

# How Portugal's Livraria Lello Uses Price Discrimination to Improve Its Business

Tickets are usually the first step in going to concerts, theaters, festivals, and sporting events. Whether you were following the Grateful Dead or catching the latest Marvel movie, the theme remains the same. With each ticket, someone is able to reserve a spot to enjoy that which is scarce in availability. However, while I have a shoebox full of old ticket stubs from events far and wide, I was quite surprised when I stumbled on a bookstore requesting tickets.

Yet, this is the norm now at Portugal's [Livraria Lello](#).

## Price Discrimination for Bookshop Spectators

Regarded as one of the world's most beautiful bookshops, Lello is visited by thousands of people each day. Its architecture is both stunning and inspiring. Many people visit simply to wander the halls in awe and bask in the grandeur of the crimson staircase. In fact, most of the visitors are just that: spectators.

This is quite troublesome for a business trying to sell books. It would be one thing to be overrun by window shoppers, but it is another beast entirely to be overrun with patrons with little to no interest in your actual product! Further, this means the scarce space in the narrow 1906-built bookshop is hardly suitable for thumbing through the pages of the latest titles.

To combat this, Lello introduced [a new business model](#) in 2015. The bookshop now requires prospective patrons to purchase a

voucher, or ticket, in order to gain entry. The English version features the all too appropriate reference to scarcity by [Frank Zappa](#), “So many books, so little time.”

While I had not encountered a bookstore requesting tickets before, I had also not encountered such a unique twist on the process. Lello does not simply charge a fee for entrance. Rather, the 5-euro fee is also deductible from any book purchase.

It appears Lello’s management took a page from economics: this practice is commonly referred to as price discrimination.

## **Price Discrimination: Theory Meets Practice**

Price discrimination can be understood well within this context. Lello faces two types of patrons. There are book lovers seeking to find titles new and old to enjoy, and there are architecture lovers seeking to bask in the building’s ornate design. The difficulty lies in identification. Neither group wears a badge, and Hollywood tropes of book lovers are hardly representative of the majority.

So, what is different about them?

Both groups walk in through the door, feature people from across the globe, and eventually leave. At first glance, they appear fairly identical. Yet there is a very distinct difference: one group leaves with a book!

How does this help Lello? Hindsight might be 20/20, but foresight is plagued with uncertainty. People could simply lie about their intention to buy a book when they arrive!

# Stated and Revealed Preferences

Luckily, many economists have wrestled with this issue before. The solution is to rely on revealed preferences rather than stated ones. Take two patrons as an example. If Lying Lex and Honest Hannah both attend Lello and both state they are there to purchase a book, then their stated preferences would indicate they are in the book lovers group. But what about when they leave? Here we see the importance of revealed preferences.

As their names suggested, Lying Lex did not buy a book, but Honest Hannah did. This is not to imply that stated preferences are insignificant for economic analyses, but such analyses are beyond the issue facing the bookstore. What matters for Lello is correctly identifying book lovers and architecture lovers in order to stay in business.

## Incentives Matter

Why would both Hannah and Lex say they are there to purchase a book? Obviously, as a book lover, Hannah is simply stating why she is there. But why would Lex lie?

If architecture lovers are charged for entry in order to recoup losses from them not purchasing books, then they have an incentive to say they do intend to purchase a book. By self-identifying as book lovers, they avoid the charge. In such a case, no tickets would be sold. Therefore, it is best to assume all patrons are architecture lovers in order to avoid any inconsistency between stated and revealed preferences.

Yet we run into another issue: charging book lovers disincentivizes them from shopping at Lello (yes, the world can be a complicated place).

With the new practice in place, Livraria Lello received \$8.14

million in revenue during 2017 and observed no drop in patronage.

This is where the cunning nature of Lello's system is truly revealed. By allowing the cost of a ticket to be deducted from book prices, Lello price discriminates via revealed preferences and does not disincentivize book-lovers! Furthermore, it is possible the practice has spurred window-shoppers to make more purchases in light of the sunk cost incurred by the ticket. In effect, Lello converted spectators into a new source of revenue and reduced the ratio of window shoppers to shoppers.

It is not an easy task, but Livraria Lello learned to identify different consumer types and price in accordance with relative demand schedules. In other words, they have learned to price discriminate in response to a changing market!

Don't take my word for it. With the new practice in place, Livraria Lello received [\\$8.14 million](#) in revenue during 2017 and observed no drop in patronage. It is difficult to put economic theory into practice, but it appears Lello has done well to implement price discrimination into their business model.

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