

# **ALLIANCES, UNCERTAINTY, AND STRATEGY: LETTING STUDENTS PRACTICE EXPANDED PRICING STRATEGY THROUGH TWO AUCTION GAMES**

Lauren Louie, University of La Verne

## **Abstract**

Managing uncertainty and strategic thinking are in demand skills for marketing students (Finch, Nadeau, & O'Reilly, 2013). In response, marketing educators have begun to incorporate experiential and active learning principles in the classroom. However, according to Mills and Treen (2016) experiential pricing activities have received less attention despite student disinterest in pricing and student needs which make it fertile ground for curricular development. This paper proposes an auction lesson that includes two role-playing games. These semi-structured activities can encourage higher order thinking and motivation by letting students practice evaluating and crafting pricing and bidding strategies (Hamer, 2000). Furthermore, these give instructors additional flexibility to employ active learning for different types of classes and students.

## **Introduction**

Handling uncertainty inherent in strategic thinking is an important skill for marketing students in joining the practitioner community (Finch, Nadeau, & O'Reilly, 2013). This paper aims to add to the call to incorporate more active learning to improve students' skill development for pricing (Mills & Treen, 2016). There are many situations students will face where there is no set price or price schedule. A major component of such situations, particularly auctions, is the ability for both buyer and seller to anticipate the strategies of different actors, and in particular that of other buyers (Wood & Suter, 2004). Therefore, the goal of this position paper is to develop an auction lesson that includes two role-playing games. Incorporating semi-structured activities encourages higher order thinking and motivation by letting students practice evaluating and crafting pricing and bidding strategies (Hamer, 2000). These can also give instructors additional flexibility to employ active learning for different types of classes and students.

## **Literature Review**

Marketing educators have increasingly applied experiential and active learning techniques to increase student motivation, promote deeper learning, and prepare students for the demands of modern marketing (Li, Greenberg, & Nicholls, 2007). These are especially important for teaching strategic marketing so students may practice managing under ambiguity (Van Doren & Smith, 1999).

However, past literature has suggested the inclusion of experiential methods has been mixed due to the differing strengths of particular activities (Karns, 2005) as well as varying student learning styles and instructor ability (Brennan, 2014). Mills and Treen (2016) have highlighted how pricing curriculum acutely face these troubles but are fertile for experiential learning curricular development to account for student disinterest in pricing, different student experience with economics or quantitative methods, and the presence of non-majors in marketing classes.

The following proposed lesson means to address this gap by developing additional shorter, in-class, and lower pressure semi-structured activities that can be used in conjunction with the often longer and more intensive pricing activities (see Mills & Treen, 2016 for list).

## **Lesson Procedures**

The following lesson was designed for a large (60 student) undergraduate pricing elective held near the end of the quarter when students know each other better. Prior to the activities, a lecture session discusses "psychological pricing" and "auctions" which stresses the role of auctions as an allocation mechanism, how valuation operates, and the strategies different actors may take for different auction types. The focus is on the way different actors (buyers and sellers), and thus the students, may anticipate these actions in others and in themselves.

A video of an "unusual" auction setting reinforces pricing as a tool of exchange and the variety of strategies. This instructor used a clip of a video game fighting tournament (UFGTX) auction as a

modified version of the traditional auction students usually know. This and videos of other unusual auction settings can encourage student elaboration and therefore deeper learning (Hamer, 2000).

#### **Semi-structured Activity 1: Dutch Auction**

Dutch auctions are open auctions in which the opening price is set high and descends over time as indicated by a “price clock.” Students volunteer to participate in an in-class Dutch auction for an unknown amount of “points” or other small reward. Each auction is followed by reflection and a final debriefing ends the activity.

#### **Semi-Structured Activity 2: English Auction**

The English auction is the “traditional” auction where bidders openly submit their bids until the highest bidder wins. This activity has the students form teams to take the role of an entertainment media company that will participate in an auction. Each company sets a price for their media franchise and may bid on others (i.e. rights to make a new film) with the goal of ending with the highest net worth for a small prize (e.g. candy). To encourage different strategies, each company has strengths and weaknesses for which franchises they can best capitalize on, two pieces of market intelligence, and their own theories as to how the other teams will act. The students are given 20 minutes to devise a strategy, potentially influence or make alliances with other teams, and submit a reserve price for the franchise they are selling. A debriefing session follows the auction.

### **Contribution and Future Directions**

An auction lesson not only introduces an alternative pricing format to students (Wood & Sutter, 2004), but is also an opportunity for instructors with different scheduling needs and student backgrounds to incorporate activities that promote engagement and let their students practice handling uncertainty. This lesson used a mix of techniques including videos (Karns, 2005), games (Brennan, 2014), teams (Chad, 2012), and competition (Vander Schee, 2012) that the literature has shown can aid deeper learning, student motivation, and skill development. Continued work can develop variations that will enable more repetition and feedback opportunities for better experiential learning, account for different class sizes, and arrange how it can work with other price setting format lessons.

### **References Available Upon Request**