

## Pricing Strategies

Prof. Z. John Zhang

Office: JMHH 754 (215-898-1989)

[zjzhang@wharton.upenn.edu](mailto:zjzhang@wharton.upenn.edu)

Office Hours: Tuesdays and Thursdays 9-10 am or by appointment

Class Time: MW 9-10:30am (JMHH 370)

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 part 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 part 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 wars, price promotions, price bundling, price discrimination, versioning, nonlinear pricing, pricing through a distribution channel, value pricing, pricing psychology, 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) understand 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 <http://www.amazon.com/Smart-Pricing-Businesses-Innovation-Profitability/dp/013149418X>. If you prefer, you can also find the book in Japanese, Spanish, Portuguese, Korean, and Chinese. Digital and audio versions are also available at [amazon.com](http://www.amazon.com). The recommended reference book is, if you are willing to pay the price, *The Strategy and Tactics of Pricing* by Thomas T. Nagle *et al* (NJ: Prentice Hall, 5th ed.). All cases and additional readings will be available through study.net.

Your performance in the course will be evaluated on the basis of your attendance and class participation (20%), two individual homework assignments (15% each), a group case writeup (20%) and a group project (30%).

## 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, 20% of your final grade will depend on your attendance and participation. However, your physical presence is only a necessary condition for the full grade. You must come prepared and ready to share your ideas.

## Individual Assignments

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 Assignments

There is a group case write-up, accounting for 20% of your final grade. The case is: *Youtube: Time to Charge Users?* 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 free-riding is reported to be a problem in your group.

You are also expected to complete a project with your study group, which accounts for 30% 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 and please also consult the project guide for your project ideas. If you do not have a workable idea, please come and talk to me. Again, all people in the same group will get the same grades unless there is a serious free-riding problem. The project is due on December 5 in class. No, there is no final exam for this class!

To make sure that you do spend adequate time on the project, you are required to turn in a progress report on November 7 in class, briefly describing, in one or two pages, what your group plans to do (the topic), what you expect to deliver in the project, and what you have done up to that point. An unacceptable progress report will reduce the final grade from the maximum 30% to 25%.

### Schedule and Assignments

Date	Subject	Assignments
October 24	Current Pricing Practices and The Right Approach	Raju and Zhang pp. 1-18; <i>Basic Quantitative Analysis for Marketing</i> ; <u>Distribute Project Guide.</u>
October 29	Art of Price War: Pricing for Profit	Raju and Zhang, Ch. 7; <u>Distribute American Airlines' Value Pricing Case questions.</u>
October 31	Price Sensitivity: Why and How It Matters?	Raju and Zhang, Ch. 6; <u>Distribute HWI.</u>
November 5	Estimating Consumer Reservation Price	Jedidi and Zhang (2002); Miller, et al (2011); Raju and Zhang, Ch. 5.
November 7	<i>American Airlines' Value Pricing</i>	Raju and Zhang, Ch. 1; <b>Progress Report Due.</b> <u>Distribute Youtube Group Case Writeup Questions.</u>
November 12	Value Pricing in Action	Raju and Zhang, Ch. 4; <b>HWI due.</b>
November 14	Pricing Psychology	Thaler (1985); Raju and Zhang, Ch. 8.
November 19	<i>Youtube: Time to Charge Users?</i>	Raju and Zhang, Ch. 3; <b>Case Assignment Due;</b> <u>Distribute HWII.</u>
November 21	Project Work	
November 26	Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002).
November 28	Channel Pricing	Raju and Zhang, Ch. 9; <b>HWII Due;</b> <u>Distribute SW Case Questions.</u>
December 3	Fundamental Principles for Pricing Decisions	Raju and Zhang, Ch. 2 and Ch. 10; Shaffer and Zhang (2002).
December 5	<i>Southwest Airlines</i>	<b>Project Due.</b>