MKTG 288 **Spring 2010**

Pricing Strategies

Prof. Z. John Zhang
Office: JMHH 754 (215-898-1989)
zjzhang@wharton.upenn.edu
Office Hours: Wed. 10 am-Noon
Class Time: Wednesdays, 3:00 pm-6:00 pm
Classroom: JMHH G86

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%), a group case write-up (10%), two individual homework assignments (15% each), 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 is a group case write-up, accounting for 10% of your final grade. The case is: *Tweeter etc.*. To complete this assignment, you can form groups of four (maximum five). 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. The two homework assignments, each accounting for 15% of your final grade, are designed to polish up your quantitative skills. They are the assignments that must be independently completed by each individual.

Group Project

You are also expected to complete a project with your group, which accounts for 35% of your final grades (15 double-spaced 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 21**.

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 3**, 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%.

You can find all assignments in the *assignment* folder in the webcafé for the class.

Time	Subject	Assignments
January 13	Is the Price Right?—Current Pricing Practices	Nagle & Hogan, Ch. 1 and Ch. 2; Shim and Sudit (1995); *Basic Quantitative Analysis for Marketing.*
January 20	Pricing for Profit: Incremental Break-Even Analysis and Art of Price War	Urbany (2001); Dolan (1995); Nagle & Hogan, Ch. 9.
January 27	Value Pricing: *American Airlines' Value Pricing* and Value Pricing in Action	Nagle & Hogan, Ch. 3 and Ch. 5.
February 3	Price Sensitivity Analysis and Conjoint Analysis	Nagle & Hogan, Ch. 7 and Ch. 13; Anderson *et al* (1993); Jedidi and Zhang (2002); **Progress Report Due in Class**.
February 10	Costing and Profit Analysis for Pricing	Chen, Hess, Wilcox and Zhang (2000) in Webcafe;Nagle & Hogan, Ch. 8; **HW I Due in Class**.
February 17	*Pricing Predicament* and Pricing Psychology	Thaler (1985); Nagle & Hogan, Ch. 6.
February 24	Managing Price Competition and *Tweeter etc.*	Nagle and Hogan, Ch. 10; Zhang (1995); **Case Analysis due in Class.**
March 3	Dynamic Pricing (*Computron*)	Nagle & Hogan, Ch. 14.
March 17	Product Line Pricing and Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002); Nagle & Hogan, Ch. 12.
March 24	Price Consulting (tentative date)	Guest Lecturers from Deloitte Touche; **HW II due in Class on This Day.**
March 31	Channel Pricing and Pricing Movies	Nagle and Hogan, Ch. 11; Buzzell, Quelch, and Salmon (1990); Zerrillo and Iacobucci (1995).
April 7	Principle of Price Engineering and *Southwest Airlines*	Shaffer and Zhang (2002); Nagle and Hogan, Ch. 4.
April 14&21	Project Presentations	**Project due in Class**.

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)
- *Pricing Predicament* (HBS Article)
- Chapters from Raju and Zhang