



# Center for Competition and Market Regulation

## Truth About “Algorithmic” Pricing

### Algorithmic Pricing Isn't Novel:

#### 1. Historical Precedent in Pricing Models:

Businesses have long used various pricing strategies, such as dynamic pricing and variable pricing, to adjust costs and prices based on demand, supply, and other factors. Algorithmic pricing is an evolution of these traditional practices. As with any application of an algorithm, algorithmic pricing simply allows businesses to make better business decisions by using more timely and instructive data.

#### 2. Existing Use in Industries:

Many industries, such as airlines and e-commerce, have been using algorithmic pricing for years to optimize revenue, manage inventory, and meet consumer demand.

#### 3. Technological Continuity:

Algorithmic pricing builds on existing technologies like data analytics and predictive modeling, which have been in use for decades.

#### 4. Market Adaptation:

The concept of adjusting prices based on consumer behavior or market conditions has been a standard business practice, even before the advent of advanced algorithms.

#### 5. Integration with Traditional Practices:

Algorithmic pricing often complements traditional pricing strategies rather than replacing them entirely, making it more of an enhancement than a novel concept.

### How Algorithmic Pricing Benefits Consumers:

#### 1. Enhances Efficiency:

Algorithms can process vast amounts of data quickly, enabling businesses to make real-time pricing decisions that reflect current market conditions.

#### 2. Offers Consumer Benefits:

Algorithmic pricing can lead to lower costs for consumers by optimizing supply chains and reducing inefficiencies.

#### 3. Increases Access:

By tailoring prices to different consumer segments, businesses can make products and services more accessible to a broader audience.

#### 4. Encourages Innovation:

The use of algorithms in pricing fosters competition among businesses to develop better models, ultimately benefiting consumers with improved services and products.

#### 5. Supports Risk-Based Pricing:

Algorithmic pricing allows for more accurate risk assessments, enabling businesses to offer customized rates and terms that align with individual consumer profiles.