Nickel-and-Dimed by Design: How Corporations Rig the Rules of Pricing

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A price seems simple: a number on a tag showing what an item costs. In reality, prices today reflect less of what goods cost to provide, and more of what corporations, aided by ever-improving technology, believe they can get away with charging. This shift has made the marketplace more unpredictable and unfair, helping to drive up prices on everyday necessities. In this brief, we break down how corporate pricing strategies are putting a financial squeeze on American consumers and driving record profits for corporations.

Drip Pricing: Drip pricing refers to the extra fees piled on throughout a transaction, raising the price of an item between its listed price at the beginning of the purchase process and the final price at checkout. Simply put, the price you see first is not the price you ultimately pay.

From Groundwork's Lindsay Owens: "Price hikes are as old as dirt. But today's companies have reinvented them. They're using a dizzying array of sophisticated and deceitful tricks to do something pretty darn simple: rip you off.... Revealing part of the total price up front, only to tack on all manner of ridiculous-sounding fees and service charges: Industry insiders call that one 'drip pricing.'" (The American Prospect).

For example:

- A dinner ordered through a delivery app could cost up to three times more once a surprise "delivery fee" is added at checkout, and your concert tickets could be nearly 50% more expensive than advertised after Ticketmaster adds its so-called "service fees." These mandatory junk fees are everywhere, including hotel resort fees, booking fees, cleaning fees, and shipping costs, to name a few.

- Airlines have been long-time offenders of drip pricing, charging elective, add-on fees for services that were once included in the base fare, such as checked baggage. Since their introduction in the 2000s, these fees have proved enormously profitable: between 2018 and 2023, U.S. airlines collected more than $12 billion from passengers paying for seat-selection or extra-legroom fees, on top of $25 billion from those opting to pay for checked bag fees. These fees are hitting Americans' wallets hard. On average, travelers are paying nearly $80 in add-ons per ticket.

California took an important step in October, passing a law that cracks down on hidden or deceptive charges by requiring car retailers to clearly display total prices. The Trump Administration, however, is making it easier for airlines to keep these extra fees hidden by moving to roll back rules that require upfront pricing.

Dynamic Pricing: Dynamic pricing is a technical term for a simple idea: continuously changing prices. What began as a mechanism to tweak prices minute by minute — or even second by second — is response to real-time supply and demand has evolved into a much broader pricing scheme, with companies now adjusting prices based on anything from the weather to your internet browsing history. And, "adjusting prices" almost always means "raising prices."

- If you've ever bought a plane ticket, you've seen dynamic pricing in action: prices go up as seats fill up and fall when seats are still available. This strategy lets carriers charge different passengers different prices for the same seat, adjusting fares based on factors like purchase date to seat location.

- The same dynamic pricing playbook runs rampant across industries, often applied in the absence of genuine scarcity. Wendy's CEO Kirk Tanner announced plans to introduce "dynamic pricing" in drive-throughs, with digital menus that change prices in real time. And along the Las Vegas strip, several major hotels have introduced dynamic pricing in their lobby shops, shifting prices on everyday items like bottled water and sunscreen. Translation: your burger could cost more when the lunch line is long or your sunscreen price will rise when the weather is hot.

- **From Groundwork's Lindsay Owens**: "If you and I are shopping at the same Walmart store and we can see that the digital price tag right underneath the loaf of bread is changing every minute, you're going to be mad if you wind up paying more than me... But if you're shopping online, or if you're buying everything on an app and then picking up your stuff at the store, you have no idea that you paid more" (The Cut).

Surveillance Pricing: Also known as 'personalized pricing,' surveillance pricing means charging different people different prices for the same item — not based on market forces, but on what the company knows about you and how much they think you'll pay. Supercharged by the development of cloud computing, artificial intelligence, and surveillance targeting, companies collect or buy data — typically without your explicit consent - about where you are, how much you make, or even how long you look at a product online. Using this information, corporations predict a consumer's "willingness to pay," quietly adjusting prices to extract as much profit as possible.

- Uber admitted that riders are more likely to accept higher prices when their phone batteries are low — and took advantage of it by jacking up prices on these riders. Meanwhile, The Princeton Review charged higher prices for SAT prep in ZIP codes with large Asian populations, exploiting personal data and bias for profit.

- An investigation by SFGATE uncovered that booking platforms such as Expedia, Hotels.com, and Booking.com raise prices for users based on their IP addresses. For instance, a room at Manhattan's Public Hotel was listed at $829 per night for users browsing from San Francisco, while the same room on the same dates was offered at just $318 to users in Phoenix and Kansas City.

States including California, Colorado, Georgia, Minnesota, and Pennsylvania have moved to protect Americans from unfair pricing schemes by limiting surveillance pricing. In May, New York passed the first law in the country requiring clear labels whenever personal data affects the price.

Algorithmic Price Fixing: Price-fixing is a form of collusion — companies secretly working together to rig the market instead of competing. Companies can collude on many fronts, including on the quality, quantity, or price of goods. When collusion involves using software to coordinate prices rather than letting market forces set them, it's called algorithmic price-fixing.

- On the Las Vegas Strip, price fixing led travelers to pay more no matter which hotel they chose. According to a complaint lodged by the FTC and DOJ, Caesars and other Las Vegas hotel giants used the same pricing algorithm, Rainmaker, to set room rates, ensuring that prices rose together instead of falling through competition.

- Price-fixing has also been a prevalent force in the rental market. In 2023 alone, algorithmic rent-setting practices drained an estimated $3.8 billion from renters' pockets. The Department of Justice sued a prime offender, software giant RealPage, for its attempt to decrease competition among landlords and collude on rental housing prices. The company's pricing algorithm sets rents for as much as 60% of multifamily units, and in some cities, this algorithmic collusion may have fueled up to a quarter of all rent increases before the federal case was filed.

- Amazon used a secret algorithm — code-named Project Nessie — to quietly test how much it could increase prices before competitors followed suit, effectively pushing up costs for consumers across entire product categories. According to the FTC, the project helped Amazon boost profits by more than $1 billion.

Several cities – including Minneapolis, Philadelphia, and San Francisco — have banned rent-setting software like RealPage, cracking down on algorithmic price-fixing.

Price Gouging: Gouging is the act of making an excessive or unfair profit by selling essential goods or services like groceries or housing at extortionate prices during times of high demand or crisis. This can represent the extreme end of dynamic pricing, when corporations exploit dramatic shifts in supply, demand, weather, or other conditions to pad profits. Price gouging in the wake of the COVID-19 pandemic pushed corporate profits to an all-time high of $4 trillion by the end of 2024 — a 75% increase in profit margins.

- In 2022, a recall by Abbott Labs triggered a nationwide baby formula shortage. Walgreens took advantage, hiking prices by as much as 70% to maximize profits while families struggled to feed their children.

- In 2020 amidst the COVID-19 pandemic, hand sanitizer sellers in New York raised prices by more than 400%, charging as much as $130 for products that had previously sold for just $20.

- **As Groundwork's Lindsay Owens summarized**, Trump's tariffs are the "best-case scenario for price gougers," as "the expectations are setting in that there should be price increases, but [companies] may not actually be subject to large tariffs. The average consumer can't necessarily always discern that." (The Lever).

Price gouging is illegal in 39 states, empowering state attorneys general to hold companies accountable as they jack up prices when families are most vulnerable.