

Title: How to Price Discriminate efficiently? Two-part vs. Three-part tariffs.

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Abstract:

We show that a relatively small menu of three-part tariffs (3PTs) can be more profitable and, sometimes, socially more desirable than a larger menu (more items) of two-part tariffs (2PTs). Often, a single three-part tariff can beat a sorting menu comprising multiple two-part tariffs. Moreover, this 3PT menu can be designed with less information about consumer preferences, relative to the menu of two-part tariffs which, in order to segment customers optimally, needs fine-grained information about preferences. Our analysis reveals a counterintuitive insight that more complex tariffs need not always be more profitable, the {source} of complexity influences how efficiently the tariff can price discriminate. The 3PT structure not only produces higher profit, but has lower managerial and decision complexity.