

A PRICING DECISION¹

You are employed as a management consultant. Sage Barnett, the owner of a small business that sells children's clothing, is a client. The store's product line includes children's toys, a high mark-up category. Christmas sales represent 60% of Sage's gross income. Sage has always used the advertising tag line, "***The Best Merchandise at the Lowest Prices!***" Her store is located in a working class neighborhood that borders an upper middle-class area. Working class neighbors are her primary customers. Due to new competition and unexpected problems, this has been a terrible year and Sage's store may not survive another.

This holiday season the hot children's toy is Galactic Robot. The manufacturer has successfully pursued a strategy of over-advertising and under-producing them. Demand far exceeds supply. Every child in the community wants Galactic Robot this Christmas.

Sage has guessed right and her store is well-stocked with over 100 of these robots. She is particularly excited because the assistant manager visited other stores and found very low inventories that will likely run out by December 10th.

The **manufacturer's suggested retail price for Galactic Robot is \$30** and Sage, based on her advertising tag line, **has been selling them for a discounted \$25**. The assistant manager suggests that Sage **quadruple the retail price to \$100**. Sage is still very likely to sell out at this high price if she targets the upper middle-class people who live nearby. Sage has already received two telephone calls from people **offering \$150 in cash**, off-the-books, no questions asked, if she guarantees immediate delivery. These calls make her think that maybe \$100 is not enough. **Why not \$200?**

On December 5th you receive a harried call from Sage asking your advice on what price to charge for the Galactic Robots. Sage has pulled the robot inventory from the shelves until she decides on a course of action.

Circle the price you would recommend: **\$25, \$30, \$100, \$150, \$200**

Why would you recommend this price?

¹ Modified from Denis Collins and Laura V. Page (1997) "A Socrates/Ted Koppel Paradigm for Integrating the Teaching of Business Ethics in the Curriculum," *Research in Corporate Social Performance and Policy, Supplement 2*, JAI Press, pages 221-242.

Ethical Theory	High-Price Strategy	Low-Price Strategy
<p><i>Egoism</i></p> <p><u>“What’s in it for me?”</u></p>	<ul style="list-style-type: none"> • More money in short-term • Prevents bankruptcy 	<ul style="list-style-type: none"> • More money in long-term by building customer loyalty • Good public relations • Can be sued for violating advertising claim
<p><i>Social Group Relativism</i></p> <p><u>“What would my friends or colleagues say?”</u></p>	<ul style="list-style-type: none"> • Maximizing profit is a common business practice, so business people would support it • Would save employee jobs, so they would support it 	<ul style="list-style-type: none"> • Would receive approval from loyal working-class customers
<p><i>Cultural Relativism</i></p> <p><u>“Is it legal or culturally acceptable?”</u></p>	<ul style="list-style-type: none"> • Legal • We live in a capitalist society 	<ul style="list-style-type: none"> • Legal • Can be sued for violating advertising claim
<p><i>Utilitarianism</i></p> <p><u>“What’s the greatest good for the greatest number of people affected by it?”</u></p>	<ul style="list-style-type: none"> • Capitalism improves a nation’s standard of living • Children will learn about economic limits • Community benefits by store avoiding bankruptcy 	<ul style="list-style-type: none"> • Enables most community residents and loyal customers to afford toy
<p><i>Deontology</i></p> <p><u>“Does it treat others with the respect, honesty and integrity I want to be treated with?”</u></p>	<ul style="list-style-type: none"> • Fulfills duty to save jobs of employees • Doesn’t hurt anybody • Duty to keep price affordable applies only to essential items; a toy is a nonessential item 	<ul style="list-style-type: none"> • Maintains personal integrity • Maintains store’s advertising claim • Fulfills duty to regular customers • Respects manufacturer’s suggested retail price • Maintains holiday spirit

Class Discussion Format

- 1) Read dilemma to everyone**
- 2) Students circle choice and write why**
- 3) Write votes on board**
- 4) Divide into two groups**
 - A) Low-price strategy (\$25, \$30)**
 - B) High-price strategy (\$100, \$150, \$200)**
- 5) Small groups develop arguments why their strategy is right and the other wrong**
- 6) Debate**
- 7) Debate**
- 8) Teach Ethical Theories**
- 9) Teach Analytical Framework**
- 10) Understanding your ethical language and need to speak the same ethical language to persuade somebody.**