

## Pricing Strategies

Prof. Z. John Zhang  
Office: JMHH 754 (215-898-1989) in Philadelphia  
zjzhang@wharton.upenn.edu  
Office Hours: by appointment  
Class Time: (9:00-12:00 pm)

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 *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 in the website for this class.

Your performance in the course will be evaluated on the basis of your attendance and class participation (20%), two individual homework assignments (20% each), and a group project (40%).

## **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 depends 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.

## **Assignments**

The two homework assignments, each accounting for 20% 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 study group (4-5 people), which accounts for 40% 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 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 November 10, Sunday (mid-night pacific time). 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 to me by email on October 8, 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 40% to 30%.

### Schedule and Assignments

Date	Subject	Assignments
September 24	Current Pricing Practices And Art of Price War	Raju and Zhang pp. 1-18 and Ch. 7; <i>Basic Quantitative Analysis for Marketing</i> ; <u>Distribute Project Guide</u> .
September 25	Price Sensitivity: Why It Matters And How To Estimate It?	Raju and Zhang, Ch. 5 and Ch. 6; Jedidi and Zhang (2002); Miller, et al (2011); <u>Distribute HWI</u> .
October 29	<i>American Airlines' Value Pricing</i> (HBS Case) And Value Pricing in Action	Raju and Zhang, Ch. 1, Ch. 3 and Ch. 4.
October 30	Principle for Value Capturing And Pricing Psychology	Thaler (1985); Raju and Zhang, Ch. 2, Ch. 8 and Ch 10; <b>HWI due; Progress Report Due.</b>
November 5	Nonlinear Pricing	Essegaier, Gupta, and Zhang (2002); <u>Distribute HWII</u>
November 6	Channel Pricing	Raju and Zhang, Ch. 9; <b>HWII Due.</b>
November 10	Group Project Due at the End of Today (Pacific Time)	15 Double-Space Pages Maximum