Comments on

“Should Firms Share Information About Expensive Customers?”

(Mathur, Srinivasan, and Sun)

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The SetUp

1. Consumers
   - Two segments – Inexpensives and Expensives
     - Inexpensives – always identifiable by sellers
     - Expensives – may appear as inexpensives or expensives

2. Sellers
   - Two, compete on price
   - Can’t price discriminate
3. Effect of Information Sharing

- Without access to other firm’s info, a firm can not identify two segments perfectly, and hence targets both segments with one price.

- With access to other firm’s info, a firm can identify both segments perfectly AND targets only the inexpensive segment with one price.

Questions

- Will firms benefit from sharing such information?
- Will firms share such information in equilibrium?

Question 1: If my competitor does not give me his info, should I give him mine?

- If I refuse to give competitor my info, I force him to target expensive customers too, which raises its price.

- Increased competitor price
  - good for me if I sell substitute
  - bad for me if I sell complement

- So, I will not share information for a substitute but will for a complement.
Question 2: If my competitor gives me his info, should I give him mine?

- Same conclusion/logic
  - Do it for complements, not for substitutes

**Implication:** In equilibrium,

1. Information sharing for complements;
2. No information sharing for substitutes.
Question 3: Will both firms prefer both sharing information to both not sharing information?

- That is, will both firms get higher profit if both target only inexpensives versus if both target both inexpensives and expensives?

- If yes, then firms can commit to sharing information through third-parties such as trade associations.

Not Necessarily

Depends on:

- Outside good/demand elasticity
  - Cost increase can be profitable in oligopoly (Dixit 1986; Seade 1987; Tyagi 1999)
  - Negative direct effect, but positive strategic effect

- Relative size of expensive segment

- Relative costs of serving each segment
  - Both factors affect magnitude of price increase for inexpensives and total loss from expensives

Implication: For substitute goods, firms may or may not share information through trade associations
General Comments

- Modeling Related
  - Highlight robust results, point out nonrobust ones
  - Extensions
    - Other demand elasticities
    - Asymmetric firms
  - Simplify

- Motivation / Discussion
  - Examples of firms giving information to competitors so competitors can exclude expensive consumers (credit cards, ??)
  - Examples of firms sharing such information for complements, but not for substitutes
  - Alternative mechanisms to deal with expensive consumers
    - Menu of contracts to let expensive and inexpensive customers sort out themselves