

Intelligence MEMOS



From: David Jones
To: François-Philippe Champagne, Minister of Innovation, Science and Industry of Canada
Date: September 27, 2024
Re: **THERE'S METHOD TO THE DYNAMIC PRICING MADNESS**

Earlier this month, in response to huge demand, ticket prices surged for the 1990s Britpop band Oasis's long-awaited reunion tour across Britain and Ireland.

Dynamic pricing – allowing prices to fluctuate in response to changes in market conditions – is rarely a fan favourite. Just ask Wendy's customers about its now-abandoned plan to introduce it in 2025. But step back and we'll see that dynamic pricing – when used in the right context and appropriately implemented – fulfills an important role.

If a good or service is in short supply, allowing the price to rise can naturally identify who wants it the most, similar to an auction. It narrows the field of buyers to those who offer the highest prices and have the greatest willingness to pay, albeit there may be an equity trade-off, as rising prices are less of a disincentive for high-income households and wealthy corporations.

Therefore, dynamic pricing helps to manage the level of demand. For example, allowing energy prices to increase during peak demand is an efficient way to manage capacity. It helps energy system operators avoid blackouts and encourages flexible customers to use cheaper energy during off-peak hours. In Britain, British Gas offers half-price electricity to customers on Sunday afternoons. This can even increase the proportion of renewable energy consumed.

Dynamic pricing also induces supply. Uber provides the best example: As prices surge, more potential drivers get behind the wheel. As potential riders, we don't like price surges, but we still prefer to pay higher prices than to stand in the cold.

And we should keep in mind that dynamic prices don't always go up – they sometimes fall. If you've ever bought food with a half-price sticker at the supermarket, you've benefited from dynamic pricing. Much of the unfavourable sentiment surrounding dynamic pricing is because many people only associate it with higher prices.

Lastly, dynamic pricing may help to reduce the size of unofficial secondary markets. Concert tickets are a good example: If ticket prices for the Oasis reunion tour were very low, it would attract more ticket scalpers because of the high potential profit. Although dynamic pricing means higher profits for the bands and their management teams, it at least deters unofficial ticket agents from crowding out potential buyers during the formal sale process.

The golden thread is that dynamic pricing offers benefits to at least some groups of potential customers. There is some method in the madness.

Our instinctive outrage toward dynamic pricing requires a sense check. Is dynamic pricing a vehicle for corporations seeking to increase their profits? Almost certainly, but this is by no means exclusive to dynamic pricing: Firms often set high prices without those prices being dynamic.

The Oasis ticket pricing controversy boils down to three main issues.

First, it wasn't clearly communicated that dynamic pricing was in use. That gave a whiff of sneakiness that customers don't like. It could even have legal consequences, with Britain's Competition and Markets Authority announcing that it will investigate.

Second, dynamic pricing for highly anticipated events creates a sense of helplessness and uncontrollability over the eventual price paid. There is limited visibility for customers over the length of the online queue and the price that will be charged once they reach the front of the line.

In contrast, in some circumstances (such as flights and hotels), we more readily accept that prices could change. But in these cases, customers can typically guard against high prices by booking in advance.

Third, and most importantly, no one likes paying more for something, particularly when it is unexpected. This is not specific to dynamic pricing but it is certainly exacerbated by it, and therefore it makes dynamic pricing a natural target for frustration around higher prices.

Improvements to the recent Oasis experience are clearly possible. Most obviously, through clearer communication around the pricing rules in play, which particularly helps to protect vulnerable customers. Dynamic pricing can also exist within a hybrid pricing system to ensure that low-income households are not entirely priced out. For example, some tickets for the Wimbledon tennis tournament are set aside for people who physically queue up each day.

But the villain isn't specifically dynamic pricing itself. In the right context, dynamic pricing has much to offer. With increasing digitization, data-driven algorithms and artificial intelligence, we're likely to see more dynamic pricing in the years to come.

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A version of this Memo first [appeared](#) in The Globe and Mail.