

Disney discovers peak pricing: Price discrimination land

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Full text

Abstract/Details

Abstract Translate

ACCORDING to an article published in Bloomberg, on February 28th Disney introduced "surge pricing" to its theme parks.

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ACCORDING to an article published in Bloomberg, on February 28th Disney introduced "surge pricing" to its theme parks. Now, when I think of surge pricing, I think of an annoying little screen that appears on my smartphone making sure that I'm happy to pay 6x the normal fare for my cab home. Conditional on having opened the app, my demand for taxis is insensitive enough that I'll almost always click the 'Fine, rinse me' button.

One thing comforts me as the slow-moving traffic burns a hole in my bank balance: at least the higher fare might have encouraged my fine chauffeur on to the road. Uber, the master of surge pricing (they have been trying to patent it since 2013) claims that is the benefit of surge pricing: it equilibrates supply and demand. A study last year that they published showed that when their surge pricing mechanism broke, waiting times exploded and the rate of fulfilled rider requests plummeted.

So what might surge pricing for Disney look like? When queues are long, ride prices rise, encouraging Disney employees to switch on even more rides...? Some sort of dynamic pricing system for the park, where ticket prices rise and fall depending on demand for that day?

Not quite. This surge pricing that Disney is implementing (today) is not actually surge pricing. First, because there is no clear mechanism for supply to increase in response to price. More taxi drivers can flood on to the streets in response to a price rise, but Disney will struggle to offer more park. Second, because the price changes will be nowhere near as dynamic. Prices will be higher at certain times of the year, but parents will not arrive at the gates of Animal Kingdom to find that a glimpse of the massive artificial tree has doubled in price since they left the house.

Instead, what Disney world is doing is old-fashioned price discrimination. In summertime, when the living is easy and children need entertaining, demand is high, and relatively insensitive to price. A sensible monopolist (sort of--though if you want to argue that Disney world faces perfect competition then be my guest) should try to tap those willing to pay through the nose during peak times, and coax in the cheapos when it's quieter. Discouraging the crowds in peak hours should improve the visitor experience, by smoothing visitor numbers.

It is somewhat extraordinary that Disney was not already doing this--the idea is not a new one. Cinemas offer cut-price tickets in the middle of the day, airlines offer cheaper seats with less leg room and flying at ungodly hours--surely it cannot just have occurred to Disney to charge more when more people want to go? (Apparently accommodation does get pricier during peak times.)

Disney is not alone. The Bloomberg article reports that Universal Studios Hollywood introduced a system earlier this month that "allows savings of as much as \$20 off on non-peak days, compared with the standard \$95 admission." Earlier this month.

There is a chance that the themeparks were contributing towards a public good--by having the same price all year round, there is less of an incentive to take children out of school in search of a cheaper holiday. The change is a disaster for people who particularly hate queuing and who previously could avoid the crowds by going at 'off-peak' times. Or it could be that someone up high thought it would be unfair to charge different prices for what some would see as the same product. All other explanations welcome.

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