Pricing Strategies

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Office Hours: Tuesday 3-5 pm
Classroom: TBA

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 first half of the course covers the fundamental analytical tools, theories and conceptual frameworks needed for formulating pricing strategies. 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 improve its pricing. The second half of the course focuses on commonly-used 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 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 John Hogan (NJ: Prentice Hall, 2006, 4th ed.) and *Pricing Strategy*, ed. by Z. John Zhang (McGraw-Hill Customer Publishing, 2005). Both are available at the University bookstore.

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 October 17) and *Burroughs Welcome* (due on November 28). 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 December 5.

To make sure that you do spend adequate time on the project, you are required to turn in a progress report in class on October 8, 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%.

Schedule and Assignments

Time	Subject	Assignments
September 5	Pricing Tactics vs. Pricing Strategy	Nagle & Hogan, Ch. 1; Shim and Sudit (1995); *Basic Quantitative Analysis for Marketing*; Distribute Project Guide.
September 10	Pricing for Profit: Incremental Break-Even Analysis	Urbany (2001); Dolan (1995).
September 12	Pricing for Profit: Economic Value Analysis and Transaction Price Analysis	Nagle & Hogan, Ch. 6 and Ch. 9;
September 17	Costing for Pricing	Nagle & Hogan, Ch. 8; Distribute Homework.
September 19	Price Sensitivity Analysis	Nagle & Hogan, Ch. 7.
September 24	Marketing Profits and Loss Leader Pricing	Chen, Hess, Wilcox and Zhang (2000) in Webcafe; Homework due.
September 26	No Class	To be made up at an agreed-upon time.
October 1	*Pricing Predicament*	Progress Report due in a Week; Distribute Case Questions for *American Airlines*.
October 3	Pricing in Enterprise Context for B2B Offerings	Guest Lecture ; Nagle & Hogan, Ch. 2.
October 8	Value Pricing in Action	Nagle & Hogan, Ch. 3 and Ch. 5; Progress Report due.
October 10	Estimating Consumer Reservation Price: Hands-on Clinic	Anderson *et al* (1993); Jedidi and Zhang (2002); Nagle & Hogan, Ch. 13.

Schedule and Assignments (continued)

Time	Subject	Assignments
October 17	*American Airlines' Value Pricing (A)*	**Case Assignment I Due**; Distribute Case Questions for *Tweeter etc.*.
October 22	Product Line Pricing	Nagle and Hogan, Ch. 12.
October 24	Managing Pricing Competition	Nagle and Hogan, Ch. 10; Distribute Case Questions for *Computron*.
October 29	*Tweeter etc.*	Zhang (1995)
October 31	Pricing Psychology	Thaler (1985).
November 5	Dynamic Pricing	
November 7	*Computron*	
November 12	Principle of Price Enginerring	Nagle and Hogan, Ch. 4
November 14	Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002).
November 19	Channel Pricing and Performace Based Pricing	Distribute Case Questions for *Burroughs Welcome*; Nagle and Hogan, Ch. 11.
November 21	Price Discrimination in Practice: One to One Pricing	Shaffer and Zhang (2002).
November 26	Research in Practice: Pricing Movies.	

Schedule and Assignments (continued)

Time	Subject	Assignments
November 28	Pricing Ethics and *Burroughs Welcome*	**Case Assignment II Due**; Nagle and Hogan, Ch. 14.
December 3	Pricing in Perspective: *Southwest Airlines*	
December 5	Project Presentations	**Project Due**.
Makeup Session	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)

- *Cambridge Software Corporation* (HBS Case 9-191-072)

- *Burroughs Wellcome and AZT (A)* (HBS Case 9-792-004)

- *Pricing Predicament* (HBS Article)