

Panel Discussion on Pricing Strategy Conference

Herbert L. Blitzer

Eastman Kodak Company

Discussion

Some Aspects of Managerial Relevance

The setting of a company's prices is clearly a crucial function. In particular, three situations come to mind that either can greatly increase the pressure to do a better job in setting prices or can make the job much harder to do. These three are not necessarily an exhaustive list, but analytical procedures that are not responsive to these situations are apt to be less interesting to pricing directors. The three situations follow:

1. *Competitive pressure is perceived to be on the rise.* This pressure may be exerted in any of the four marketing mix elements (price, product, advertising and promotion, and distribution) and its perception is sufficient cause for extra effort on the part of the pricing department.

2. *There are several substitute products on the market.* This often occurs when a basic product can be purchased in several different configurations, for example, personal computers. The huge number of possible alternatives requires so much attention to detail that it can be difficult to keep the overall strategy in mind.

3. *Customers have large amounts of information about what is available in the marketplace—especially locally.* In general, one expects an increase in price elasticity with a more knowledgeable customer base. And when local situations are better known to local operators than to distant suppliers, arbitrage opportunities are likely. For multinational firms, this gives rise to so-called gray markets. Gray markets are essentially international arbitrage deals in which local, independent entrepreneurs take advantage of temporary imbalances involving trade tariffs, a firm's international price structure, and currency exchange

rates. These deals are often of questionable legal status and require good information of local conditions. Gray markets make management of multinational operations more difficult and thus put an extra burden on the pricing directors.

One way to judge the managerial applicability of a theory or method, then, is to see how well it might help a pricing director deal with situations like these.

Managerial Relevance of This Conference

To operationalize my method of judging managerial relevance as it pertains to this conference, I looked to see if any of the people engaged in business management who attended found some portion of the presented material relevant and, if so, why they found it to be relevant. Although my sample is clearly limited, I can report that I and a few of my colleagues have, in fact, selected a few of the papers presented for future study and possible adoption. We felt these ideas and approaches to price analysis could be helpful under the situations described in the previous section. We also felt they met the following practicality criteria:

1. They are parsimonious in their data requirements. Remember that information is expensive—especially if the information has to be current and detailed.
2. They were built using parameters and variables whose dimensions are meaningful and relevant to marketing practitioners as opposed to theoreticians.
3. They do not violate the Shelby McIntyre (1982) criteria for models; namely, the error resulting from estimating the parameters and independent variables and then calculating the dependent variable should be less than the error resulting from estimating the dependent variable directly.

Underrepresented Research

One stream of research that was not discussed, although a few presenters mentioned it, is that which can be represented by the prospect theory of Kahneman and Tversky (1979). These authors and Richard Thaler (1982) of Cornell University have developed the notion of "reference price." Vithala Rao (in this issue) mentions some work of his own in which he deals with a similar construct he calls "evoked price." Clarke and Doland (in this issue) also mention their thoughts on reference price in developing their simulation model. Finally, Subrata Sen and I (Blitzer and Sen 1981) have reported on a technique and showed empirical work that caused us to suggest a construct we called "anticipation price."

Essentially, all of these move toward the same construct. It is my belief that four independent developments of this new construct are sufficient indication that an increased research effort in this area is warranted. Additionally, a very compelling case for more research comes from the fact that the market research directors with whom I have discussed this all find it eminently believable.

When conducting basic macroscopic economic analyses, we all adhere strongly to the construct of reservation price. It has superior properties in such situations. However, if it is not the working construct used by consumers, market research efforts to try to measure it are apt to be severely hampered. Conversely, if a construct like reference price is in fact a working construct, appropriately designed research efforts are going to be much more rewarding. Note that there may well be a good, workable relationship between reference price and reservation price. Knowing this would provide the best of both worlds.

Another area which received mention but too little discussion is channel theory. Most of the presentations assumed a manufacturer dealing directly with a consumer. Not only does this not happen very often, but inserting a distributor link requires explicit statements of the incentives that the manufacturer will use at that stage. And, since the distributor's utility function is probably quite different from those of consumers, simply letting the distributor stand in for the consumer, and working the problem in two steps, is probably a less than valid approach. Rather, I believe the problems must be analyzed simultaneously. I believe that the ideas developed by researchers such as Zusman and Etgar (1981), Jeuland and Shugan (1982), and McGuire and Staelin (1983) should be worked into pricing strategy analyses.

Future Research Directions

For future research, I would like to suggest a new version of that old friend, the diffusion model. There is a stream of research today that includes price as a variable in a diffusion model. Examples include Robinson and Lakhani (1975) and Kalish (1983). This model enables the analyst to determine an optimal pricing strategy over time. While this is clearly a worthwhile objective, there is a deficiency in current diffusion model work, in my opinion. These models assume no change in the product or its application over time. Traditional diffusion models predict growth in sales that I call purely vertical; that is, all customers, both today and in the future, are assumed to buy the same basic product for the same application. I find this implausible. I believe that new products allow people to repackage their functions and therefore their desires. This force causes a reweighting of attribute importances resulting in product extensions. Accordingly, I would urge the development of what I call the horizontal dimension to diffusion models. This

dimension would capture the degree to which customers will find new applications for a basic product and then demand new products providing extended, new capabilities. For example, the original pocket calculator paved the way for the demand for programmability. This, in turn, gave rise to the demand for off-line and then on-line storage. Similarly, demand for printers and other input-output devices resulted in bringing these innovations to the marketplace, and so on. Clearly, a large number of the calculators sold today are predicated on these new capabilities. Note that such a model tends to explain what is meant by a market that is "technology driven."

General Evaluation

Finally, I would like to share my overall evaluation of this conference. It has been said that when everyone is thinking alike, no one is thinking at all. Given the discussions, especially between disciplines, that occurred here, there is little reason to believe that good thinking on these issues is not going on. In fact, it has become clear to me that marketing and economics are each other's consciences.

At one point in time, Arthur Gordon Webster, a respected expert in the field of mechanics, was chairman of the Department of Physics at Clark University. While in this position, Professor Webster is quoted as saying, "The only thing left for physicists to do is determine the value of the next decimal." The next year, Albert Einstein published his treatise on the special theory of relativity. The point is, Are there any good pricing questions left? At this conference we saw new work on new models and theories capturing competition and lines of products. When I consider the work included in my discussion of under-represented research and future directions, I believe there is little fear of running out of good problems.

One last quote, this one from the book *The Peter Principle* (Peter and Hull 1969). "An organization is mature when all of its members have reached their levels of incompetence." Considering the complexity of the work shown here, and the increasing use of sophisticated methods of analysis, this is hardly a threat in the pricing area. Instead, I see a bright and challenging future.

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