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Discussion

One of my colleagues in the pricing department at AT & T describes a method of pricing which one of his former employers considered using. He called it the "flinch method" of pricing. The industry he was applying it to was the large turbine engine business. In that industry, a company representative would be required to quote a repair price to a customer when one of their large motors broke down. The representative would tell the customer that the cost of a basic rewind job was $1,000. If the customer "flinched" and showed visible discomfort, he would quickly say that this basic job would probably not apply in this case since he was certain that parts like the bearings and motor shaft could be salvaged. As a result, the price would only be $800. On the other hand, if the $1,000 price quote caused the customer to show relief, the representative would quickly add that the basic price did not include other parts such as the bearings and motor shaft so that the ultimate price would be close to $1,200.

Some people might consider the above method attractive since it allows you to charge each customer as much as he is willing to pay. However, very few, if any, executives are willing to price in this fashion or in any manner which turns pricing over to the sales force. The primary objection most would have to this approach from a business perspective is that it results in the marketing manager's losing control over the pricing variable. Because pricing represents such a key component of the marketing mix, this becomes very unappealing.

At the other extreme, we should also not expect the business executive to give up complete "control" of pricing to an analytical model which asks him to input certain variables to obtain the model's price. It is important that we understand the role of models in the pricing process within an industrial corporation such as AT & T. The analytical models which have been presented at this conference can be extremely useful to the pricing manager by helping him check on his logic, rea-

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soning, and whether he has factored all important elements into his thinking. However, because many models, of necessity, make simplifying assumptions that reduce their direct applicability to any specific situation, it is unreasonable to expect the executive to rely blindly on the model's output for purposes of setting price. For example, competition is often not fully factored into many models.

In addition, the job of actually approving price in our industry is the responsibility of upper-level management. The pricing/marketing manager must present a reasonable set of alternatives from which upper-level management may choose the one which best meets the corporation's objectives. Models that attempt to limit the range of options available to management will be unattractive to most executives. The class of models mentioned at this conference which includes price-performance/multi-attribute models have proven to be most useful to us at AT & T in identifying a reasonable set of alternatives for pricing. These models are simple, logical, and intuitively appealing when one is examining differences between competing products in a given market.

In addition to my comments on the managerial implications of these models, I have also been asked to mention topics which might lend themselves to further research. The following topics are examples of pricing issues in which we at AT & T are interested and which lend themselves to further research: impact of regulation on prices in the telecommunications industry; pricing strategy for cross-elastic products within a product line; packaging of price with terms and conditions to obtain a price "package"; interrelationship of pricing strategy with sales force compensation; price discounting strategies; lease/sale mix optimization; pricing of systems and system components; and financing as a pricing tool.

These are just a small set of the many pricing issues which have direct application to AT & T. We are very pleased to have been a sponsor of this important conference, which has presented a rare opportunity for dialogue between academicians and business executives involved in pricing. Just as we hope to benefit from your thinking and work in performing our job, we feel quite strongly that we in business can provide you as academics with insights that can be most helpful to you as you pursue your research in the pricing field. Feel free to call on us to support your efforts.