

The Price is Right, but Maybe It's Not, and How Do You Know?

When Apple dropped the price of its iPhone by a third after only two months on the market, even its most loyal buyers complained bitterly, forcing chief executive Steve Jobs to apologize and offer a partial rebate.

According to Wharton faculty and analysts, the iPhone episode reveals the perils of pricing in a marketplace where constant innovation, fierce competition and globalization are changing the rules of the game. "The product lifecycle is short and the market is moving quickly," says Wharton marketing professor John Zhang. "You don't have a lot of time to learn from your mistakes. You have to price the product right the first time."

Pricing is gaining new interest as management looks for ways to increase revenues after years of focusing their attention on downsizing and cost-cutting. Firms are only now beginning to apply to pricing some of the data collection and management tools they have been using in supply chain management and other parts of their businesses. "Pricing is the last bastion of gut feel," says Greg Cudahy, managing partner of Accenture's pricing and profit optimization practice.

According to Cudahy, companies that take a strategic approach to pricing throughout their business and monitor their success with hard numbers can raise revenue by between 1% and 8%. "That's a huge shift in pure revenue improvement."

For example, New York drugstore chain Duane Reade increased baby product revenues by 27% after using pricing software to examine sales data, according to an article titled, "The Price Is Right...Isn't It?" that appeared in the January 2007 edition of Accenture's business publication Outlook. In the article, Cudahy and George L. Coleman, a leader of Accenture's retail pricing group, describe how the data showed that parents of newborns are not as price-sensitive as parents of toddlers. In response, the company cut prices on toddler diapers to remain competitive with other stores and raised prices on diapers for infants.

Cudahy says better pricing can help businesses on many other levels beyond revenue boosts. For example, he worked with a parcel delivery company that introduced a coherent pricing strategy to its operations and found it was able to reduce by 90% the time spent working out pricing for bids. That allowed the company to focus more time and effort on building up customer relationships.

Closer attention to pricing can have payoffs in other ways, he says. Accenture found that in some retail operations a price decrease in one area can lead to beneficial pricing elsewhere in the store. Research in retirement communities in the South, for example, observed that shoppers had a high sensitivity to the price of health care goods. But saving a few cents on those items may lead them to spend 50 cents more on other items. "Pricing is not only about trying to get people to pay more," he says. "Pricing is used as a testing mechanism to find what consumers really want. It's basic supply and demand. The surest way to find out if consumers want something is their willingness to pay for it."

'Temporal Price Discrimination'

According to Wharton marketing professor Jagmohan Raju, Apple's price cut is an example of a strategy known as "temporal price discrimination." Companies using this strategy charge people different prices depending on the buyer's desire or ability to pay. As a result, companies win two ways. First, they reap wide profit margins from those willing to pay a premium price. In addition, they benefit

New Benchmarking Components Added to Tool

The NBTA Foundation released Version 3 of the Managed Travel Index® (MTI) & Benchmarking Tool in July during the 39th Annual NBTA International Convention & Exposition in Boston.

This unique web-based resource allows corporate travel managers to measure the strength of their companies' travel programs against others in similar industries, travel volumes and/or geographies; to compare their air data to airfare and performance information on all U.S. routes; and to compare their hotel data to rates and occupancy in major U.S. and Canadian markets.

The recent upgrades provide users with several new tool and capabilities:

- Travel Risk Management (TRM) Self Assessment Tool
- TRM White Paper Resources
- NBTA Member Benchmarking of ATP and CPM
- Top Ten Route Analysis against National Data and NBTA Member Benchmarks

Travel managers and TMCs are always searching for ways to improve travel programs, increase efficiencies and add value to the bottom line. "I have been asked to participate and contribute to cost savings and cost avoidance supply chain initiatives in my corporation," explained Gary Polito, manager of corporate travel for the Bose Corporation. "The most beneficial way for me to benchmark our travel program against the industry, as well as peer companies is by utilizing the NBTA Benchmarking Tool and the MTI. It has proven to be an extremely valuable resource. The tool provides the data, as well as charts and graphs that allow me to demonstrate how effective our travel program is to senior management."

A demonstrate of the tool can be view on line at www.nbtafoundation.org.

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NBTA Foundation to Award \$90,000 in Scholarships – Apply Today

The NBTA Foundation has begun accepting applications for 2008. Scholarships are available to qualified members for the Certified Corporate Travel Executive program (CCTE), the Global Leadership Professional program (GLP) and Independent Studies. The Foundation is committed to advancing the professional development of business travel professionals. To date, the Foundation has awarded 340 scholarships, valued at more than \$1.2 million to NBTA members. Completed applications are due no later than Friday, May 30, 2008. To download the application, please visit www.nbtafoundation.org and click on Scholarships. For more information on our scholarship program, please contact Kerry Gaylor, 703-236-1169 or email KGaylor@nbtafoundation.org



NBTA Foundation to host 2nd Annual Golf Classic

The NBTA Foundation has selected Industry Hills Golf Course, at the Pacific Palms Conference Resort, as the site for its 2008 2nd Annual Golf Classic. Industry Hills, located just 20 miles outside of downtown Los Angeles, has been rated four and a half stars by Golf Digest magazine as one of California's most historical and noteworthy golf facilities.

After undergoing a multi-million dollar renovation, Industry Hills boasts breathtaking views, pristine grounds and more the 650 acres of lush greens for awe-inspiring 36 holes of championship golf, new practice facilities and expanded resort amenities.

So please save the date, Sunday, July 27th, and help us "tee off" the start of the 40th Annual NBTA International Convention & Exhibition for a day of championship level golf, and networking prior to a the start of a busy week in Los Angeles.

In addition to the green's and cart fees, participants will receive access to the driving range, practice greens, continental breakfast, lunch, and numerous golf merchandise mementoes. Many golf contests will be set up around the course, including several hole-in-one opportunities for great prizes.

Registration and sponsorships are limited and available on a first come, first served basis. For more information or to register visit www.nbtafoundation.org or contact Kerry Gaylor at (703) 236-1169 or KGaylor@nbtafoundation.org



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from high volume, even at a lower per unit price, by building a wider customer base for the product later. Raju notes that price discrimination can also be structured across geographies, seasons and by adding or eliminating features, as is done with student software.

Consumers have come to accept this form of pricing in the airline industry. A last-minute traveler expects to pay vastly more than a frugal flyer who booked a seat on the same flight, in the same aisle, months earlier on the Internet. It is easier, Raju says, to apply temporal pricing structures in an industry with a service component -- like airlines -- than it is with a tangible manufactured item. Indeed, just last week, New York City's transit agency proposed

a two-tier system under which people would pay a lower fare if they ride subways or buses during off-peak periods. The plan, which would take effect in 2008, would raise agency revenues as well as offset overcrowding. And, according to a report in the New York Times, the Bush administration is considering a plan to charge airlines higher fees for landing during an airport's rush hour than for landing during off-peak hours.

Excerpted with permission from Knowledge@Wharton, a bi-weekly online resource that offers the latest business insights, information and research from a variety of sources. For the full text of this article and others, go to <http://knowledge@wharton.upenn.edu>.

Correction

Kelly Henry Luedtke, CCTE, *BNSF Railway Co.*, was among the 20 business travel professionals to receive their certificate of professional development from The Wharton School for completion of the Global Leadership Professional (GLP) program during NBTA's annual Convention in Boston.

5-Day GLP Session Offered at The Wharton School

The NBTA Foundation will offer the only 5-day GLP program for 2008, February 24-29 at the Wharton School in Philadelphia.

Essentials of Management teaches the core concepts of business to individuals who need to broaden their managerial and strategic perspectives, enhance their business instincts and sharpen their ability to tackle management challenges. Past participants have nicknamed the program a “mini-MBA.”

This 5-day program, drawing on faculty and content from Wharton's top-ranked MBA programs, introduces the essentials every successful manager needs in marketing, finance, operations, strategy and leadership.

The Wharton ROI: Return on Education

- Develop knowledge in core areas of business, including finance, marketing, management and strategy based on current research and best practices.

- Understand how operational and financial decisions impact strategic and marketing efforts.
- Develop a business vocabulary that will enable you to communicate and collaborate across organizational boundaries.
- Infuse best practices into your routine by immediately applying classroom knowledge to real-world situations.
- Know how to approach different managerial problems using value driven decision-making.
- Understand how organizational culture impacts strategy implementation.
- Learn how to manage change and conflict effectively.

Space is limited and offered on a first come, first served basis – so register today! For more information or to apply for this session, visit www.nbtafoundation.org and click on Education.

Register Today and Lock in 2007 GLP Fees

The NBTA Foundation recently announced a strong line up of sessions for the Global Leadership Professional (GLP) program in 2008. The Foundation Board is committed to continue to subsidize this dynamic program, providing NBTA members with a 50-75% savings over the cost of similar Wharton open enrollment programs. In order to maintain costs the fees for 2008 will increase to \$4995 for the 5-day program and \$995 for the 2-day program.

However, the Foundation is offering an opportunity for all NBTA members to attend 2008 sessions at the current 2007 rates. NBTA members who register prior to December 31, 2007 and pay for the session by January 31, 2008, can do so at the current 2007 rates of \$4,215 for the 5-day and \$865 for the 2-day program. Register today and save! The application is available online at www.nbtafoundation.org/education.

Eleventh Annual Gala Dinner Tables On Sale Now!

With the New Year just around the corner, the NBTA Foundation is busy gearing up for yet another successful fundraising event. The Foundation's 11th Annual Gala Dinner will take place on Monday, March 10, 2008 at the Millennium Broadway Hotel in New York City.

The dinner offers guests the opportunity to network with other peers in the business travel industry while enjoying an evening in the historic Hudson Theatre. The sold-out 2007 gala dinner raised more than \$155,000 for corporate travel research and scholarships administered by the NBTA Foundation. Last year nearly 400 business travel professionals attended the prestigious black tie event, hosted by the Crowne Plaza Times Square.

The NBTA Foundation's 11th Annual Gala Dinner is being held in conjunction with the Annual NBTA Business Travel Financial Forum—A Wall Street Look at the Business of Business

Travel. This one-day forum will provide a high-level focus on critical issues in corporate travel management, including developments in the airline and hotel industries, travel taxes and fees, the future role of corporate travel, and an economic forecast of the travel industry at-large.

The historic Hudson Theatre was built in 1903 by producer Henry B. Harris, who later perished aboard the Titanic. The Theatre was managed for many years by Harris' beloved wife Irene. The inimitable Mrs. Harris was the first woman to produce theater in New York City. Now exquisitely restored to its opening night splendor, the Hudson Theatre features authentic Tiffany glass mosaic tiles, Tiffany chandeliers and gold-gilded boxes.

Tables for the 11th Annual Gala Dinner are limited do to this unique venue, so reserve your company's table today! For more information or to reserve a table, call Kerry Gaylor at 703-236-1169 or email at KGaylor@nbtafoundation.org.

Upcoming Calendar of Events

November 2007

1: Scholarship Applications Available Online

11-13: Global Leadership Professional Program
Topic: Negotiation and Influence Strategies for Success
Denver, CO

February 2008

24-29: Global Leadership Professional Program
Topic: Essentials of Management: Mastering Core Business Concepts
The Wharton School – Philadelphia

March 2008

10: NBTA Foundation Board of Trustees Meeting
New York

10: NBTA Foundation 11th Annual Gala Dinner
New York

11: NBTA Business Travel Financial Forum: A Wall Street Look at the Business of Business Travel
New York

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