

Pricing in Practice Exercise I

Read the following short article and then discuss the questions that follow:

In a decision that could affect the pricing of products in a range of industries, the Supreme Court ruled yesterday that wholesalers that impose a maximum selling price on retailers do not automatically breach federal antitrust law.

The unanimous ruling reverses a 1968 court decision and lifts a presumption that a wholesaler is violating antitrust law if it tries to limit how much a dealer charges. A classic illustration of the practice is when manufacturers try to spur consumer demand by nationally advertising that a particular car model is available for a certain price, or that for a limited time, cheeseburgers will sell for 99 cents.

Retailers say such price ceilings cut into their independence and profits and jeopardize their ability to provide quality service.

Manufacturers, however, hailed the court's decision. "This ruling guarantees consumers an opportunity to avoid price-gouging by dealers," said Mark Davidson, a lawyer for the National Association of Manufacturers. "This ruling affects every manufacturer and therefore affects all consumers."

Overruling the Supreme Court's earlier view, the justices said there is no reason to believe that imposing maximum prices on a retailer would harm consumers or competition to an extent justifying their automatic invalidation.

"The [1968] decision was grounded in the fear that maximum price fixing by suppliers could interfere with dealer freedom," Justice Sandra Day O'Connor said, referring to *Albrecht v. Herald Co.* In that case, the court said a publisher violated the Sherman Antitrust Act by setting a maximum price for distributors selling its newspapers.¹

1. What is the pricing issue that is relevant here? Can you think of other examples of this in practice?
2. Develop arguments both for and against the setting of maximum selling prices.
3. Do you think consumers would favor manufacturers setting maximum selling prices? Under what conditions will their evaluations be favorable?

¹ Excerpt from "Price Ceilings Can Be Legal, High Court Says; Wholesaler Limits on Retailers Still Can Face Test" Joan Biskupic The Washington Post November 05, 1997, Wednesday

Pricing in Practice Exercise II

Read the following excerpt² and then discuss the questions that follow:

False economies

True or false: The “Giant Economy Size!” is always a bargain. Well, bigger boxes may be more economical for companies to make and ship, but you wouldn’t know it from prices in some supermarkets. (Stores, not manufacturers, set retail prices.) We found coffee, cereal, baking soda, and tuna in New York–area supermarkets that cost less per ounce in their *smaller* sizes.

A 13-ounce can of *Maxwell House* coffee was \$3.09; its big 39-ounce brother, \$9.99—almost 8 percent more per pound. The most extreme

example: In one ShopRite store, *StarKist* tuna was 67 cents for the 6-ounce can but \$2.49 for 12 ounces.

Manufacturers say larger sizes may not sell well, so stores charge more for them. Smaller sizes may be “loss leaders”—bargains sold at a loss to attract shoppers.

“You can probably expect a price break by buying in volume,” says Gene Grabowski of the Grocery Manufacturers of America, “but it’s not a given. That’s why unit pricing is important.”



1. What is the pricing issue that is relevant here? Can you think of other examples of this in practice?
2. Develop arguments both for and against the use of higher unit prices for larger sizes.
3. How do you think consumers would react to this practice? What conditions might change their reactions? That is, when might consumers find it unfair or unacceptable, and when might it be considered fair or acceptable?

² Excerpt from “Sold Short? Are You Getting Less Than You Think? Let Us Count the Ways,” *Consumer Reports*, Feb 2000 65-67.

Pricing in Practice Exercise III

Read the following excerpt³ and then discuss the questions that follow:

Coca-Cola Shakes Up Wireless Vending Plan

After dropping a bomb on the public like a 2-liter plastic bottle of its product falling on the ground, the Coca-Cola Co. [NYSE:KO] has either denied or changed its mind, depending on who you believe, on how it will use a new wireless technology that lets it change prices at vending machines.

...Press reports on Wednesday and Thursday claimed that Coca-Cola was studying wireless technology that would allow its bottlers to raise or lower prices at their vending machines. Such a technology could, for example, let a bottler hike the price of an ice-cold Coke, Diet Coke, Sprite or other Coca-Cola product during hot weather...

...A New York Times article quoted Coca-Cola Chairman and Chief Executive Officer (CEO) M. Douglas Ivester in a Brazilian newsmagazine, saying that because the desire for cold drinks increases on hot days, "It is fair that it should be more expensive. The machine will simply make this process automatic."...

...A spokesperson for the company told the Associated Press that Coca-Cola doesn't have any immediate plans to place such a machine into the marketplace.

1. What is the pricing issue that is relevant here? Can you think of other examples of this in practice?
2. Develop arguments both for and against the use of such a pricing mechanism
3. How do you think consumers would react to this practice? What conditions might change their reactions? That is, when might consumers find it unfair or unacceptable, and when might it be considered fair or acceptable?

³ Excerpt from Woods, Bob (1999) "Coca-Cola Shakes Up Wireless Vending Plan" Newsbytes, October 29.