

Chain-Store Competition: Customized vs. Uniform Pricing

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Abstract

Retail chains essentially practice one of two broad strategies in setting prices across their stores. The more straightforward is to set a chain- or country- wide price. Alternatively, managers of retail chains may customize prices to the store level according to local demand and competitive conditions. For example, a chain may price lower in a location with lower demand and/or more competition. However, despite having the ability to customize prices to local market conditions, some choose instead to commit to uniform pricing with a “one price policy” across their entire store network. As an illustration, we focus on UK supermarket chains. Is there an advantage to be gained from deliberately choosing *not* to price discriminate across locations? We show generally and illustrate through means of a specific model that there exists a strategic incentive to soften competition in competitive markets by committing not to customize prices at the store level and instead adopt uniform pricing across the store network, and to raise overall profits thereby. Furthermore, we characterize quite precisely the circumstances under which uniform pricing is, and is not, profitable and illustrate that under a range of circumstances uniform pricing may be the preferable strategy.

Keywords: Chain-store retailers; price discrimination; uniform pricing; local pricing; commitment