

MKTG 754/MKTG222 (SPRING 2006)

Assignment for Day 1

Please read the Cumberland Metal Industries Case (in the Bulkpack). Please think about the following when you prepare the case.

1. What price should you charge for the Cumberland Pad and why?
2. What factors should you include in deciding this price?
3. What do you think is an appropriate distribution system to take the pad to market?

University of Pennsylvania

MKTG 754/MKTG 222

Spring 2006

[TENTATIVE – SUBJECT TO SOME CHANGE]

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Course Objectives

This course provides an opportunity for the participants to develop a systematic framework for assessing and formulating pricing strategies. Pricing decisions are affected by economic, marketing, organizational, and psychological factors, and must be made within a prescribed legal framework. Each of these presents an interesting aspect of the pricing problem. The course revolves around understanding how one may go about making effective pricing decisions while keeping in mind these factors. To achieve this objective, we will learn appropriate concepts, methods, and explore new approaches for formulating pricing strategy. This course is less about the mechanics of setting a price – it is more about understanding the process of making pricing decisions.

The course will use a combination of lectures, case discussions, and exercises. Assignments will be in the form of readings from the text, case preparation for class discussion, problem sets, and case write-ups.

Required Materials

1. The Strategy and Tactics of Pricing by Thomas T. Nagle and Reed K. Holden (NJ: Prentice Hall, 2002, 3rd ed.) (hereafter referred to as **Nagle**)
2. Bulkpak (hereafter referred to as **BP**)

In addition, a number of problem sets and handouts will be distributed in class.

Process

Case Discussions

For all case discussions, it will be assumed that each participant has read and is fully prepared to discuss the case in class. The objective is to play the role of the decision maker in the case and use only the data and information available in the case to do the relevant analyses and make recommendations.

Lecture/Discussions

These sessions will allow us to examine principles, models, theories, and their application to pricing decisions. I urge you to share with the class your previous experiences with the application of these principles (both successful and unsuccessful experiences) whenever possible.

GRADING

Class Participation	10%
Problem Sets/Case Write-ups	50%
Take Home Final Exam	40%

Class Participation: Effective Class participation requires good preparation and sharing your thoughts in class with others in a manner that enhances the overall learning experience.

Case Write-ups: The one page case write-ups will require you to focus on a particular aspect of the case. All students must do the Cambridge Software case. In addition you pick any three out of the following four cases: Imedia, Tweeter, Computron and Burroughs Wellcome. The write-up is due before the beginning of the class for which the case is assigned. The question to focus on in the write-up is described in the Course Schedule.

Problem Sets: Problem sets give you an opportunity to apply some of the basic concepts that will be developed in class lectures and case discussions. I shall hand out solutions to some of the problem sets in class. There are five problem sets. You are required to hand in four out of these five. The purpose of these problem sets is to illustrate various techniques. The students are expected to attempt these problems sets often before the techniques are discussed in class. The purpose of this is to stimulate thinking and learning, and gain a greater appreciation for pricing methods. **The evaluation of the problem sets will keep in mind this objective.**

Take Home Final Exam: The take home final examination will consist of problems that will test your ability to apply the concepts covered in the course. Each participant must complete the exam without the help of others.

Honor Code: Students taking the course are required to accept the following rules.

- I shall not share the materials distributed in MKTG754/MKTG222 class with anyone else.
- I shall not use materials obtained from others who have taken this course in the past.
- I agree with the rules set forth regarding case write-ups, problem sets, and the take home final exam.

Course Schedule

March 13: Introduction and Overview

CASE: Cumberland Metals

Preparation Questions:

- What price would you charge for the Cumberland Pad and why?
- What factors should you include in deciding this price?
- What do you think is an appropriate distribution system to take the pad to market?

Read: Nagle Chapter 1

March 15: Role of Costs in Pricing Decisions

Read: Nagle, Chapters 2 and 3

DUE: Problem Set 1

March 20: Measuring Price Elasticity and Customer Willingness to Pay

Read: Nagle Chapter 4

Supplementary Readings: “A Survey Technique to Measure[BP]
“Lab Experiments for ... Consumer[BP]

DUE: Problem Set 2

March 22: Price Discrimination

CASE: Imedia Corporation

Case Write-up Question:

- What pricing mechanism should Imedia use and why?

March 27: Quantity Discounts/Two-Part Tariffs/Bundling I

Read: Nagle: Chapter 9.

Supplementary Reading: “Bundling - New Products [BP]

DUE: Problem Set 3

March 29: Product Line Pricing

Read: Nagle: Chapter 10 (Pages 253-259)

CASE: Cambridge Software Corporation

Case Write-up Questions:

- If Cambridge Software Corporation were to offer only one version of Modeler, which version should it offer? At what price?
- How many different versions of the Modeler should CSC offer? At what price?

April 3: Temporal Pricing Strategies/Temporary Price Discounts
Read: Nagle 10 (Pages 260-274)
Supplementary Readings: “The Effect of Package Coupons ... [BP]
“EDLP vs. Hi-Lo [BP]
DUE: Problem Set 4

April 5: Competitive Pricing
CASE: Tweeter etc

Case Write-up Question:
• Should Tweeter continue to offer the price matching guarantee? And why?
Supplementary Reading: “Determinants of Price Leadership” [BP]

April 10: Psychological Aspects of Pricing
Read: Handouts given in class
Supplementary/Optional Reading: “Mental Accounting ... [BP]
DUE: Problem Set 5

April 12: Negotiated Pricing, Bidding, and Auctions
CASE: Computron

Case Write-up Question:
• What bid would you recommend for the Konig order and why?
Read: Nagle Chapters 5 and 8
Supplementary Reading: “How Auctions work for Wine and Art” [BP]

April 17: Legal Aspects of Pricing
Read: Nagle Chapter 14

April 19: Ethical Aspects of Pricing/Course Summary
CASE: Burroughs Wellcome and AZT (A)

Case Write-up Question:
• Take on the role of Mr. Shepperd and prepare a one page (250-300 words) opening statement for a press conference outlining Burroughs Wellcome’s response to ACT UP’s most recent demonstrations.
• Please be prepared to present your opening statements to the class. This presentation should be no more than 3-4 minutes. At the end of the presentation, the presenter will take questions from the audience taking on the roles of shareholders, the press, AIDS activists and others.

BULKPACK CONTENTS

A. Cases

1. Cumberland Metal Industries [HBS 9-580-104] **(Please read the assignment for Day 1)**
2. Cambridge Software Corporation [HBS 9-191-072]
3. Imedia Corporation: The Pricing Decision [HBS 9-598-005]
4. Tweeter etc [HBS 9-597-028]
5. Computron (1996) [HBS 9-597-063]
6. Burroughs Wellcome and AZT [HBS 9-792-004]

B. Supplementary Readings

1. A Survey Technique to Measure Demand under Various Pricing Strategies [Author: Jones]
2. Laboratory Experiments for Estimating Consumer Demand [Author: Nevin]
3. Bundling – New Products, New Markets, Low Risk [Authors: Eppen et al]
4. The Effect of Package Coupons on Brand Choice [Authors: Raju et al]
5. EDLP, Hi-Lo, and Margin Arithmetic [Authors: Hoch et al]
6. Determinants of Price Leadership [Authors: Day et al]
7. Mental Accounting and Consumer Choice [Author: Thaler]
8. How Auctions work for Wine and Art [Author: Ashenfelter]

Problem Set 1
MKTG754/ MKTG222
Spring 2006

Problem 1: As a pricing analyst for the VALUE SUPREME grocery chain, you are asked to prepare an analysis of a proposal to price frying chickens low in order to attract shoppers to VALUE SUPREME stores. The current price for whole fryers is 89¢ per pound. The proposal is to set a promotional price of 59¢ per pound. The wholesale cost of the fryers, prepackaged and ready for sale, is 55¢ per pound.

By tracking past changes in sales of chicken with changes in sales of other grocery products, you discover that each one pound change in the sales of whole fryers is associated with the following changes in the sales of other products:

Product	Dollar Change	% Margin
Fruits and Vegetables	+ \$0.154	50%
Packaged Groceries	+ \$0.692	20%
Frozen Foods	+ \$0.114	33%
Other meat including Chicken parts	– \$0.250	40%

[**Explanation of the Table:** A one pound increase in sales of whole fryers results in an increase in sales of Fruits and Vegetables of 15.4 cents and the store makes a 50% margin on Fruits and Vegetables]

1. If this past relationship between sales of the whole fryers and increased sales of other goods holds, by how much must chicken sales increase in order to make this price promotion profitable?
2. Can you think of any reason why the historical relationship between changes in the sales of chicken and other products might not hold?
3. Could this store have profitably promoted whole fryers at 49¢ per pound? Remember, 49¢ is below wholesale cost!

Problem 2: Suppose you are a manufacturer bidding for a job which will use 10 pounds of a certain material X. X is available to you under a long-term contract for \$10/pound. The market price for the material is \$18/pound. The job that you are bidding for involves other costs (besides material X) of \$150. Should you take this job at a price of \$300?

Problem 3: Quickprint stores process and print photographs using an automated technique that allows them to guarantee that a customer's film will be ready within one hour. While this technique requires that the company make heavy investments in capital equipment, it also allows the company to maintain low variable costs since the machines do work that would normally be done by workers. The current price of \$6.00 for processing each roll of 24-exposure film nets the company an 80% contribution margin, and sales have been running at approximately 960 rolls per month. Calculate the percentage and unit break-even sales for a 5% price cut.