Pricing Strategies

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Office Hours: Tuesdays 11:30 am-1:30 pm or by appointment
Classroom: JMHH F70 (002)/JMHH 250 (004 and 006)
Class Time: Monday and Wednesday (10:30-12:00; 1:30-3:00; and 3:00-4:30)

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 *Smart Pricing: How Google, Priceline, and Leading Business Using Pricing Innovation for Profitability* by J. Raju and Z. John Zhang (Wharton School Publishing, 2010). The book is available at the University bookstore. The recommended reference book is *The Strategy and Tactics of Pricing* by Thomas T. Nagle *et al* (NJ: Prentice Hall, 5th ed.). All cases are available through study.net. Additional readings will be available in the webcafe for this class.

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 or 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 **December 8th, Wednesday**. Yes, you can fly home or anywhere else after that!

To make sure that you do spend adequate time on the project, you are required to turn in a progress report in class on **November 10**, 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

Date	Subject	Assignments
November 1	Current Pricing Practices	Raju and Zhang pp. 1-18; Shim and Sudit (1995); *Basic Quantitative Analysis for Marketing*; Distribute Project Guide.
November 3	Pricing for Profit	Raju and Zhang, Ch. 7; Urbany (2001); Dolan (1995); Distribute case questions.
November 8	Price Sensitivity	Raju and Zhang, Ch. 6; Distribute HWI.
November 10	Estimating Consumer Reservation Price	Anderson *et al* (1993); Jedidi and Zhang (2002); Raju and Zhang, Ch. 5; **Progress Report Due.**
November 15	*American Airlines' Value Pricing*	Raju and Zhang, Ch. 1.
November 17	Value Pricing in Action	Raju and Zhang, Ch. 4.
November 22	Pricing Psychology	Thaler (1985); Raju and Zhang, Ch. 8; **HWI Due**.
November 24	*Tweeter etc.*	Zhang (1995); Raju and Zhang, Ch. 3; **Case Assignment Due**; Distribute HWII.
November 29	Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002); Distribute Case Questions.
December 1	Channel Pricing	Raju and Zhang, Ch. 9; Buzzell *et al* (1990).
December 6	Principles for Value Capturing	Raju and Zhang, Ch. 2 and Ch. 10; Shaffer and Zhang (2002); **HWII Due**.
December 8	*Southwest Airlines*	**Project Due**.