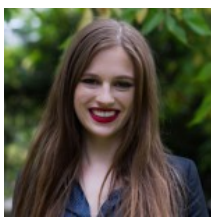


Price discrimination and the expanding retail market in Australia



By Olivia Robins
March 6th, 2015

Economics student Olivia Robins just wanted to buy an iPhone. To her dismay, she found out that it would cost nearly three times more in Australia than it would in the US. Find out why.

Earlier this year, I dropped my phone on the pavement. When I picked it up, to my dismay, the screen was shattered to oblivion. Instead of paying hundreds of dollars to fix it, I waited for my plan to expire. So, after many months of patience, it was finally time for its retirement.

One night, whilst researching on the internet, my mouse gravitated to the beloved iPhone and hovered over it in awe. Like so many others, I could not resist. I quickly exited the page: it was too expensive for me. Apple charges \$1,129 for a 64 GB iPhone 5S outright. I can't afford that.

Out of interest, whilst scouring many different pages, I happened to come across the US Apple site. There – to my disbelief – was the same iPhone, costing US\$399. That's just AU\$428 (at time of writing).

This is the classic example of price discrimination. While there are some extra costs involved in selling the iPhone in Australia, the excessive price difference implies that the multinational is flexing its muscles and increasing its profits.

Third degree price discrimination is predominately used by firms with extensive market power. It can only occur when there are two impenetrable markets. This could be something as simple as concession versus adult tickets at the movies, discounted public transport for students and seniors, or cheaper iPhone prices in the US compared to Australia. It is difficult for an adult to get a concession ticket at the cinema, or to buy a student-rate public transport ticket. Also, it is hard (but albeit not impossible) for Australians to get goods from other countries.

By charging different prices according to the respective markets, a firm captures more consumer surplus than setting one blanket price. Markets with lower demand elasticity (like Australia) are charged higher prices. We are a much smaller economy than the USA or Europe so our markets are more concentrated. Unfortunately for us, international brands can charge higher prices in smaller markets.

This is not just happening in the mobile phone market. Clothing, fashion and beauty sectors in economies of scale, such as the USA and Europe have higher quality, wider variety and cheaper prices.

The good news is many of the international good-quality-great-price brands have landed on our shores. Australia seems to be the new frontier. Zara opened its first store in Sydney in 2011; Japanese multinational Uniqlo came as the Emporium opened. So did Victoria's Secret. And H&M's entrance into the Australian market was one of the most anticipated and most obscene occasions in our fashion history, with more than 15,000 customers lining up on the first day alone.

The bad news is, like Apple, some of these brands price discriminate. International makeup and beauty brands are notorious for this. A Choice study announced that Australian customers are spending up to 200% more on cosmetics than their American counterparts. In the US, a MAC lipstick will cost US\$15 (approx. AU\$16), but AU\$36 in Australia. While there are some valid reasons for this price increase, like shipping and handling, wages, tariffs and taxes, I hardly believe that validates the 140% price hike. These companies have different websites for the same brand, and will not ship internationally.

But as more and more new brands come into the retail sector, how long will it take before the demand for fashion and beauty goods in the Australian market becomes substantially more elastic? Australian-based fashion companies have been lulled by the decades of being cut off from the world market. Increased competition is the best remedy for this. Many clothes sold in Australia are cheaply made, highly priced and lack-lustre. While there are some great Australian-based retail brands, compared to bigger markets, our brands seem drab and boring.

Similarly, the proliferation of online shopping in Australia has affected competition. Shopping websites like ASOS have created a problem for Australian fashion brands. They cannot compete with both the cheaper prices and the larger variety of goods. For some, the only thing they have over 100% online brands is the ability for the customer to try things on. But, with the ease of online returns, even this is a questionable benefit.

And although the international brands will most likely still be exercising price discrimination, as the Australian retail market increases in size, they will have to drop their prices for us. Even though the multinationals exercising their market power through price discrimination causes a decrease in consumer surpluses, by coming here to Australia, they invariably increase competition. In the long term, Australian retailers will have to adjust to this expanding market.

But, looking down at my cracked mobile. I realise that I would have to wait to upgrade to an iPhone.

The views expressed within this article are those of the author and do not represent the views of the ESSA Committee or the Society's sponsors. Use of any content from this article should clearly attribute the work to the author and not to ESSA or its sponsors.

Related Articles

Struggles of the Australian Retail Sector

Price Discrimination: A Christmas Story

Australia's fast fashion revolution

A clash between ethics and the market: price gouging and Hurricane Harvey

Founding sponsors



Partner



Platinum sponsors



Silver sponsors



Affiliates



Articles

All

National

World

Economic History

Pop Eco

Company

Home

About

Events

Sponsors

Contact Us

Follow us on social media

