
Foreword

Editing a handbook is an opportunity to organize a field. My marketing colleague, Vithala Rao, seems to have been preparing for this for 24 years, judging from his paper, 'Review of Pricing Research in Marketing: The State of the Art', written in 1984.

At its finest grain, Vithala's organization of pricing research starts with 26 chapters written by top researchers in areas of their personal expertise. Coverage is remarkably comprehensive. The *Handbook* divides roughly into thirds: Part I – Introduction/Foundations, Part II – Pricing Decisions and Marketing Mix, and Part III – Special Topics, the latter emphasizing recent developments. I am also completely impressed with Vithala's people organizational skills in making 26 chapters with 26 sets of authors and reviewers actually happen.

The *Handbook* takes an active view of pricing, which I applaud. The 'Introduction' contrasts pricing research in marketing with that in microeconomics, pointing out that marketers are oriented toward achieving the objectives of the firm. I relate to this, since I come from the OR/MS tradition, which focuses on decision-making and decision support.

The ubiquity of price as a control variable has pursued me all of my marketing life. In 1969, as a neophyte consultant, I co-built a marketing-mix model at Nabisco for Oreos, 'America's Favorite Cookie'. Our goal was to support marketing management in its annual plan. We had monthly historical data with which to calibrate the model. It was then I first learned that what many academics were interpreting as a price variable was really promotion. Price had not gone away; the marketing mix needs both. I was being introduced to pricing research.

To give the reader a taste of Vithala's *Handbook*, I sample three chapters:

Chapter 20: 'Pricing under network effects' (Liu and Chintagunta)

The hallmark of networks is that they become more valuable to everybody as more people join them. Although network effects are as ancient as a middle-east bazaar, the Internet has newly thrust them in our faces with innovations such as multi-person online games.

Liu and Chintagunta describe pricing issues under network effects as reported in the theoretical literature, including static pricing, dynamic pricing, and nonlinear pricing. The authors, however, lament the state of empirical research in the field. To quote them, 'we are still not well equipped to provide normative guidance on firm's pricing strategies in real industry settings'. Thus one researcher's problem will be a future researcher's challenge.

Chapter 18: 'Strategic pricing: an analysis of social influences' (Amaldoss and Jain)

The authors build models of social phenomena that may variously be called conspicuous consumption, prestige, or snobbishness. The models focus on two basic social needs: a desire for uniqueness on one hand and the countervailing need to conform on the other. People buy conspicuous goods not just to satisfy material needs but also because of social desires. Firms that produce such goods tend to advertise the exclusivity of their products and must find an appropriate pricing strategy for them.

A summer 2008 example was AT&T Wireless, which became an exclusive channel for the Apple's new iPhone 3G. Big introductory promotions (with high prices for the iPhone) produced queues of hundreds of people at Apple stores in shopping malls on July 11. I myself was a purchaser (but through AT&T because I was unwilling to wait in queue). My self-analysis is that I was briefly unique and then sank into conformity.

Chapter 19: 'Online and name-your-own-price auctions: a literature review' (Park and Wang)

The authors review pricing mechanisms that have long been known for selling art objects but have suddenly blossomed into multi-billion dollar Internet businesses. The literature review is a service to all of us interested in this economically significant area, either for research or profit. The chapter covers recent theoretical, empirical, and experimental research on the effect of auction design parameters on outcomes, as well as bidding strategies themselves. The field is rich in results, in part because the theoretical work is well balanced by access to field and experimental data.

Perhaps it is the skill of the authors, but I am heartened to see so many concepts and phenomena from the foundations of pricing (as covered in earlier chapters), from marketing generally, and from consumer behavior in particular, show up in this excellent review.

Challenges ahead

A sub-theme throughout the *Handbook* is future research opportunities. In looking around today, I see many examples of practical pricing problems that seem to beg for investigation. Consider the exploding field of advertising on search engines. In the early days of the Internet, when people were proclaiming a 'new economy', many start-ups planned to pay their bills by selling advertising. This dream disappeared in the collapse of the Internet bubble. Then Google found a way to make advertising generate significant revenue. Its pricing mechanism was auctions. Google's revenue growth brought it a high stock price and a huge market valuation. Now Google competitors are trying to make advertising work too. This sounds like a pricing research challenge. The fundamentals presented in Vithala's *Handbook* will be important building blocks. The world is waiting for the right research team.

John D.C. Little
Institute Professor, MIT Sloan School,
Cambridge, MA, USA