Tentative Syllabus

Location: 
Uris 330: Monday, 9:00 AM to 12:15 PM  
Uris 141: Monday, 2:15 PM to 5:30 PM

Professor: 
Asim Ansari

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Introduction

Pricing presents managers with one of their most powerful levers for maximizing profits and shareholder value. However, this value often lies untapped within many organizations, with managers lacking a clear understanding of how to improve on historical pricing practices within their companies and industries.

The objective of this course is to prepare students to address strategic and tactical pricing issues and to identify profit-boosting changes in pricing practices across a range of professional contexts – as product managers, business unit managers, management consultants, entrepreneurs, and M&A advisors.

The course will draw on a mixture of analytic marketing techniques, marketing strategy, and economic theory to describe approaches that are useful for designing optimal price structures. Some examples of questions we will address in the course: How does a firm determine the price for a new product? How does a firm assess whether the current price is appropriate? How does a company determine a price structure that caters to different customer segments? How does pricing strategy interact with product policy and customer selection? How can a firm avoid a price war?

The course will use a mix of lectures, case discussions, and guest speakers. Mini-cases and problems will also be used to make students apply their learning to practical situations. The first three weeks of the course will establish a foundation for effective pricing decisions by teaching key economic, analytical and behavioral concepts associated with costs, customer behavior and competition. The rest of the course will (a) introduce students to advanced pricing techniques that aim to create additional value, including dynamic pricing, segmented pricing, pricing structures, and promotions and (b) highlight practical applications of these approaches within a variety of specific industry contexts.
Reading Materials

The course has a mixture of required and optional reading assignments in the form of articles and cases. I will assume that students have done the required reading for each class, have analyzed assigned case materials, and are prepared to discuss them. The optional readings in the class-by-class plan aim to give students additional depth on topics of interest – I might present key points from these in the class, but students are not required to have reviewed the optional reading.

The cases and articles listed in the Class Schedule are included in the course reading packet. A few additional materials will be distributed in class or placed on Canvas in advance of class.

The textbook for the course is:


The following books are mentioned solely as supplemental reading:


Student Teams

Students are asked to form teams of 3 to work on the group case analysis and final project. Please form your groups as quickly as possible. If you need help in forming a team, let me know in a timely manner so I can facilitate communication with others.

Grading

Grades will be based on four areas:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1. Class participation:</td>
<td>30%</td>
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<tr>
<td>2. Two individual short assignments (SA):</td>
<td>5% each, total = 10%</td>
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<tr>
<td>3. One individual case write-up (IW):</td>
<td>15% each, total = 15%</td>
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<tr>
<td>4. One group case write-ups (GW):</td>
<td>15% each, total = 15%</td>
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<tr>
<td>5. Course Project (team):</td>
<td>30%</td>
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<tr>
<td>TOTAL</td>
<td>100%</td>
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Each of these components is described in detail below.
Class Participation

You are invited to highlight insightful linkages between class material and your past experience as a professional and as a consumer, to raise challenging questions and issues related to the pricing topics being reviewed, and to participate actively in discussion of problems and cases.

Short Assignments

There are two short assignments in the course. All are to be done individually. Most involve answering questions relating to a case assignment or other readings. These assignments will be made available later on Canvas.

Case Write-Ups

The due dates for the cases and assignments are given in the Class Schedule section of this document. You will complete one case as part of your group (GW) and one you will complete individually (IW). Both cases are due at the beginning of the class where that case will be discussed. The following cases will be due:

- *Springfield Nor’easters* (IW)
- *Signode Industries* (GW)

Each full case write-up must not exceed three pages (12-point Times New Roman, single-spaced, one-inch margins). This limit does not include exhibits such as tables or graphs. If you need more than three pages, then you are probably including too much information in your solution. Assume the reader is familiar with the case; do not summarize or restate more of the case than necessary.

Guidelines for Course Project

Your team will complete a course project. The goal of the project is to apply the concepts from the course to a real pricing problem, either one created by the team or an opportunity faced by a real organization (potentially your own). I include a set of suggested project ideas after this section, but you are free to choose your own topic. If you do, please discuss it with me well in advance.

Timeline and Deliverables

The final deliverables are due at the beginning of the last class. The final deliverables are in the form of **PowerPoint slides and an in-class presentation**. There is no formal project write-up. That is, all your motivation, analysis, and recommendations must be contained within the presentation. The presentation should be 15 to 20 minutes long and we will allocate an additional 4 to 6 minutes for questions and comments from the class.
Project Requirements and Evaluation

The primary goal of the project is to apply the ideas covered in class. Each team should select an interesting problem and analyze the pricing decision faced by a firm. The pricing problem could be one currently or previously faced at work.

Topic Ideas for the Final Project

1. **Product lifecycles have shrunk in recent years due to rapidly shifting customer preferences, product proliferation and technological advancements.**

   Pricing is a particularly important and complex issue for short-lifecycle products – i.e., products that become obsolete within 6 months – 2 years of introduction. Profile the pricing practices at a company that operates in a short-lifecycle environment – e.g., technology, fashion, entertainment or information contexts. How does the company adjust prices as the product evolves from one stage to the next, as the demand/supply balance changes, or as customers’ value for the product changes? Where within the organization are markdown/promotion vs. introductory price decisions made? What role do channel partners play in managing price across the lifecycle? How are customer expectations managed vis-à-vis price changes? What practical issues does the company face in implementing advanced pricing practices? What opportunities do you see for further improving pricing practices?

2. **Some industries are experiencing major forces of change that are leading to the adoption of new pricing practices.**

   Examples of such forces include deregulation, entry of low-cost competition, technological innovation, and transition from one stage to the next of the industry/product lifecycle. Identify an industry that is witnessing such changes in pricing caused by environmental forces. Profile the changes in pricing that are being driven in the industry and the strategies being adopted by different players. Who is being successful at capturing additional value – across competitors, and across the value chain? Is the industry converging to a stable new pricing regime or is it moving into relatively anarchic conditions? What factors are causing the industry to evolve in this fashion? What efforts are industry players making to enhance their organizational effectiveness to price in the new environment?

3. **Identify a company that has a reputation in its industry for being smart at pricing.**

   Profile its pricing practices – strategy, organization, implementation.

   Why has its competition not been able to mimic its success? How much value is smart pricing adding? What insights can other businesses (beyond this industry) draw from this company?

4. **Identify a situation where a company or an industry moved from a “one-size-fits-all” approach to pricing to a segmented pricing approach.**

   What triggered the shift? How successful has it been? What practical challenges came up in making the transition and how were these addressed? How much value has been created by the shift to segmented pricing? What integrated strategies across the 4P’s were needed to
implement the change? What other improvements can you suggest in how the company/industry should approach pricing?

5. **Describe the pricing strategy for a recently launched product.**

What is the pricing structure and the logic behind it? What did the organization do to implement its pricing successfully in the marketplace? What was the analysis / decision making process that the company went through in arriving at the launch price? What role did competitive pricing behavior play in influencing the success/failure of the product? What improvements could you suggest on how the company approached pricing and the actual pricing strategy?

6. **Pricing optimization systems are gaining steam in the retail sector.**

Demand-Tech, Khi-Metrics, ProfitLogic and Manugistics are among the players that have introduced systems to help retailers optimize pricing for countless product categories. Pick a retail segment and analyze the impact pricing optimization has – and will – have on the industry. How much value is being created? What are the risks, and how could these be mitigated? How could you tell if this is the right time to invest in this capability or not for a player in this segment? What aspects of pricing will pricing optimization automate, and where is managerial involvement still critical? What do you foresee the scope and impact of pricing optimization to be in 5 to 10 years within this segment?

7. **Managing pricing coherently across channels is a particularly tough challenge for brands that are distributed via multiple channels**

Common problems include gray markets, and the conflict between a direct channel, such as the web, with indirect channel partners. Identify a company that has actively worked on addressing pricing challenges across channels. What factors were behind these challenges (e.g., self-interested behavior of channel partners)? How did the company address these issues? How successful has its approach been? Are there other actions it could have taken that you would recommend? What insights can this offer to other businesses in the same or other industries?

Note that the questions in each topic are meant to be suggestive, not exhaustive. You should feel free to add additional analyses/areas of discussion within the chosen theme – the key is to unearth insightful findings and conclusions founded on real-world observations and linkages with pricing concepts.

**Connections with the Core**

This core builds upon the knowledge from the marketing core course on the fundamentals of pricing and on the development of optimal price structures. The course also relies on your knowledge of statistics and decision models. In particular, your knowledge of regression and optimization, and the skills that you acquired in using Excel for this topic will be valuable in dealing with data and deriving optimal price structures.
## SCHEDULE OVERVIEW

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<th>Cases Discussed</th>
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<td></td>
<td>EVC and Relevant Costs</td>
<td><strong>Beauregard Textiles</strong></td>
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<td>2 –</td>
<td>Understanding Customer Value and Willingness to pay</td>
<td><strong>Curled Metals</strong></td>
<td><strong>SA1: Curled Metals</strong></td>
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<td>3 -</td>
<td>Estimating Willingness to Pay and Auctions</td>
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<td>4 –</td>
<td>Understanding the Psychology of Pricing</td>
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<td>5 –</td>
<td>Aggregate and Individual-Level Demand Models</td>
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<td><strong>SA2: Regression and Logistic Regression</strong></td>
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<td>6 –</td>
<td>Competition and Complements</td>
<td><strong>Keurig at Home</strong></td>
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<td>7 –</td>
<td>Price Customization via Segmented Pricing</td>
<td><strong>Springfield Nor’easters</strong></td>
<td><strong>IW: Springfield Nor’easters</strong></td>
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<td>8 –</td>
<td>Price Customization and Negotiation in B2B Contexts</td>
<td><strong>Fabtek (B)</strong></td>
<td><strong>SA3: The Case of the Pricing Predicament</strong></td>
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<td>9 –</td>
<td>Managing Prices via Sales Promotions</td>
<td><strong>Culinarian Cookware</strong></td>
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<td>10 –</td>
<td>Managing Prices via Sales Promotions Integrative Case</td>
<td><strong>Signode Industries</strong></td>
<td><strong>GW: Signode Industries</strong></td>
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<td>11-</td>
<td>Legal Issues, Course Wrap-up and Project Presentations</td>
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<td>12 -</td>
<td>Project Presentations</td>
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<td><strong>Final Project</strong></td>
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Notes: SA# indicates a short assignment to be done individually; IW indicates a case write-up to be done individually; GW indicates a case write-up to be done in your project group
Module I: Understanding Customers and Demand

Session 1  
Course Introduction: EVC and Costs

Overview

We will begin with a discussion of the simple case Beauregard Textiles. We will then focus on the role of pricing in value creation and discuss the increasing importance of pricing in today’s markets. The second half of the lecture will focus on reviewing the concepts of Economic value to the consumer and will dwell on the relevant cost for making pricing decisions in the short and long-run.

Case: Beauregard Textiles

Other Required Reading

Optional Reading
- NHZ, Chapter 1, Chapters 2 and 9.

Session 2  
Estimating Customer Value and Willingness to Pay

Overview

We will begin with a discussion of the Curled Metals case. The case will highlight the importance of choosing a pricing strategy that is consistent with the firm’s overall marketing strategy.

The second half of the session will focus on methods that firms can use to assess willingness to pay. In particular, we will discuss how firms can use surveys in pricing research.

Case: Curled Metal Inc. [HBS 9-709-434]

Optional Reading
- NHZ, Chapters 2 and 9,
Session 3  

Estimating Willingness to Pay and Auctions

Overview

We will learn how firms can use reservation prices to compute optimal prices for products. In the first half, we will use willingness to pay data for price optimization.

In the second half, we will look at Auctions as a mechanism to uncover reservation prices. We will discuss different types of auctions that are commonly used. We will also study the Winner’s curse and the phenomena of Bid rigging. Finally, we will look at how second-price auctions work in search-based advertising.

Required Reading

- NHZ, Chapter 12

Session 4  

Understanding the Psychology of Pricing

Overview

In this session, we will explore the psychology of pricing. Consumers are boundedly rational in their perceptions and reactions to prices. We will study the concept of loss aversion that emanates from prospect theory and will discuss reference prices, pricing cues, framing and context effects, and mental accounting. Finally, we will discuss how marketers can influence price perceptions and customer actions.

Required Reading

- “Note on Behavioral Pricing” Gourville, HBS 9-599-114.

Optional Reading

- NHZ, Chapters 4 and 5.
Session 5  Aggregate and Choice Models of Demand

Overview

We will begin with a brief review of regression to model demand. In particular, we will study how to estimate price elasticities, cross-price elasticities and how to use such estimates in price optimization.

In the second half of the session, we will explore how to model individual-level data on consumer choices via a discrete choice model.

Required Reading

- None

Optional Reading


Module II: Designing Price Structures

Session 6  Competition and Complements

Overview

In the first half of this session, we will focus on the role of competition in pricing strategy. We will explore how to avoid price wars and how to get out of price wars.

In the second half, we will discuss how to price product lines. In particular, we will study how to price complementary products within the context of the Keurig case.

Case: Keurig at Home

Required Reading


Optional Reading

- NHZ, Chapter 11.

Session 7  Price Customization via Segmented Pricing
Overview

We will study how firms can benefit from segmented pricing and discuss the different techniques that are useful for discriminating among customers. We will also study how to set prices for different products in a product line. In the second half of the session, we will look at how segmented pricing can be implemented within the context of the case, Springfield Nor’easters.

Case: Springfield Nor’easters

Required Reading

Optional Reading
- NHZ, Ch. 3 and 6
- “The Dynamics of Pricing Tickets for Broadway Shows,” NYT, Jan 13, 2005.

Session 8 Price Customization and Negotiation in B2B Contexts

Overview

In the first half of the session, we will study how to design bundles and how to set nonlinear pricing schedules. In the second half, we will explore pricing issues in B2B contexts. We will discuss how firms can target prices based on past history of purchasing. We will also study how to structure and manage price negotiations, using the cases, Fabtek (B) and “The Case of the Pricing Predicament”.

Case: Fabtek (B) [HBS 9-592-096]

Case: The Case of the Pricing Predicament

Required Reading

Optional Reading
- “Capturing the Value of Supplementary Services”, Anderson & Narus, HBR, Jan-Feb 1995.
Session 9  Managing Prices via Sales Promotions

Overview

We will discuss how firms can use price promotions to manage prices in the short term. We will study the different forms of sales promotions and how these impact category purchasing, brand choices and store choices. We will also discuss the case Culinarian cookware to establish a framework for analyzing the impact of sales promotions.

Case: Culinarian Cookware [HBS 4057]

Required Reading
- None

Optional Reading

Session 10  Managing Prices via Sales Promotions

Overview

We will continue our discussion of sales promotions from the previous session. We will also study the role of markdowns in retailing and the pros and cons of using EDLP and Hi/Low strategies in retail settings.

In the second half of the session, we will discuss the integrative case, Signode Industries, which ties together many of the fundamental concepts we have covered in the course.

Case: Signode Industries

Required Reading

Session 11  Legal and Ethical Issues and Project Presentations
Overview

In the first half of the session, we will cover legal and ethical issues pertaining to pricing. We will then briefly review the course before moving to student presentations.

In the second half of the session, groups will present their final projects to the class. All groups are required to submit to me complete hardcopies of their slides, including any relevant appendices, for grading purposes. Be mindful of the time limit and plan your slides accordingly.

Required Reading


Optional Reading

- NHZ, Ch. 13.

Session 12 Project Presentations

Overview

Groups will present their final projects to the class. All groups are required to submit to me complete hardcopies of their slides, including any relevant appendices, for grading purposes. Be mindful of the time limit and plan your slides accordingly.