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.