

Aradhna Krishna

Pink Tax: Price Discrimination and Product Versioning Exercises

The term “pink tax” refers to the situation in which a product costs more for a woman than for a man. Although the notion of a pink tax was widely discussed, people did not believe that it actually existed – after all, how could the same product cost more for women than men? A study by the New York City Department of Consumer Affairs,¹ however, found overwhelming evidence for the pink tax. Across 794 products surveyed, the study found that women’s products cost more than men’s products 42% of the time.

Diana Kelly is the brand manager for a nail brightening product that is soon going to be launched. One of her jobs is to figure out how to price the product. Among other things, she is considering pricing her product differently for men versus women. She has an in-house price consultancy and also an external consultancy to provide her with the data she needs to make her decision.

Customer Segmentation

The two consultancy teams have produced a number of different scenarios to consider in terms of customer segmentation. Both teams suggest that reservation pricesⁱ for nail brightening cream vary by segment – but the consultancy teams have proposed different segmentation schemes. The in-house consultancy team has suggested a demographic gender-based segmentation (male versus female), while the external consultancy team has suggested a benefit-based segmentation (health versus beauty). Interestingly, the benefits-based segmentation is largely driven by gender-specific needs. In many of the scenarios provided by the external consultancy team, many women (but not all) want nail brightening cream for beauty reasons (prettier nails), while most (but not all) men want the cream for health reasons (healthier nails).

Reservation Price and Consumer Surplus

Both teams have provided Kelly with different scenarios in terms of the size of the respective segments they have proposed and the reservation prices associated with those segments. To keep it simple, the teams

ⁱ The reservation price is the maximum price that a consumer is willing to pay for a product.