

Consumers and retailers have very different attitudes toward dynamic pricing

Article

The trend: Dynamic pricing is gaining popularity as retailers, restaurants, and other venues look for ways to maximize revenues. But consumers are pushing back as high inflation forces

them to strictly manage spending.

- **Telfar** is introducing dynamic pricing—albeit with a twist—to set prices for its newest collection, **per** Business of Fashion.
- Restaurant chain **Noodles & Company** plans to use digital menu boards to test adjusting prices in relation to demand throughout the day, CFO **Carl Lukach** **told** National Restaurant News.
- Venues ranging from movie theaters and golf courses to bowling alleys have implemented variable pricing based on factors like time of day, seat location, or the film being shown.

Consumers push back: The concept of dynamic pricing may seem simple—that prices rise when demand is high, and fall when demand is low—but the reality for consumers is anything but, especially given the lack of transparency.

- Most people have a starkly negative view of dynamic pricing: **52% of US consumers think it's equivalent to price gouging**, **per** a Capterra survey. Only 34% believe dynamic pricing benefits consumers.
- The frequency of pricing adjustments makes it harder for households to plan their budgets, and puts particular stress on consumers already struggling to make ends meet amid double-digit grocery inflation and high energy prices. **Of US consumers, over six in 10 (63%) say dynamic pricing makes it more difficult to budget restaurant spending.**
- Additionally, price fluctuations can add enough friction to drive consumers to purchase less often or turn to a competitor. Over one-third (36%) would order less frequently from a restaurant that implemented dynamic pricing.

Other use cases: That said, there are some innovative uses of dynamic pricing that could drive customer loyalty and sales, as well as unlock additional value for shoppers.

- For example, **Telfar's approach turns the system on its head by ensuring that prices for its most popular products are lower than those with less demand.** Items for its most recent drop were initially listed at wholesale price, then ticked up every second until the product sold out. Not only does this approach fulfill the brand's ethos of accessible luxury, but it also allows it to more accurately gauge demand and price sensitivity.
- Grocery offers another potential use case. More supermarkets are relying on dynamic pricing to mark down goods nearing their expiration dates, allowing them to offer more discounts to

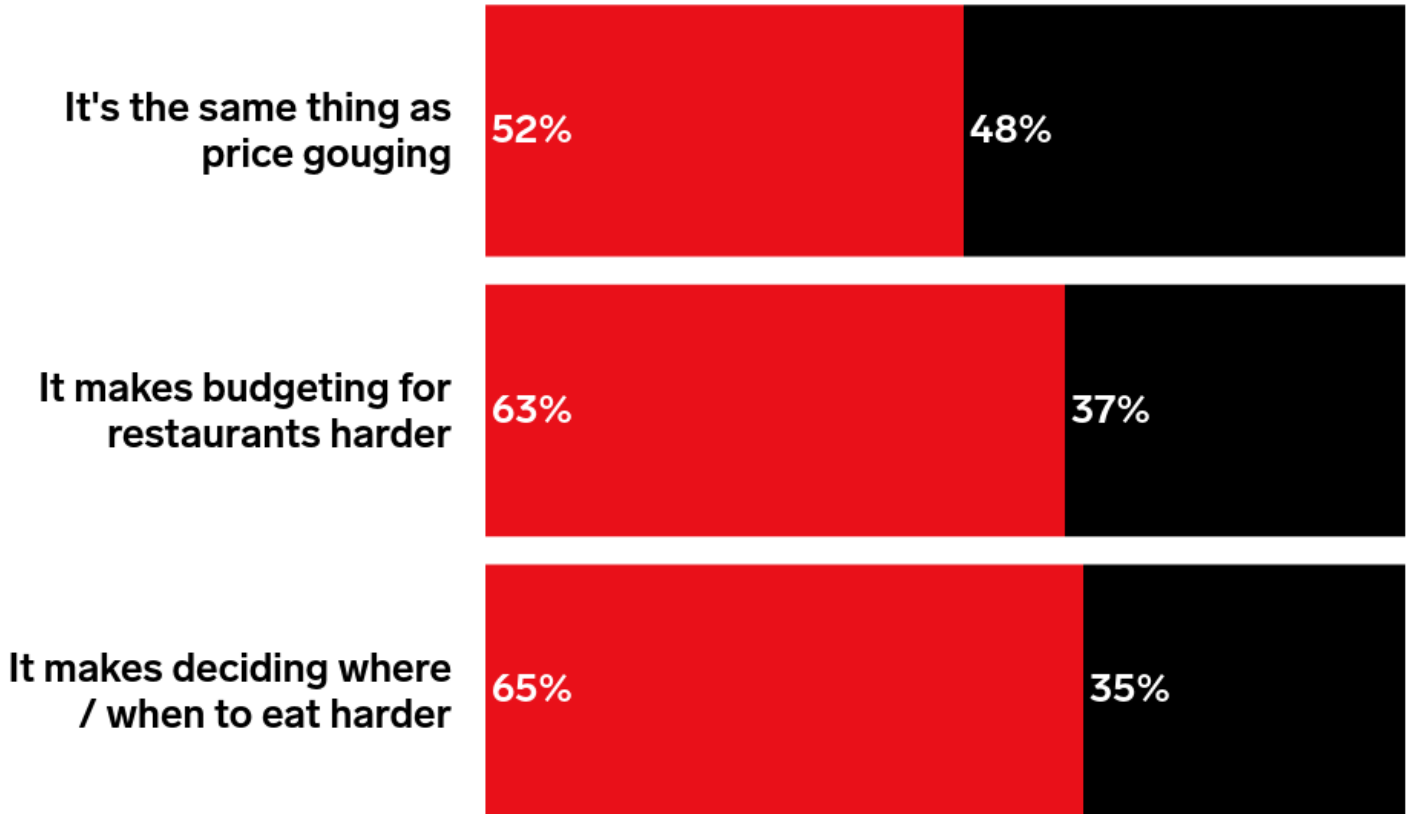
shoppers while reducing food waste. For instance, Israeli startup **Wasteless** **says** grocers using its dynamic pricing technology cut waste by up to 40%.

The big takeaway: Implementing dynamic pricing can be a lucrative opportunity for retailers and restaurants, but it can also easily alienate consumers and lead to allegations of price gouging.

- New York’s attorney general **Letitia James** proposed rules earlier this month that would label price increases of over 10% during an “abnormal market disruption” as “unconscionably excessive,” a move which potentially opens the door to similar action in other markets as regulators look for ways to stifle inflation.

How US Consumers Feel about Dynamic Pricing, Jan 2023

% of respondents



Agree **Disagree**

Note: n = 901. Agree includes respondents who selected Strongly Agree and Agree; Disagree includes respondents who selected Strongly Disagree and Disagree.

Source: Capterra, "2023 Dynamic Pricing in Restaurants" survey, Jan 2023

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