

## Smart Pricing – Linkages between Sales and Operations

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The past decade has seen a virtual explosion of information about customers and their preferences. Many companies have the ability to gauge customers' willingness to pay for their products, and can determine with some accuracy the effect of price changes on sales volumes. With Internet shopping and Electronic Shelf Labeling Systems (ESLS), the door is open to remarkable possibilities for dynamic pricing online and in bricks and mortar stores. The potential for increased revenue is huge.

At the same time, companies have taken major strides in understanding and managing the dynamics of the supply chain, both their own internal operations and their relationships with supply chain partners. Lean manufacturing and supply chain initiatives, such as eProcurement and Vendor Managed Inventory (VMI), create the potential for significant cost reduction and service improvement.

Yet, in spite of these potential benefits there is a persistent dilemma. Pricing decisions have a direct and sometimes dramatic effect on operations, and vice versa. This insight has led many in the operations field to suggest that firms should eliminate promotions in favor of 'every day low pricing' (EDLP) – to the disdain of our marketing colleagues. Interestingly enough, the operations community has recently identified drivers for dynamic pricing in its own domain, inspired by the widely acclaimed successes of revenue management in the airline industry. All of these developments call for a thorough integration of marketing and operations insights – which today still appears to be lacking.

From our conversations with numerous managers we conclude that this integration is not more complete in industry than it is in academia. We have found that the most *common* practice is complete isolation of marketing from operations. The *best* practices, as far as we can tell, is a regular Sales & Operations Planning (S&OP) meeting that (cordially) hashes out production and sales targets.

This talk reviews these linkages between pricing and operations, in the academic literature, in industry, and in software. We will present a survey of our research – managerial and academic – that addresses these issues. We conclude with some open research questions and some comments on on-going projects.