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