their rented guest rooms like big hotels. Now, rides go to people willing to pay more, and fewer people "hit the jackpot and get that underpriced reservation or baseball ticket or open cab."

Rapidly shifting prices highlight another way technology is reshaping the modern economy. Businesses have long used prices to smooth out demand, such as discounted matinee shows and bars' happy hours. But the changes were often fixed, infrequent and based on intuition rather than data.

As more transactions move online, businesses amass more data on consumers' purchase habits and competitors' prices. Companies use that data, along with variables such as weather forecasts, to continually adjust prices.

Online, businesses can alter prices more easily; there is no need to dispatch employees with pricing guns. Airlines pioneered more sophisticated dynamic pricing in the 1980s. Hotels and rental-car firms followed in the 1990s. Coca-Cola Co. tested raising its vending-machine prices on hot days in 1999 but retreated after customer backlash.

More recently, sports teams, bands and SeaWorld Entertainment Co. have begun adjusting prices based on demand. Walt Disney Co. is studying the strategy for its theme parks. Ride-sharing firms Uber Technologies Inc. and Lyft Inc. can charge multiples higher from one moment to the next, based on the number of users looking for a ride and drivers on the road. On busy nights like New Year's Eve, fares can soar to \$500.

Among the latest incursions: retail. Internet retailers like Amazon.com Inc. have long adjusted prices based on demand and other factors. Now, Kohl's uses electronic price tags to remotely raise and lower prices—through short-term sales—depending on expected demand, said Sunit Saxena, CEO of Altierre Corp., which makes the electronic tags. With traditional tags, Kohl's sales typically lasted days; now they last hours, Mr. Saxena said.

"It's tough to predict, even for me," said one store manager. Kohl's declined to comment.

French retailer E.Leclerc uses the tags in roughly one-third of its 600 stores to make more than 5,000 price changes a week, roughly 10 times as many changes as before the tags, said Michel Itie, a technology consultant for E.Leclerc.

The tactic is likely to spread. A Toyota Motor Corp. dealership in North Carolina is testing electronic tags that alter prices based on competition online, Mr. Saxena said. In the grocery aisle, Kroger Co. is testing electronic price tags at one store in Kentucky. And Drink Exchange, a software firm, enables 15 bars across the U.S. to raise and lower drink prices with each sale.

In China, Latin America and the U.K., theaters charge more for hit movies than box-office duds. U.S. theater chain AMC Entertainment Holdings Inc. has said it is experimenting with such pricing.

"This is not a passing fad," said Peter Fader, co-director of the University of Pennsylvania's customer-analytics initiative. Amazon is making dynamic pricing the norm, he said, "and then it's going to become imperative for the brick-and-mortar players to figure out how to do this."

The trend is good for business, helping companies charge more for in-demand items and offload surplus goods. Caberfae Peaks ski resort in Cadillac, Mich., said its revenue per customer has surged 17.6% since it began dynamically pricing its advance-sale tickets five years ago.

Variable pricing can also influence behavior. Uber and Lyft raise prices during peak times in part to lure more drivers onto the road.

Highway operators use dynamic pricing to regulate traffic. Over the past two years, Ferrovial SA unit Cintra has opened several toll roads in the Dallas area that can change prices every five minutes to keep speeds above 50 miles an hour. The toll for one 7-mile stretch, for instance, fluctuated between 90 cents and \$4.50 in a recent week.

The Indianapolis Zoo said it adopted dynamic pricing in part to limit crowds after opening a new orangutan center last year. The strategy worked: two-thirds of guests visited on weekdays this summer, compared with 57% in 2013.

And Gogo Inc. shifts the price of its in-flight Internet between \$8 and \$40 based on a flight's route, day and time to limit the number of users and keep speeds high.

Andrew Sullivan, a products manager at a California manufacturer, recently paid \$34 for the Wi-Fi. "It's a drag as a consumer," he said. "You're not getting any additional value when you're paying twice as much for the same commodity."

Consumers typically resist dynamic pricing when it is introduced, but then quickly acclimate, Mr. Fader said. Five years ago, Major League Baseball teams caught flak when they began changing ticket prices based on factors such as date, opponent, weather forecasts and seats remaining.

"Now pretty much every one of them is doing it routinely, and doing it with a remarkable lack of backlash," Mr. Fader said. "The first time, it's 'That ain't right.' The second time, it's all right."

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