

**Pricing Strategies**

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This course is designed to equip you with the concepts, techniques, and latest thinking bearing on pricing issues, with an emphasis on ways in which you can help a firm to improve its pricing. The overall orientation of this course is not about the theory but the practice of pricing. Rather than focusing on the allocation role of pricing, this course focuses on how firms can improve its profitability through pricing. We will take a close look at how firms go about setting their prices and how one may improve firms' current practices to increase their profitability.

The first half of the course covers analytical tools and conceptual frameworks needed for analyzing a pricing environment and for formulating a sound pricing strategy. From this part of the course, you will learn not only how to analyze costs, customers, and competitors in order to formulate proactive pricing strategies, but also specific ideas that you can use to help a firm to identify the opportunities for improving its pricing. The second half of the course focuses on developing pricing tactics. This part of the course will help you to gain insights into successful pricing strategies in various industries and discuss how to improve a firm's pricing through engineering a sophisticated pricing structure. The topics of discussion include price promotions, price bundling, price discrimination, versioning, nonlinear pricing, pricing through a distribution channel, dynamic pricing, etc.

Upon successful completion of this course, you will (a) gain in-depth knowledge of current pricing practices in diverse industries, (b) learn the state-of-the-art analytical framework for making proactive pricing decisions, (c) master the basic quantitative techniques for analyzing and making profitable pricing decisions, and (d) improve your acumen for strategic thinking, so that you can excel in today's competitive business environment.

Required materials for the course include *The Strategy and Tactics of Pricing* by Thomas T. Nagle and Reed K. Holden (NJ: Prentice Hall, 2002, 3rd ed.) and *Pricing Strategies* ed. by Z. John Zhang (McGraw-Hill, 2005). Both are available from Penn Bookstore for a price.

Your performance in the course will be evaluated on the basis of your attendance and class participation (25%), two group case write-ups (15% each), one individual homework assignment (10%), and a group project (35%).

### **Attendance and Participation**

Since we will cover critical material that is not in your assigned readings, your attendance is strongly encouraged. To provide such incentives, 25% of your final grade depends on your attendance and participation. You can skip one class without being penalized if you have a really good reason and ask for prior permission. However, your physical presence is only a necessary condition for the full grade. You must come prepared and ready to share your ideas.

### **Assignments**

There are two group case write-ups, each accounting for 15% of your final grade. The cases are: *American Airlines* (due on February 9) and *Burroughs Welcome* (due on April 4). To complete these assignments, you can form groups of four. Each group is required to turn in one completed assignment (5 pages at maximum excluding tables and charts) and all members get the same grade unless a free-riding problem is reported. One homework assignment, accounting for 10% of your final grade, is designed to polish up your quantitative skills. This assignment must be independently completed by each individual.

### **Group Project**

You are also expected to complete a project with your group and present it in class, which altogether account for 35% of your final grades (15 pages maximum excluding tables and charts). The project will give you the opportunity to reflect on what you have learnt in the class and apply them to some practical problems or problems of interest to you. The details of the project will be discussed in class. Again, all people in the same group will get the same grades unless there is a serious free-riding problem. The project is due in class on April 6.

To make sure that you do spend adequate time on the project, you are required to turn in a progress report in class on February 7, briefly describing what your group plans to do and what you have done up to that point. An unacceptable progress report will reduce the final grade from the maximum 35% to 25%.

Time	Subject	Assignments
January 10	Pricing Tactics vs. Pricing Strategy	Nagle & Holden, Ch. 1; Shim and Sudit (1995); <i>Basic Quantitative Analysis for Mar-keting</i> ; Distribute Project Guide.
January 12	Pricing for Profit: Incremental Break-Even Analysis	Urbany (2001); Dolan (1995).
January 17	Pricing for Profit: Economic Value Analysis and Transaction Price Analysis	Nagle & Holden, Ch. 3;
January 19	Costing for Pricing	Nagle & Holden, Ch. 2; Distribute Homework.
January 24	Price Sensitivity Analysis	Nagle & Holden, Ch. 4.
January 26	Marketing Profits and Loss Leader Pricing	Chen, Hess, Wilcox and Zhang (2000) in Webcafe; Homework due.
January 31	<i>Pricing Predicament</i>	Nagle & Holden, Ch. 8, Progress Report due in a Week; Distribute Case Questions for <i>AmericanAir lines</i> .
February 2	Value Pricing in Action	Nagle & Holden, Ch. 6; Progress Report due on Oct. 5.
February 7	Estimating Consumer Reservation Price: Hands-on Clinic	Anderson <i>et al</i> (1993); Jedidi and Zhang (2002); Nagle & Holden, Ch. 13; Progress Report Due.

Time	Subject	Assignments
February 9	<i>American Airlines' Value Pricing (A)</i>	Case Assignment I Due; Distribute Case Questions for <i>Tweeter etc..</i>
February 14	Managing Pricing Competition	Nagle & Holden, Ch. 12; Distribute Case Questions for <i>Computron</i> .
February 16	<i>Tweeter etc.</i>	Zhang (1995)
February 21	Pricing Psychology	Thaler (1985).
February 23	Dynamic Pricing	Distribute Case Questions for <i>Virgin Mobile USA</i> .
February 28	<i>Computron</i>	
March 2	Group Project Feedback	
March 14	Principle of Price Engineering	Nagle & Holden, Ch. 9
March 16	Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002).
March 21	<i>Virgin Mobile USA</i>	Distribute Case Questions for <i>Burroughs Welcome</i> .
March 23	Channel Pricing and Performance Based Pricing	Nagle & Holden, Ch. 11; Buzzell <i>et al</i> (1990).
March 28	Price Discrimination in Practice: One to One Pricing	Shaffer and Zhang (2002).

Time	Subject	Assignments
March 30	Research in Practice: Pricing Movies.	
April 4	Product Line Pricing	
April 6	Pricing Ethics and <i>Burroughs Welcome</i>	Case Assignment II Due
April 11	Pricing in Perspective: <i>South-west Airlines</i>	Project Due.
April 13	TBA	
April 18	Project Presentations	
April 20	Project Presentations	

## Readings and Cases

- How Manufacturers Price Products (Shim and Sudit 1995)
- Basic Quantitative Analysis for Marketing (HBR 584-149)
- How Do You Know When the Price is Right (Dolan 1995)
- Justifying Profitable Pricing (Urbany 2001)
- Customer Value Assessment in Business Markets (Anderson, Jain, and Chintagunta 1993)
- Augmenting Conjoint Analysis to Estimate Consumer Reservation Price (Jedidi and Zhang 2001)
- Mental Accounting and Consumer Choice (Thaler 1985)
- *American Airlines' Value Pricing* (HBS Case 9-594-001)
- *Tweeter etc.* (HBS Case 9-597-028)
- Price-Matching Policy and the Principle of Minimum Differentiation (Zhang 1995)
- Pricing Access Services (Essegaier, Gupta, and Zhang 2002)
- The Costly Bargain of Trade Promotion (Buzzell, Quelch, and Salmon 1990)
- Trade Promotions: A Call for a More Rational Approach (Zerrillo and Iacobucci 1995)
- Competitive One-to-One Promotions (Shaffer and Zhang 2002)
- *Southwest Airlines* (HBS Case 9-575-060)
- *Computron* (HBS Case 9-597-063)
- *Virgin Mobile USA* (HBS Case 9-504-028)
- *Burroughs Wellcome and AZT (A)* (HBS Case 9-792-004)
- *Pricing Predicament* (HBS Article)