



## The Leon Recanati Graduate School of Business Administration

# 1231.3412.01 – Pricing Strategy

## First Semester – 2020/21

Section	Day	Hour	Exam date	Lecturer	Email	Telephone
01	Tuesday	15:45-18:30 (Second half)	No exam	Dr. Peter Pal Zubcsek	<a href="mailto:peterz@tauex.tau.ac.il">peterz@tauex.tau.ac.il</a>	03-640-9564

**Teaching Assistant (TA):** Eng. Rafael Hod, MBA

**Office Hours:** By appointment (Room 329, Recanati Building)

### Course Units

1 course unit = 4 ECTS units

The ECTS (European Credit Transfer and Accumulation System) is a framework defined by the European Commission to allow for unified recognition of student academic achievements from different countries.

### Course Description and Course Objectives

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. As a result, most pricing decisions are a poor blend of inaccurate assumptions and simplistic heuristics that shun customers and competitors. Consequently, these decisions often do little to improve the long-term performance of a business.

The objective of the course is to help students to address strategic and tactical pricing issues and to acquire the necessary confidence and skills to make superior pricing decisions across a range of professional contexts – as product managers, business unit managers, management consultants, entrepreneurs, financial analysts or M&A advisors.

The course will draw on a mixture of fields (economics, psychology, sociology, statistics, etc.) to describe approaches that are useful for optimal pricing decisions. Some examples of questions that 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?
- What is price segmentation?

- How to engineer a revenue model that fits the broader strategic objectives of the organization?
- How can a firm avoid a price war and how to respond intelligently to price competition and the forces of commoditization?
- How to understand the psychological impact of pricing on demand?

The course will use a mix of lectures, case discussions, and guest speakers. Mini-cases and problems will also be employed 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 understanding customer value, willingness-to-pay, and demand. The rest of the course will (a) introduce students to advanced pricing techniques that aim to create additional value, including segmented pricing, nonlinear pricing, dynamic pricing, pricing structures, and promotions and (b) highlight practical applications of these approaches within a variety of specific industry contexts.

While the emphasis of Pricing Strategy is obviously on one element of the marketing mix, it is important to keep in mind two considerations. First, pricing decisions are never independent of product, communications, and distribution decisions. A key challenge in the course, therefore, will be to embed pricing questions in the context of a company's overall market strategy and evaluate its effectiveness in achieving broader managerial goals. Second, pricing is not safe in the hands of marketers. Marketers must have a say in pricing decisions, but their input should be complemented with that of finance, accounting, operations, and sales personnel. For this reason, I see this as a course orientated not only toward pure marketing but also general management.

## Course Materials

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

The cases, book chapters, and articles listed in the course outline will be provided on the course website prior to class. (In accordance with copyright laws, the book chapters available on Moodle will be rotated throughout the semester.) A few additional materials will be distributed in class or placed on the course website in advance of class.

The textbook for the course is

- Nagle and Müller (2017): *The Strategy and Tactics of Pricing*, 6<sup>th</sup> edition, Prentice Hall (Referenced as "NM" in the course outline)

Additionally, we will also follow some chapters of

- Dolan and Simon (1996): *Power Pricing: How Managing Price Transforms the Bottom Line*, The Free Press (Referenced as "DS")

Supplemental reading materials are listed after the course outline.

## Policy on Laptops, Cell Phones, and Other Devices

Electronic devices such as laptop computers, 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 Groups

Students will need to form groups of 3-4 (specifics depending on overall enrollment) to work on the final project. I will communicate more details on group formation during the first class (on December 8, 2020).

## Evaluation of Student and Composition of Grade

Percentage	Assignment	Type	Due Date
20%	Class attendance and contribution	Individual	All sessions
45%	Pricing dilemma	Individual	Report: Jan 7, 2021
35%	Pricing Intervention	Group	Summary: Dec 22, 2020 Full report: Jan 26, 2021

The different grade components are described in detail below.

## Course Assignments

### Class Attendance and Contribution

**Attendance in every class is expected and recorded.** (This is in line with University regulations (Article 5).\*) Please note the following conditions. First, you are responsible for any marking next to your name on the attendance sheet. **For attendance purposes, only full signatures are accepted—thus no initials, written names, or other symbols.** Second, **students arriving 15 minutes or more after the scheduled start of class will not be allowed in the classroom unless they sought permission beforehand.**

Critically, note that any absence, excused or otherwise, will negatively affect your score on this component of your final grade. **Three or more unexcused absences will result in an automatic score of zero on class contribution and, in all likelihood, a fail mark for the course as a whole. In line with school policy, absences can be excused only under truly extenuating circumstances.**

Class contribution is much more than simply showing up and fighting for airtime. The focus will always be on the quality of your involvement in class as opposed to the quantity. [Please bring name cards to classes.] Contributing implies moving the debate forward to boost the learning experience of everyone in the room, myself included. While good comments are rewarded, insightful comments are rewarded extra. Therefore, if you do only one thing to prepare, read the assigned materials and come to class on time and ready to voice your recommendations. I often cold call, so please do not put the class in a position where you are unable to help.

Generally speaking, if you read the assigned materials, actively take part in pertinent discussions, listen to others with respect, and communicate your arguments convincingly you will not have any problem. In

addition, note that prior to any sessions, you may be asked to complete a 5-minute online survey. Such tasks will be announced in due time via the course website. These surveys are compulsory, and they are counted toward class contribution.

Remember that you are welcome to ask for more information on how I grade class attendance and contribution or to seek feedback on your performance at any time during the course. Simply send me an email or approach me in class.

\* Students who absent themselves from classes or do not actively participate in class may be removed from the course at the discretion of the lecturer. (Students remain financially liable for the course even if they are removed.)

## Pricing Dilemma

The Pricing Dilemma is the second individual component of your assessment. You are asked to analyze a pricing paradox of personal interest to you. As consumers, we often come across pricing practices that surprise us or make us think. This is your chance to pick one such instance, follow up on your curiosity, and investigate why a firm (or a whole sector, for that matter) prices the way it does.

Please prepare a five-page study of the dilemma, clearly defining the question and detailing your analysis. **Remember** to observe the typical standards when preparing the document: size 12 Times New Roman font, double line spacing or less, etc. The page limit is strictly enforced and excludes tables, figures, and possible references.

**Submit your report in PDF format through the course website by 15:45 IST on Thursday, January 7, 2021. Late submission of the outline or report are penalized at the rate of 2% of the average class score per day. Failing to complete the assignment triggers an incomplete mark for the course.**

## Pricing Intervention

You will complete this assignment in self-selected groups of 3-4 individuals (see note on Student Groups above). You will submit two documents during the semester, so carefully examine the submission dates indicated below.

This assignment provides an opportunity to assess and improve the pricing performance of a firm or business unit on one specific dimension. The relatively narrow scope is intentional. The objective is *not* to complete a broad critique of all key pricing decisions made in the target company. Such an approach tends to produce reports that are bland – they lack substance and practicality. Instead, you are expected to focus on one of the topics covered in the course, evaluate how the target company is currently performing in that domain and, more importantly, detail how you would intervene to improve the status quo. Students need not obtain inside access to the company, although this is highly encouraged. Pricing matters are often very sensitive, so direct managerial insight can really enrich the analysis.

There are **two formal deliverables to be submitted in PDF format via the course website**: a one-page outline and the report itself. **The project outline is due on Tuesday, December 22, 2020 by 15:45 (IST)**. This outline should list the group members, targeted company, and a short description of what you plan to do. **The final report is due on Tuesday, January 26, 2021 by 15:45 (IST)**. Late submission of the outline or report is penalized at the rate of 5% of the average class score per day. Failing to complete the assignment triggers an incomplete mark for the course.

## 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 be 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 those 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 online survey engines such as SurveyMonkey or on campus. I understand the student population is unlikely to be representative of your target population, but this is OK. You may also conduct 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, they 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, 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? What are the focal firm's relative strengths and weaknesses?

### Costs (if you can get these)

- What is this firm's 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.

Allow me to make two final observations. First, you are expected to show mastery of the literature relevant to the topic you are studying (a bibliography is required). Mastery of the literature implies reading well beyond the materials assigned for class. A good starting point is the references listed at the end of this syllabus. Second, there is no fixed page limit for this assignment – I leave this completely up to your judgment. However, keep in mind that I will penalize reports that I think are too short (not enough information to make a compelling argument) or too long (too much information that is irrelevant or redundant). The point of the exercise is not to write or edit until you meet some arbitrary constraint. Rather, I am looking for a thorough, convincing analysis that is presented both clearly and concisely.

## Grading Policy

In the 2008/9 academic year the Faculty instituted a grading policy for all graduate level courses that aims to maintain a certain level of the final course grade. Accordingly, this policy will be applied to this course's final grades.

Additional information regarding this policy can be found on the Faculty website.

<https://coller.tau.ac.il/MBA-students/programs/2020-21/MBA/regulations/exams>

## Evaluation of the Course by Student

Following completion of the course students will participate in a teaching survey to evaluate the instructor and the course, to provide feedback for the benefit of the students, the teachers and the university.

## Course Site (Moodle)

The course site will be the primary tool to communicate messages and material to students. You should check the course site regularly for information on classes, reading materials, and assignments.

Except for the two larger case studies, all reading materials will be available on the course website. (Students will need to individually purchase “The Medicines Company” and “MiniBrew” case studies at Safrut Zola – publication code L-386.)

## Course Outline\*

Date	Topic(s)	Case Study	Required Reading & Suggested Reading	Deliverables
Dec 8	<b>Introduction &amp; Course Overview</b>  <b>Financial Analysis – Pricing for Profit</b>	In class	<b>NM Ch. 1</b> [A] <b>NM Ch. 9</b> [B] DS Ch. 2	
Dec 15	<b>Price Sensitivity</b>  <b>Economic Value to the Customer</b>		<b>NM Ch. 6</b> <b>NM Ch. 2 (pp. 26-47)</b>	
Dec 22	<b>Case Discussion</b>  <b>Psychology of Prices</b>	Medicines Company	<b>Case study</b> <b>NM Ch. 3</b> [C] [D]	Group Project –Summary
Dec 29	<b>Price Customization</b>		<b>NM Ch. 2 (pp. 47-54)</b> <b>NM Ch. 4</b> [E] DS Ch. 5, 7 DS Ch. 10-11	
Jan 5	<b>Competition Analysis</b>  <b>Pricing Product Lines</b>	The Upstart's Assault (on Moodle)	<b>Case study</b> <b>NM Ch. 7</b> [F] DS Ch. 4 DS Ch. 8	
Jan 7	No class			Individual Project
Jan 12	<b>Case Discussion</b>  <b>Selected topics</b>	MiniBrew	<b>Case study</b> TBA	
Jan 19	<b>Managing the Pricing Process</b> Guest speaker: TBA	Pricing Predicament (on Moodle)	<b>Case study</b> <b>NM Ch. 11</b> DS Ch. 12-13	
Jan 26	No class			Group Project – Final Submission

\*Subject to change

NM: Nagle and Müller (2017): The Strategy and Tactics of Pricing (6<sup>th</sup> edition)

DS: Dolan and Simon (1996): Power Pricing: How Managing Price Transforms the Bottom Line

Letter codes in square brackets: see in Required Reading list below.

## Required Reading Details

[A]: Dolan, R.J., "How Do You Know When the Price Is Right?" HBR 1995.

[B]: Marn, M.V., E.V. Roegner, & C.C. Zawada, "Pricing New Products," McKinsey Quarterly 2003.

[C]: Gourville, J.T. & D. Soman, "Pricing and the Psychology of Consumption," HBR 2002.

[D]: Anderson, E. & D. Simester, "Mind Your Pricing Cues," HBR 2003.

[E]: Bertini, M. & Koenigsberg, O., "When Customers Help Set Prices," MIT Sloan Management Review 2014.

[F]: Rao, A.R., M.E. Bergen, & S. Davis, "How to Fight a Price War," HBR 2000.

These articles and the mini-cases will be uploaded to the course website before the corresponding classes. (Students will need to individually purchase the two larger case studies, "The Medicines Company" and "MiniBrew" at Safrut Zola (code TBA).)

## Recommended Reading

In this section you can find links to several decent pricing blogs as well as the titles of some recommended books on pricing. These resources are useful to support your written assignments or simply to guide your research if pricing becomes a personal interest.

### Blogs

[www.pricingplatform.blogspot.com](http://www.pricingplatform.blogspot.com)

[www.hbr.org/search/rafi%20mohammed](http://www.hbr.org/search/rafi%20mohammed)

[www.psychologytoday.com/blog/priceless](http://www.psychologytoday.com/blog/priceless)

[www.iterativepath.wordpress.com](http://www.iterativepath.wordpress.com)

### Books

Author(s)	Title	Publisher (ISBN-10)
Anderson, J. et al.	Value Merchants	Harvard (1422103358)
Ariely, D.	Predictably Irrational	HarperCollins (0007256523)
Dehaene, S.	The Number Sense	Oxford (0195110048)
McKenzie, R.	Why Popcorn Costs So Much at the Movies	Copernicus (0387769998)
Monroe, K.	Pricing: Making Profitable Decisions	McGraw-Hill (0072528818)
Nagle, T., J. Hogan	The Strategy & Tactics of Pricing	Prentice Hall (0131856774)
Phillips, R.	Pricing & Revenue Optimization	Stanford (08044746982)
Porter, E.	The Price of Everything	Random House (0434019786)
Poundstone, W.	Priceless: The Myth of Fair Value	Hill & Wang (0809094691)
Raju, J., Z. Zhang	Smart Pricing	Wharton (013149418X)
Rao, V.	Handbook of Pricing Research in Marketing	Edward Elgar (1847202403)
Smith, T.	Pricing Strategy	South-Western (1111571295)
Soman, D., S. Marandi	Managing Customer Value	World Scientific (9812838279)
Spiegler, R.	Bounded Rationality & Industrial Organization	Oxford (0195398718)
Wilson, R.	Nonlinear Pricing	Oxford (0195068858)