“Are Senior Citizen Discounts Undermining Pricing Regimes?”

AUTHORS	William R. Smith Jr.

ARTICLE INFO	William R. Smith and Jr. (2007). Are Senior Citizen Discounts Undermining Pricing Regimes?. *Innovative Marketing* , *3*(2)
RELEASED ON	Tuesday, 05 June 2007
JOURNAL	"Innovative Marketing "
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
0	0	0

© The author(s) 2026. This publication is an open access article.

ARE SENIOR CITIZEN DISCOUNTS UNDERMINING PRICING REGIMES?

William R. Smith, Jr.*

Abstract

Many managers place a strong emphasis on achieving high levels of market share. They often seem to believe that the only way to increase share is to reduce prices. This belief has led to a flood of discounting with many discounts directed at "senior citizens." The prevalence of this practice has also resulted in constant reductions in the minimum age required to receive these discounts and some concerns about whether the discounts are being misused and/or abused. The author examines this trend and suggests that there might be need for some rethinking by managers as it appears to have potential for undermining an organization's overall pricing regime. Prescriptions are offered for addressing the issue.

Key words: pricing, discounting, senior citizens.

Background

The idea that a manager could sell more units of a product by discounting (reducing) the price has been around for centuries. However, the propensity to increase sales in this manner seems to have increased as competition has intensified due to the globalization of the world economy. The end result is that profit margins have continually shrunk for many product markets in recent years.

One type of discount that has become increasingly prevalent is one offered to older customers, sometimes referred to as seniors or senior citizens. Managers can advance numerous rationales for using this type of discounting. They can range from doing something for the good of society (let's help the old folks get by a little easier by lowering prices on products to reduce their cost of living) to just being a recognition of the fact that different consumer segments' (i.e., age or income groups) purchase behavior can be driven by different motivations. For example, a manager could argue that the younger and older segments tend to have lower incomes and, as a result, they tend to be more sensitive to price. The argument would continue that the only way to attract more purchases from these segments would be to selectively reduce the price of the product when it is sold to these groups.

This trend towards offering "senior discounts" seems to be spiraling downward in the very competitive U.S. market. When these discounts first began to become popular back in the 1960's and 1970's, a customer had to be 65 years old in order to quality for them. In many markets that has evolved over time, first being lowered to 62, then to 60, and in many markets today the age is 55. It is even becoming more common to see senior discounts being offered to customers at age of 50 (see Blais (2006) for an example and see www.seniordiscounts.com where discounts are presented at over 135,000 business locations in the U.S. for people age 50 and older).

Some observers of management and pricing trends have begun to become quite vocal in questioning the wisdom of senior discounts, especially in situations where the age requirement is continually reduced and where there is some evidence that such discounts are being used inappropriately. As Nagle and Hogan (2006) so eloquently point out, if effective "price fences" (criteria that customers must meet to qualify for the discount) aren't constructed when certain segments of a market are offered lower prices, the potential for misuse and abuse becomes great.

---

* The Graziadio School of Business and Management, Pepperdine University, USA.

© William R. Smith, Jr., 2007.

Approaches to segmentation using price fences

On pages 63 through 78, Nagle and Hogan (2006) discuss seven generic approaches to segmenting markets for the purpose of building price fences that will be conducive to price discrimination. They launch an extensive discussion of how to identify the criteria that are necessary in order for this selective discounting to be successful in increasing the quantity of units sold while discouraging inappropriate use of the pricing scheme.

The use of senior citizen discounts is obviously based on the demographic variable of age. Nagle and Hogan would classify this as segmenting by buyer identification and suggest that it is possible to structure a pricing policy that will encourage members of the targeted group to identify themselves based on their age. They use the example of college students who will readily identify themselves as such in order to have access to discounted prices that are based on the variable of educational status.

However, the challenge of building effective "fences" that will allow customers who meet the age requirement to realize the reduced price while preventing those who don't meet the requirement from receiving the discount can prove to be challenging, even when a straightforward variable such as age is used to segment the market. The article from the association of Philippine supermarkets points to the difficulties inherent in maintaining the pricing fences (Villanueva, 2003). The article discusses a law that was passed in the Philippines that required merchants to offer a 20% discount to customer who were 65 and older. Villanueva argues, on behalf of supermarkets, that this is unreasonable, even if only those who are 65 and older receive the discount, due to the small profit margins of supermarkets. He then goes on to indicate that there are several ways in which this type of legally required discounting structure could be abused so that the end result is that people who are under 65 are obtaining the discount. In the card system proposed in the Philippines, Villanueva points out that misuse or abuse could range from a situation where an actual senior citizen is duplicitous in the abuse by purchasing items on behalf of someone who is not qualified for the discount to situations where organized crime will actively steal or counterfeit the discount cards. He points to the need for a massive bureaucracy to catch violators and to the difficulty of enforcement when challenges such as a store apprehending and detaining a suspected violator occur.

While senior discounts are normally not legally required in most settings, the potential for misuse still exists. This author has had several discussions with retailers who are frustrated with their inability to build the right kind of pricing fence. Numerous complaints surround situations where qualified seniors purchase products for themselves as well as numerous other people in their party and expect the discount to be applied to the complete purchase, not just to the part of it being used or consumed by a senior. According to anecdotal reports shared with this author by managers, this has become especially problematic in restaurants. However, the problem cuts across many different settings, including the not-for-profit sector. For example, the City of Los Angeles has an Animal Services division that offers free spaying or neutering of pets (a surgery that normally costs around $60 in the Los Angeles area) to owners who are age 55 or greater (see Los Angeles Animal Services web site). When this system is abused in ways such as someone having an older person go request this free service, the ultimate loser is the taxpayers of Los Angeles who are subsidizing the cost of this service for people who are not eligible.

Nagle and Hogan go on to identify the following approaches to segmenting markets for the purpose of building pricing fences: (1) by purchase location, such as different prices for water on the beach versus at a supermarket some distance from the beach, (2) by time of purchase, such as midday movie matinees, (3) by purchase quantity, (4) by product bundling, such as a lower price for a mobile phone when it's bundled with service, (5) by tie-ins and metering, such as Hewlett-Packard having low margin prices on their printers but much higher margins on the replacement ink cartridges that are tied to the printer, and (6) by product design, such as Microsoft having a lower priced version of Windows that does not have the full functionality of the higher priced version.

Do senior discounts ever make sense?

The first question that begs to be asked when thinking of senior discounts as a practical management issue is whether this is a practice that should be abandoned completely or if it can be useful

under certain circumstances. If you look at marketing and pricing decisions from a societal standpoint, it is obvious that the judicious use of senior discounts can be beneficial. In the great majority of situations, a senior citizen's income will fall fairly dramatically upon retirement or disability. It is a noble goal to want to make such a person's lifestyle more comfortable. Obviously, offering the "senior citizen" segment products at lower prices can accomplish this goal.

From the seller's perspective, there can be positive publicity to be gained from pursuing this noble goal. This could lead to non-seniors having a more positive attitude towards the seller's company and its products. It could also lead to positive word-of-mouth communication for the broader market.

When one changes the view to that of the firm's economic self-interest, there can still be valid reasons for offering senior discounts. There can often be compelling reasons related to concepts such as fixed, relevant, or incremental costs (page 153 of Nagle and Hogan (2006) offers a compelling example) for offering products to certain segments at reduced prices. The end result of this sort of well-reasoned approach to discounting can be increased profitability. There wouldn't seem to be any better reason than that!

Possible approaches to building effective fences

While it's obvious that appropriate use can be made of senior discounts, there can also be some compelling arguments made against the use of senior discounts when it becomes difficult, if not impossible, to build appropriate fences to prevent the use of the discounts by non-seniors. It would seem to be appropriate to offer some possible approaches for addressing this challenge. These approaches may also find some generalizability across other approaches to segmenting markets for the purpose of building pricing fences.

It's relatively simple and straightforward to find ways to separate buyers according to price sensitivity but finding a method for enforcing the separation can be quite a challenge. In the case of senior discounts, there are some very simple ways to determine if someone meets an age requirement for a discount. You simply ask for proof of age. It becomes evident that this is a step that must be taken as part of a senior discount program. However, in practice this most common sense requirement is sometimes not met. For example, anecdotal evidence that employees in retail establishments such as restaurants and supermarkets either offer senior discounts to customers without their even being requested or quickly acquiesce to requests for such discounts without requiring any proof of age is readily available.

I've heard reports from numerous managers about their frustration with this type of behavior by employees. A straightforward approach to addressing this is to make age verification mandatory for a senior discount (see Delaware River Port Authority Senior Citizen Discount Bridge Toll Program that requires that a verifiable senior citizen be in a vehicle prior to allowing it to use a coupon for a discounted toll). If a customer is unable or unwilling to provide proof of age, the discount would not be applied to their purchase. A policy requiring age verification would also have to be backed by a method for and willingness to enforce it with employees and customers, even at the risk of losing both.

While there can be a method of requiring age verification only once (for the initial transaction), this approach also opens up opportunity for abuse if there isn't a method for ensuring that the person requesting the discount is, in fact, who they claim they are. This is pointed out by Villanueva (2005) in his article on the law in the Philippines that requires senior discounts when he points to the possibility of someone initially providing age verification and then receiving a card or booklet to use in the future without additional verification. All the original applicant needs to do is to pass this through to someone who wants to abuse the system. There will have to be a willingness by managers to risk angering customers and employees as they enforce the age requirement for the senior discount but the alternative is reduced profitability due to lack of enforcement.

It's obvious that a person's physical appearance isn't always a good indicator of age so other, less obvious, methods must be employed. When technology and privacy concerns allow, it should become easy to identify customers through methods such as iris scans. While there is always the risk of alienating the customer, good employee training in customer interaction will be valuable in preventing this.

A less obvious approach to enforcing age segmentation might involve using multiple approaches to segmentation. For example, a seller could implement a senior discount that was also tied to purchase location. The seller could determine that certain locations were less convenient or less profitable than others or had more price sensitivity than others and could decide to offer the senior discount only at those select locations. This takes on a strategic tone for shifting demand.

Combining age with segmentation by time of purchase could also accomplish this type of strategic goal. The early bird specials at restaurants or midday matinees at theaters can be used to manage demand peaks in order to increase overall profitability even though these customers are paying reduced prices. It may be necessary to allow no discounting during the periods of heavy demand in order to drive the sort of desired behavior. That is, there would be no senior discounts if the customer chose to purchase the product during periods of historically high demand. This would also have to be enforced.

This same approach of using multiple approaches to segmentation could also see age being combined with purchase quantity, product bundling or unbundling, tie-ins and metering or product design. It is even possible that three or more approaches could be combined. For example, a senior discount might be offered only at certain locations and only during certain times of day or days of the week.

One of the more difficult aspects of ensuring that price fences are effective is obviously the enforcement of the requirements. As stated earlier, managers must be prepared to deal with unhappy customers and employees at times. In terms of dealing with customers, it will behoove managers to be proactive in avoiding, rather than having to diffuse, confrontational situations. If management does a good job communicating to the market the reasons for senior discounts and the business implications of having them abused, consistent enforcement of policies will likely be supported by the customer base. If a customer knows that others are not allowed to misuse the senior discount, they will likely support enforcement, even when it might result in a somewhat ugly scene. Enforcement with employees will also be better received if the policies are thoroughly communicated and consistently enforced by management. While employees have the potential to be upset when they feel they are unjustifiably being watched by management, if they understand the business implications of misuse of discounts and see that employees who violate policies are dealt with consistently, they will be much more likely to support enforcement efforts.

Future research

There seems to have been little, if any, verification of the scope of difficulties related to the use of senior discounts. The timing would seem to be auspicious for an empirical study of a range of issues from how common these discounts are across various industries to actual management experiences and practices in addressing the discount and related practices such as enforcement of pricing fences. It would also be insightful to know what age cutoffs are most prevalent.

References

1. Blais, Peter, “Price Wars”, in *Golf Business Magazine*, September 2006 and on the web site at www.golfbusinessmagazine.com.
2. Delaware River Port Authority, *Senior Citizen Discount Bridge Toll Program Application/Reorder Form*, as found on the web site at www.drpa.org/drpa/senior.html.
3. Los Angeles Animal Services, “Big Fix Spay and Neuter Programs”, found on the web site of the City of Los Angeles Animal Services (2006) at www.laanimalservices.com/bigfixspayneuter.htm.
4. Nagle, Thomas T. and John E. Hogan, *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, Pearson-Prentice Hall, Upper Saddle River, NJ, 2006.
5. Villanueva, William, “PAGASA Position Paper on Expanded Senior Citizen Act of 2003”, 2005, published on the web site of the Philippine Amalgamated Supermarkets Association, Inc. at www.pagasa.org.ph.
6. www.seniordiscounts.com