



Steve Bear, Adjunct Professor at Iona College in New Rochelle, NY, has over 30 years of business experience in marketing and general management with major pharmaceutical corporations. He works as a consultant and has been with Iona since 1998. He teaches at Iona for the “joy of it”. His students are undergraduate seniors majoring in marketing. He is a first time user of the LINKS Marketing Simulation and at the time of this interview was in the middle of the course.

Teaching Through a Tsunami

Something happened that was unusual with your students’ results during your simulation. Will you explain what that was?

One team became confused about the inputting process, and they put in a price that was lower than their cost of goods. That caused two things to happen—they accumulated an extraordinary amount of market share based on this very attractive price to the consumer and they lost an extraordinary amount of money based on pricing under cost of goods.

Would this have been considered illegal in the “real world”?

I told the team that what they had done was “dumping”. They had priced below cost which is treated differently by different nations. It is generally considered to be predatory pricing and there is often remediation that is sought—from forcing the company to raise its price all the way up to punitive fines and damages.

After some reflection, I decided to meet with the students to determine why this occurred. I wanted to be sure and I needed to be fair to the other teams. However after having a private meeting with them I concluded that it was simply human error. There was a misunderstanding by the individual who was assigned that week to do all the inputting.

There are potentially lots of things that one could have done to deal with this, from saying we are going to wipe this round out and rerun the whole round again and put new inputs in, to concluding this was not an accident and disbanding the team. What we decided to do was treat it as one of the vagaries of life, and treat it as one of the unpredictable events that can occur.

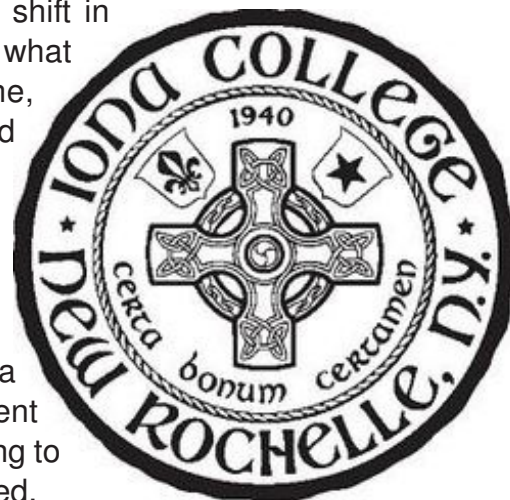
The team would be required to raise their price in the next round above the cost of goods, and they were going to be fined. The maximum one-round fine in this version of LINKS is 2.5 million dollars so I selected that as the fine.

How did the team react to the fine?

They were somewhat appalled at the size of the fine, One team member rather plaintively asked “what could we do to avoid having a fine?” And I candidly had not considered what they might do to avoid having a fine. I thought they ought to be fined. I wanted it to be very difficult for them to perform well based on having done this because in the real world, if they were caught dumping, the government would make every effort to constrain them. In the interaction that occurred, I said, “if you write a report about dumping and you submit it to me the evening before the next LINKS input is due, so that I know that you understand what you have done and how it works in the real world, I’ll eliminate the fine.” And that is what they did. The important thing to me was that they understand what dumping is and they are cognisant that this was an error that should not have occurred. They ended up at the bottom of the LINKS competition for that round, and they did a little extra work.

How did the other teams react when they saw the results?

At the start of the class I asked the remaining teams to have a short meeting and see if they could assess what had actually happened. The other teams all lost a tremendous amount of market share and they all lost some money as well—not a lot of money but they all lost some. They all mis-forecast because the market shares dropped in a significant way. And they wound up not being able to cover their fixed costs. One team knew exactly what had happened. They took a look at their loss of market share and the industry notes which indicated that one team had gained a huge amount of share and profitability of the industry and they inferred that some team must have priced extremely low. They didn’t actually know that they had priced below cost of goods, but extremely low causing a radical shift in market share. So that was good, and I explained that’s what happened and I was reporting the “dumping” to everyone, because in the real world, if someone had dumped there would typically be complaints by firms in the industry. And then there would be some kind of administrative hearing. And the results of that hearing would be made public. So I was making the results of this public. Dumping had occurred, and the team had to raise their price above costs for the next round but I wasn’t dictating the precise price. Everyone had a very interesting next round. They had to make a judgment about what the team that lost a great deal of money was going to do and what was going to happen when their price increased.



What did the team that did the dumping do?

We have had two rounds since that happened. In the first round the team increased their price at a profit but was clearly priced very low. As a result, they held a great deal of market share but the industry returned to profitability. But their performance wasn’t all that good. In the second round, they increased their price again, and they performed reasonably well. Again they lost

market share but they are still the market leader. At the new price point they had positive net income and they are performing better. Because of the significant amount of money that they lost, they are still in the bottom tier of the simulation. They had a team meeting with me. They have appropriately recognized that whether they had originally intended to or not, they are now on a cost leadership strategy and they found a reasonable price point and now they have got to manage the rest of the simulation and be a very effective cost leader and win the simulation with that strategy.



What was the reaction of the students on the other teams?

There was a bit of confusion going into that class. When I explained the situation, that clarified all the confusion. There was a lot of good-natured bantering and commentary going on. Everybody accepted this with equanimity, because the problem was positioned as "dumping" which can occur in the real world. The teams that were impacted most significantly were a bit annoyed, but recognized that this could happen in the real world. So the question became what should everyone do next.

What other options did you consider?

I decided that the most important thing to do was to find out why this occurred. Had it been malicious then I would have disbanded the team. I also considered asking Dr. Chapman to re-run the simulation, but I thought it was more interesting to treat this as a highly unusual event that might occur, and let the teams react accordingly.

Are you glad you did not decide to re-run the entire simulation?

Any time you artificially interject by whatever means you do through the course of the simulation, you don't know what that's going to do either. So if you provide information, if you suggest things to the whole class you are having an impact, which is something you might choose to do for educational purposes but you don't know what it's going to change. The world is challenging and difficult as the economy of the last two years has shown all of us. Events occur that are unpredictable as the meltdown was not predicted by many, and its severity was certainly not something anyone expected. I think there was more to learn and benefit from having to deal with this surprising and unpredictable event. If I had concluded that the team had done this in a malicious way and if it was impossible to get back to some reasonable normalcy then I think I would have re-run it. I did speak to Randy about what the probability was once the team raised their price, and would the simulation be permanently distorted? Our conclusion was no. Everyone would still have a shot once the prices and market share were adjusted. I don't think I would have re-run it unless I felt that the simulation couldn't continue in an interesting and reasonably fair way.

Has morale changed with any of the teams?

I was pleased to see that the students reacted to this turmoil with a great deal of resiliency. There isn't any morale problem. The team that made the mistake was certainly embarrassed. But they took it fairly graciously when I explained to the class what had happened. Although they are still in the bottom portion of the simulation but they are quite focussed to do their best and they have bounced back. They are improving and working hard to see if they can become the winning team.

Do you have any other remarks to make?

I had built into the syllabus a lecture on Porter's 1980 generic strategies— cost leadership vs. product differentiation vs. niche or focus and I was using both the simulation and a case study to exemplify the concepts. What this incident let me do was really dramatize Porter's work because it shows the issues around cost leadership. If you price low enough you can be a cost leader and accumulate a lot of market share—good—but if you price too low and you can't make money, then you are a cost leader that is highly unsuccessful.

Following the incident, I added a brief discussion about the experience curve and discussed how gaining market share can reduce costs. I was able to use the incident to underline materials I communicate in the class. That's the beauty of simulation. Hopefully five years from now, some of the students will remember the concepts as clear and well communicated because it was illustrated so vividly in the class.

The LINKS Marketing Simulation is a wonderful educational tool and I am pleased about the energy that it builds in the class. It's very complex, and initially the students don't understand how much work is involved and how much they have to learn, but the inherent joy of competition pushes them to do that work.