

AMAZON IS WATCHING YOU

Amazon, a giant among e-commerce vendors, collects an enormous amount of information about its 23 million customers' tastes and willingness to buy. If you've shopped at Amazon, you've probably noticed that its Web site now greets you by name (thanks to a *cookie* it leaves on your computer, which provides information about you to Amazon's Web site).

In 2000, the firm decided to use this information to engage in *dynamic pricing*, where the price it charges its customers today depends on these customers' actions in the recent past—including what they bought, how much they paid, and whether they paid for high-speed shipping—and personal data such as where they live. Several Amazon customers discovered this practice. One man reported on the Web site DVDTalk.com that he had bought Julie Taylor's "Titus" for \$24.49. The next week, he returned to Amazon and saw that the price had jumped to \$26.24. As an experiment, he removed the cookie that identified him, and found that the price dropped to \$22.74.

Presumably, Amazon reasoned that a returning customer was less likely to compare prices across Web sites than was a new customer, and was pricing accordingly. Other DVDTalk.com visitors reported that regular Amazon customers were charged 3% to 5% more than new customers.

Amazon announced that its pricing variations stopped as soon as it started receiving complaints from DVDTalk members. It claimed that the variations were random and designed only to determine price elasticities. A spokesperson explained "This was a pure and simple price test. This was not dynamic pricing. We don't do that and have no plans ever to do that." Right. An Amazon customer service representative called it dynamic pricing in an e-mail to a DVDTalk member, allowing that dynamic pricing was a common practice among firms.