PHYS.ORG

What is 'surveillance pricing,' and is it forcing some consumers to pay more?

July 25 2024, by Jon Healey, Los Angeles Times

Credit: Unsplash/CC0 Public Domain

It's no secret that Californians pay more than the rest of the country for many goods and services—gas, housing, food, you name it. That's part of the high cost of living in the state.

What's less well known, though, is that consumers may be paying higher prices than their neighbors pay.

Tech firms and consultants have been offering companies the ability to set "personalized" prices online based on a customer's ability or willingness to pay, using algorithms and artificial intelligence to sift through mountains of data to help maximize sales and profits. Advocates say the technology simply takes the principle of efficient pricing to its logical extreme; critics say it's unfair, discriminatory and a perversion of free-market capitalism.

On July 23, the Federal Trade Commission launched an investigation that aims to determine how widespread this kind of "surveillance pricing" has become and what its effects have been. The five commissioners voted unanimously to order eight financial, tech and consulting companies to reveal what pricing services they offer, what data they collect to power these services, who is using their services and what effect that's having on consumer prices.

FTC Chief Technology Officer Stephanie Nguyen said in an interview that the agency knows companies "are collecting massive amounts of data about consumers," including very detailed, sensitive data about their demographics, where they go, what they look for and what they buy. The agency also knows that companies are able to use these data to specifically target information to individuals or groups.

Its new inquiry, she said, aims to determine whether, how and how often such data are being deployed to set prices. She added that the agency is just gathering information at this point, and that none of the companies are being accused of any wrongdoing.

Privacy advocates welcomed the investigation.

"This study is such a critical first step in a really important conversation about what we think the rules should be around pricing—what we think the norm should be," said Lindsay Owens, executive director of Groundwork Collaborative, an economic policy think tank.

Rather than setting prices based on supply and demand, surveillance pricing looks at indicators of your ability and willingness to pay, such as your credit card and bank balances, or "whether it's late at night and you're looking for an Uber home," said Lee Hepner, senior legal counsel for the American Economic Liberties Project.

"We have heard allegations that some companies are now able to charge you a different price based on how close you are to your next payday, or if you just got paid," he said.

The eight companies ordered to submit information to the FTC are financial industry titans Mastercard and JPMorgan Chase, consultancies Accenture and McKinsey & Co., and tech companies Revionics, Bloomreach, Task Software and PROS.

JPMorgan Chase said that it hadn't heard from the agency yet. Mastercard said it would cooperate in the process, and the other six companies did not respond to requests, or could not be reached, for comment.

The unanimous vote of the commission reflects a bipartisan interest in exploring the issues around pricing based on personal data, which in turn mirrors public sentiment about online privacy.

A survey last year by the Pew Research Center found that 81% of respondents were concerned about how companies use the data collected about them, and 67% had little to no understanding about what companies did with their data.

One of the threats posed by surveillance pricing is that it gives companies an incentive to collect even more data about customers because the information might be useful in these pricing systems, said R.J. Cross, the director of the consumer privacy program at the U.S. Public Interest Research Group.

"The overcollection of data already comes with security and privacy issues," she said; the more data that's collected, the more likely it is that the information will be exposed in a breach or hack. "It's just going to add fuel to a fire that may have big, negative consequences for all of us down the line."

Owens said another issue is how surveillance prices erode the longstanding practice of having a public price, which emerged when retailers stopped haggling over everything and started putting price tags on their goods. Public prices are important, Owens said, because they help ensure fairness and are transparent and predictable.

The absence of predictable prices, Hepner said, makes it hard for people to budget for what they need.

George Slover, senior counsel for competition policy at the Center for Democracy & Technology, said "bespoke pricing" amounts to an extreme reversal of a system that has worked for consumers since the advent of the price tag.

Instead of sellers offering goods and services to anonymous buyers, he said, "the seller knows everything about the buyer, and what they are likely, willing and able to pay"—while keeping the buyer in the dark about what the seller is charging everyone else.

"It inverts, or you might say perverts, the assumptions at the very foundation of the justification for the free market," he said.

The use of AI to power surveillance pricing systems is a potential hurdle to the FTC's inquiry, observers say, because the systems' inner workings may be difficult to unpack and understand.

"It makes the job a lot harder if the people who are making the AI systems can't even clearly articulate why a system is making a decision," Cross said. "That really puts regulators at a disadvantage."

The legal landscape is murky, too.

There are federal laws that prohibit charging discriminatory prices in certain circumstances—for example, when people are charged different rents or mortgage interest rates based on their race—but Hepner said surveillance pricing may represent "a new frontier in price discrimination" not reached by those statutes.

The FTC may have the power to rein in surveillance pricing, though, if the agency determines that it violates the federal law against unfair and deceptive practices. And in Owens' view, it is by nature deceptive because it's done in secret— you don't know you're paying more online than someone else for the same goods, so "you have no idea that you should be upset."

"Isolation and obfuscation," she added, "are really essential to the practice."

Citation: What is 'surveillance pricing,' and is it forcing some consumers to pay more? (2024, July 25) retrieved 26 July 2024 from https://phys.org/news/2024-07-surveillance-pricing-consumers-pay.html