Pricing Strategies

B8649 Spring 2014 MBA

Course Syllabus – Updated October 29, 2014

Location: Uris 333

Time: 9am–12:15pm (Section 037) and 2:15pm–5:30pm (Section 038)

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Office Hours: TBD

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Introduction

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

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. Managers often lack a clear understanding of how to improve on historical pricing practices within their companies and industries and how to apply such knowledge to new product settings.

The course will draw on a mixture of analytic marketing techniques, marketing strategy, statistical analysis, and economic theory to describe approaches that are useful for optimal pricing decisions. 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? What is value pricing? Which price segmentation strategy is optimal? How can a firm avoid a price war?

The course will use a mix of lectures, case discussions, in-class simulations, and guest speakers. Mini-cases and problems will also be employed to make students apply their learning to practical situations. The first six weeks of the course will establish a foundation for effective pricing decisions by teaching key economic, analytical and behavioral concepts associated with understanding customer value, willingness-to-pay, and demand estimation. The rest of the course will (a) introduce students to advanced pricing techniques that aim to create additional value, including segmented pricing, nonlinear 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:

Policy on Laptops, Cell phones, and Other Devices

Laptop computers or other electronic devices (phones, tablets, etc.) may not be used during class unless specifically permitted by the instructor. In particular, laptops should be closed and are not permitted on your desks.

Student Teams

Students are asked to form teams of 4 to work on the case analyses and final project. You should form a group 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. Groups with more than four students are not permitted (no exceptions).

Grading

Grades will be based on four areas:

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1. Class participation:</td>
<td>25%</td>
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<tr>
<td>2. Four individual short assignments (SA):</td>
<td>5% each, total = 20%</td>
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<tr>
<td>3. One individual case write-up (IW):</td>
<td>15% each, total = 15%</td>
</tr>
<tr>
<td>4. One group case write-ups (GW):</td>
<td>15% each, total = 15%</td>
</tr>
<tr>
<td>5. Course Project (team):</td>
<td>25%</td>
</tr>
<tr>
<td><strong>TOTAL</strong> (team):</td>
<td><strong>100%</strong></td>
</tr>
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</table>
Each of the grading components is described in detail below.

**Class Participation and Attendance**

You are invited to highlight insightful linkages between class material and your past experience as a professional and 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. It will be assumed that students have read and analyzed the case materials and problems assigned to each class and are prepared to discuss them.

Students find in-class discussions a valuable part of the course, and effective discussions are only possible if everyone is prepared. You should come to class prepared to defend your analysis. To create incentives to do this, I may randomly select (i.e. cold call) students to answer questions. You should view class participation both as an opportunity to ask questions to enhance your understanding as well as an opportunity to demonstrate your critical analysis of the material.

Attendance in class is required. We will spend a great deal of time engaged in class discussion, which means that by missing class you will miss an important part of the learning experience. To help me with attendance, a sign-in sheet will be passed around at the beginning of each class. Classes start on time and lateness may count as an absence.

If you anticipate missing a class, please let me know in advance (grave illnesses, family emergencies, or unavoidable job-related conflicts will be excused). My policy is that if you miss more than 4.5 hours of class time (even pre-notified), your class participation grade may be adversely affected.

**Short Assignments**

There are three 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’easterns* (IW)
- *Keurig at Home* (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.

The questions for each case can be found in the Case Questions document posted on Canvas.
You only need to answer these questions in the case write-up. In addressing the questions, please restrict your focus to information in the case. There are often multiple ways to answer a question. Do not be concerned with getting the “right” answer, but whichever answer you choose should be adequately supported by the facts of the case and any further assumptions you make (which should be made clear to the reader).

**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**

A one-page proposal describing the topic, specific goals, and proposed project plan is due on March 4, 2014. The goal of the proposal is to help ensure that you choose an appropriate problem for the project. The outline should specifically address why this is an interesting problem (see below). The outline is completely for your benefit. I will provide feedback to projects, especially those that appear to be in trouble.

The final deliverables are due at the beginning of the last class on April 29, 2012. 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 12 to 14 minutes long and we will allocate an additional 4 to 6 minutes for questions and comments from the class. I strongly encourage you to include additional supporting charts, data, or analysis in an Appendix. The Appendix may contain details that are unnecessary to discuss in the presentation but which are important for me to consider in evaluating the project.

**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.

The project will be evaluated on the following criteria:

1. **Is the project interesting?**

   In evaluating the interestingness of the project, I will consider the following general criteria:

   *Is this problem of interest to a manager in this particular field?*

   Your target audience for the project is a manager in the relevant area and your analysis should help inform this person’s decision. Timeliness of the problem will be one relevant criterion.
Why is this pricing problem non-trivial?
The answer to the pricing problem should not obvious based on some existing pricing policy. Among the alternative strategies a firm could use, there should be some level of support for at least two strategies. If there is only one strategy that makes reasonable sense, then the question may be too simple for the project. For example, in the auto industry some firms use no-haggle pricing, some firms negotiate, and others use a mix of both strategies. An existing car dealership may want to examine their current pricing policy relative to these options. Each policy has its own set of pros and cons, and the best strategy is likely to depend on a number of dealership- and market-specific factors.

What information (e.g., data, articles, etc.) is available to support the analysis?
Actual pricing and sales data are not required, but one can clearly make a stronger case with this data. Public sources of data (e.g., newspapers, magazines, financial disclosures, marketing research reports, etc.) are sufficient provided they contain some detailed information about specific firms and the industry.

You may also consider using a survey or interviews to collect additional data. You can easily survey students in class using Qualtrics or on campus. I understand the student population is unlikely to be representative of your target population, but this is OK. In many situations, students have also conducted interviews with managers to collect data. A good source of interesting pricing problems is projects from your own work experience. If the corresponding pricing data are confidential, it can easily be disguised in some fashion.

2. Analysis

In general, your analysis should involve taking concepts covered in the course, applying them to the problem at hand, and developing a sensible pricing strategy. You are free to use additional tools (e.g., regression, break-even analysis, conjoint, etc.) as part of your analysis. Your analysis should cover, but not be limited to, the following points:

Customers and demand
• Who are the customers? Potential customers? Who are the competitor’s customers?
• Segmentation
• Price sensitivity

Competition
• Who are the competitors? Our relative strengths and weaknesses?

Costs (if you can get these)
• What is this firms’ cost structure (variable vs. fixed)? What are other firms’ costs?

Resources
• What resources does this firm bring to the table?
• Opportunities for price customization
• Integration of pricing policy with other elements of the marketing mix
• Implementation – logistics, organizational issues, sales force
Overall, I am looking for a clear and compelling analysis of the problem with conclusions that are well supported by facts and logical reasoning. You should advocate a specific policy and provide evidence to support your position; policies that do not commit to a specific strategy are strongly discouraged. A thorough analysis would also clearly indicate why alternative policies are dominated by the recommended policy.

**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.

The quality of learning that team presentations generate is substantially shaped by the richness of data – qualitative and quantitative – they acquire and the rigor with which they support their conclusions with facts. Teams are encouraged to be creative in identifying and tapping data sources, such as press articles, analyst reports, market research studies, customer interviews, and interviews with industry participants (including channels).

**Connections with the Core**

This class 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

<table>
<thead>
<tr>
<th>Session</th>
<th>Topic</th>
<th>Cases Discussed</th>
<th>Due</th>
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| 1 – Jan. 28 | Course Introduction  
                      | Expected Value to the Customer (EVC) | Colonial Homes            |                          |
| 2 – Feb. 4 | Understanding Customer Value and Willingness-to-pay (WTP)  
                      | Psychological Aspects of Pricing | Curled Metals  
                      | Coke’s New Vending Machine | SA1: Curled Metals        |
| 3 – Feb. 11 | Estimating WTP with Surveys and Experiments |                                 |                          |
| 4 – Feb 18 | Estimating WTP using Conjoint Analysis  
                      | Relevant Costs for Pricing | Wendy’s Chili | SA2: Surveys             |
| 5 – Feb 25 | Aggregate demand models |                                 |                          |
| 6 – Mar 4 | Individual-level demand models |                                 | SA3: Regression Project Proposal (optional) |
| 7 – Mar 25 | Price Customization: Segmented Pricing  
                      | Price Customization: Revenue Management (Guest speaker) | Springfield Nor’easters | IW: Springfield Nor’easters |
| 8 – Apr 1 | Price Customization: Negotiated B2B Contexts  
                      | Price Customization: High-tech pricing (Guest speaker) | Pricing Predicament Fabtek (B) | SA4: Pricing Predicament |
| 9 – Apr 8 | Price Customization with Promotions | Culinarian Cookware |                               |
| 10 – Apr 15 | Managing Prices via Transaction Price Analysis  
                      | Integrative Case | Keurig at Home | GW: Keurig at Home        |
| 11 – Apr 22 | Competition and Out-Pricing  
                      | Project Presentations |                               |
| 12 – Apr 29 | Project Presentations |                                 | Final Project             |

**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
Note: Detailed course schedule to follow.