



IS PERSONALIZED PRICING FAIR?

SWISS SUPERMARKETS ARE TESTING THE LIMITS AND FEELING THE BACKLASH

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In Switzerland, one of the country's largest grocery retailers has recently rolled out personalized discounts based on shopping data collected from customer reward cards. The move has been met with a strong backlash from shoppers and has faced criticism from the Swiss consumer protection foundation.

I've been a vocal advocate of [letting customers segment themselves](#) by their willingness to pay.

What's the problem?

Do businesses which use customer data to offer personalized discounts cross the line?

I think there are two main issues here: one is related to privacy and the fact that all my purchases are monitored. The second one is price discrimination.

A number of studies on price fairness confirm: most people feel that it's unfair for other customers to receive different discounts when they can't benefit from that price reduction themselves.

As I have argued before, it's smart, and even fair, to let customers segment themselves when all customers receive the same coupon, even if we know that some will not use them. Each customer can decide on their own if it is worth redeeming. But if some customers in Group A receive different coupons from customers in Group B, meaning that customers in Group B are "penalized", so to speak, because they always buy the same product and therefore they have to pay a higher price – well, that's not fair.

The CEO of Migros Herbert Bolliger says that his company has not in fact introduced personalized pricing. He is right about one thing: the coupons proposed using customer data are not equally relevant for all customers. He argues that Migros' intention is not to move towards personalized pricing, but towards personalized advertising.

A recent headline in one of the country's top papers Neue Zürcher Zeitung read "The rich pay more at Migros". While the headline is sensationalist – "wealth" is not measured with Migros' cards – the bias is there. Customers with a higher willingness to pay do end up paying more and buying more expensive products.

While it seems that Migros could have miscalculated the situation, it's more probable that the company is just being pragmatic and is testing the waters to see how its customers react. Faced with too much resistance, the company will simply back down.

But the move is surprising. Migros and Coop have so much customer data that it's certainly not necessary for them to rankle people with personalised discounts.

They could simply give all customers the same discounts, because they know exactly which customer has used which discount on which day, and which customer has not. When a discount is linked to a specific condition, then it's fair. When it's linked to a specific person, then it's unfair. Migros shouldn't have personalized discounts – it would have been better to operate in such a way as to ensure that the discount would be redeemed by some customers but not others.

People are wise to the personalized discount structure. The media have rightly seized on it and explained how it works. For me, this outcry comes as no surprise, and it could easily have been avoided.

Good and bad discounts

It's possible to increase the margin in many sectors simply by eliminating "stupid discounts"; there are good and bad discounts. A bad discount, for example, would discriminate against a good customer because he's nice – in other words, he isn't pushy and doesn't complain like other customers, but he's just a decent guy. If I, as a Migros customer, have to pay more for my biscuits than the next person, because I have been classified as having particularly high purchasing power based on the data stored on my Migros card, then that's unfair. But it would be fair if there were discounts for shopping on a Thursday. The customer sees this as fair because he can decide himself whether he wants to take the "punishment" and benefit from the offer. Good customers shouldn't be punished because they are good customers.

What risk for Migros?

The challenge from the Swiss consumer protection foundation is about data protection, but not about unfair pricing. Imagine that two customers buy a pineapple, but one pays two francs less than the other. The consumer protection foundation is calling for a declaration for the lower price saying why the person has to pay two francs less. But that's no use to anyone! The one receiving the discount and paying less has no reason to be annoyed. The angry customer is the one paying two francs more – but nothing has to be declared for this purchase.

Smart pricing yes, personalized pricing no.

[Stefan Michel](#) is professor of marketing at IMD and directs IMD's [EMBA](#) program.

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