Smart Pricing:

Why aren't more companies using smart pricing to coordinate demand and supply?

David F. Pyke
Tuck School of Business
Dartmouth College

Advances in information technology have generated remarkable opportunities for both marketing and supply chain management. In the marketing area, firms are increasingly able to understand individual customer preferences and therefore to dynamically adjust prices. This greatly improves their ability to optimize revenue generation. In the supply chain area, firms can use technology to improve their visibility to costs and lead times – internally and throughout the supply chain. Many have argued that the next major opportunity for competitive advantage is for firms to link the innovations in marketing with those in supply chain management, allowing them to refine pricing, capacity, production and inventory decisions. Such coordination could give marketing managers visibility to true costs and responsiveness as they make pricing and promotion decisions, and it would provide supply chain managers with a better understanding of pricing structures as they decide when to expand capacity and where to strategically locate inventories. The potential result is to avoid myopic optimization of revenues or costs, but rather to optimize profits across the entire supply chain.

Supply chain researchers have been dreaming about optimized profits for some time leading to many significant research advances. Yet, like many ideas, the academics appear to be far ahead of practice. In this session, we will look at the state of the research and practice, with discussion on:

1. Barriers for implementation – what is holding companies back?
2. Will/when with those barriers change?
3. What is the state of the art in software development in this area?
4. Have supply chain researchers examined the right problems?
5. What are the opportunities for further research?

Readings and References

Baker, W., Marn, M., & Zawada, C. (2001), “Price Smarter on the Net,” *Harvard Business* Review, 79(2), 122-127.

Fleischmann, Moritz, Joseph M. Hall and David F. Pyke, “Smart Pricing,” *Sloan Management Review*, Winter 2004, Vol. 45, No. 2, pp. 9–13.

Lester, T. (2002, January 30), “Inside Track: How to ensure that the price is exactly right,” *Financial Times*.

Marmorstein, H., Rossomme, J., & Sarel, D. (2003), “Unleashing the Power of Yield Management in the Internet Era: Opportunities and Challenges,” *California Management Review*, 45(3), 47-167.

McWilliams, G. (2001, June 8), “Lean Machine: How Dell Fine-Tunes it PC Pricing to Gain Edge in a Slow Market,” *Wall Street Journal,* p. 1.

Pyke, David F. and M. Eric Johnson (2004), “Real-Time Profit Optimization: Coordinating Demand and Supply Chain Management,” *Achieving Supply Chain Excellence Through Technology*.

Welch, D. (2003), “Ford Tames the Rebate Monster,” *Business Week*, May 5, 2003.