BBA 2nd Semester

Managerial Economics

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DUAL PRICING

INTRODUCTION

Dual pricing is a situation in which the same product or service is sold at different prices in different markets. There are a number of reasons why dual pricing may be employed, including the following:

- An aggressive competitor may use dual pricing to drastically lower its price in a new market. The intent is to drive out other competitors and then raise its prices once the other parties are no longer selling in the market. This practice can be illegal.
- There may be financial and tax reasons for pricing differently. For example, adverse currency exchange rates or currency retention requirements may make it more difficult to sell into a market, so the seller must raise prices to offset these costs of doing business.
- Distribution costs may be different in each market. For example, distributors must be used in one market, while sales can be direct to consumers in another market. Each distribution variation results in different margins, unless prices are altered to generate a uniform margin in all markets.
- Prices may be demand-based. Thus, an airline can offer one price to an early-booking customer and a higher price to someone attempting to buy a seat at the last minute.

List of the Pros of Dual Pricing

1. It can be used to lower prices in a new market.

When dual pricing is implemented, a company is able to offset a low price in a new market with an established higher price in a mature market. That allows the company to subsidize the losses in the new market while expanding its footprint. When implemented successfully, this strategy can be used to drive their competition out of the new market. Once that occurs, the company would be free to raise prices to then subsidize another new market.

2. It can be used to counter exchange rate issues.

When there are currency retention requirements or detrimental currency exchange rates in a targeted market, then dual pricing can be used to offset the issues. That allows a business to stay competitive in each market while being able to meet their taxation and financial obligations.

3. It can be used to counter distribution cost variances.

Let's say there is a company that is based in Maine. They have two markets: a local market in their state and one in British Columbia, Canada. To get their products to the other coast, they have higher shipping fees, border fees, and distribution fees that must be paid. By offering their products at a higher price in Canada, they can implement a dual pricing strategy which helps the company be able to maintain their required margins.

4. It can be used to meet higher demand levels.

Dual pricing is also used when there is scarcity within different markets for a specific product. An example of this method is used by the airline industry on a frequent basis. If you book a flight well in advance, there is a good chance that you'll be rewarded with a low price. For someone attempting to book a flight last-minute, the price of their ticket will likely be higher than the ticket purchase by the customer who booked early.

5. It can be used to protect domestic businesses.

Governments can implement dual pricing models too. They do this to protect domestic businesses who may be negatively impacted by a foreign competitor. Through tariffs, subsidies, and similar methods, a government is able to control the pricing of foreign goods or services to make them appear less competitive than domestic items of similar quality. This would potentially offer more local spending, which would then create the potential for more local jobs.

6. It can be used by consumers to save money.

In markets where competition is encouraged, dual pricing gives consumers an option when shopping for something specific. By comparing goods and services, consumers can choose the cheapest option if they wish, which allows them to meet their needs at a lower cost. That gives consumers more money to use for other purposes.

List of the Cons of Dual Pricing

1. It is a practice that may be illegal.

There are some legitimate reasons to consider dual pricing from an organizational viewpoint. There are also some illegal reasons why dual pricing may be considered. If a business is using a dual pricing model as a way to gain an advantage in a targeted importing market, then it may not be permitted. Entering a new market to undercut domestic businesses may cause harm to the local economy and trigger the implementation of tariffs.

2. It can increase export costs.

To create a dual pricing model, there must be a loss somewhere within the economic chain taken by the company. They must have a way to offset that loss through their other markets if this strategy is to be successful. For many organizations, the cost of subsidizing a new market with a predatory pricing strategy tends to harm overall profitability. That means it is not usually a sustainable practice.

3. It can limit the number of goods available to consumers.

One of the easiest ways to deal with a dual pricing issue is to restrict the number of goods or services permitted at discount pricing through quotas. Once the quota has been met, the product or service is no longer permitted in that market. That means consumers affected by quotas may not have the same level of access to the goods or services they want or need.

4. It can limit wage growth in developing markets.

One of the top reasons for offshoring, from a U.S.-based perspective, is that labor costs in other nations are much lower. Because labor is one of the biggest expenses a business faces, reducing its cost can create much higher profits. Now imagine an overseas company in a low-cost labor market is able to produce a similar product. Then they export it to the high-value market. They'd be able to make better profits from a local perspective, undercutting the existing business offshoring labor. By allowing dual pricing, there is no incentive to encourage wage growth at a local level.

5. It can be used for discriminatory purposes.

Dual pricing models can be implemented at the retail level as well. Individual business owners can offer one group of consumers a lower price than another group. In a country like Thailand, this method of pricing is widely practiced in the markets. Tourists, ex-pats, and other foreigners are often charged 3 times more for the same product that someone from Thailand pays. The justification for this practice varies, though it can often be used to discriminate against a specific consumer base. It becomes easier to stop serving a specific group of people if you price your items much higher for only them.

CONCLUSION

These dual pricing advantages and disadvantages show that businesses and consumers can benefit from the practice if it is carefully managed. It also shows that it can set off a pricing war where businesses end up fighting to generate revenues on thin margins as they attempt to gain a higher market share. For that reason, most trade agreements include restrictions or regulations which limit or prohibit the practice of dual pricing.