Consumer disaffection and local pricing: A role for micro marketing?

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That many firms set identical prices in differentiated geographic markets, despite having near costless access to data and price varying technology, contradicts the established view that price discrimination would be profit improving. Motivated by UK supermarket competition analysis we present a new model, in a Salop (1979) setting, in which consumers feel disaffection towards firms who charge them more for a product they sell cheaper elsewhere. National pricing becomes a Nash equilibrium for multi market retailers whether competing with other chains or single market firms. Welfare is improved compared to the standard Salop results but long run entry remains excessive. These results suggest that competition would be better achieved via other elements of the marketing mix against which consumers might not exhibit such strong concern about varying market conditions. Policy makers should welcome the presence of disaffection but be wary of other forms of non price discrimination.