Marketing 515 A/B: Pricing Strategies and Tactics

If a firm makes a big enough mistake on [pricing], or even persists with relatively minor mistakes for a sufficiently long period, it will fail.

--Paul Ormerod, Why Most Things Fail

Pricing represents a double-edged sword. Poor pricing decisions can lead to disastrous consequences. On the other hand, strategic pricing decisions can generate large windfalls. Boosting price realization by a single percent can increase net income for a large corporation by 12% (Dolan and Simon 1996). Unfortunately, many organizations fail to reach their full profit potential due to managers who lack a clear understanding of how to improve on historical pricing practices within their companies and industries.

Managers who do understand how to make effective pricing decisions can have profound impacts on their organizations. This course gives students the means to approach pricing problems and to develop a pricing strategy and corresponding tactics that can maximize shareholder value. While each industry is unique in some ways, there are enough commonalities in pricing problems across industries to develop a set of rich insights applicable to a broad audience.

The learning objectives of this course are simple. At the end of this course you should be able to:

1. Help a company raise its effective price.
2. Leverage your organization’s unique insights and qualitative knowledge to develop and implement a strategic pricing plan.

It should be noted that “set the right price” is purposefully absent from the learning objectives. Strategic pricing is not about coming to a number. It is about building a process to integrate multiple perspectives within an organization to properly make and evaluate pricing decisions. Each class is designed to further build a student’s pricing toolbox and provide insights into the theory and practice of effective pricing. Please see Appendix A for specific class-by-class learning objectives.

CLASS MEETINGS:
Wednesdays 6:00 pm - 9:20 pm
Location: Paccar Hall room 295

PROFESSOR:
Jeffrey D. Shulman, Ph.D.

OFFICE & OFFICE HOURS:
Scheduled by appointment via e.mail.
Office location: Paccar Hall room 552

CONTACT INFORMATION:
Jeffrey D. Shulman, Ph.D.  Phone: (206) 221-4804  Email: jshulman@uw.edu
COURSE WEB SITE:
foster.blackboard.com
FIRST TIME USERS: Use your UW user name and your password is set to your student id number. If you have problems contact bacselp@uw.edu.

COURSE FORMAT:

The course will use a mix of lectures and case discussions. Class participation is strongly encouraged. 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 these in the class itself.

POLICIES

Class Attendance
Class attendance is critical to participation in the learning experience and is expected aside from circumstances related to (1) illness or (2) a critical work event that cannot be rescheduled. Regardless of the rationale for missing class, please note that you are responsible for the learning experience that takes place in your absence; please work within your team to address any material you may have missed.

Professionalism
Each student is expected to be fully engaged in class content and respectful of fellow students’ attempts to do the same. During class discussions you should be willing to support your point of view and—at the same time—be willing to listen hard to what others have to say, even when their view differs from yours. You are encouraged to consider the impact of comments that may be distracting from the class such that each comment you offer potentially adds value to the overall dialogue in each class and over the entire quarter.

Technology
While you are free to use technologies that are directly related to class (e.g., a notebook computer for note taking or accessing a supporting Excel file or web page), please otherwise refrain from use of computer, phone, PDA, and similar technologies during class, other than use that would facilitate the purpose or objectives of the class. Use of technology other than for engaging in the activities associated with the class is distracting for you, your fellow students, and your instructor. Please also note that participation grades are based on quality of participation in class; high quality participation requires all of your attention and focus during class time.

The Honor Code
I employ the principles and procedures espoused by Foster School of Business MBA Honor
System to maintain academic integrity in the course. The Honor Code of the Foster School expressly prohibits cheating, attempted cheating, plagiarism, and lying to administration or faculty as it pertains to academic work. Suspected violations of the Honor Code will be handled in compliance with the University of Washington Student Conduct Code (http://www.washington.edu/students/handbook/conduct.html) as outlined in Washington Administrative Code 478-120.

**ASSIGNED MATERIALS**

Assigned materials will be critical for you to get the most out of this course.

2. Case Packet with cases and readings available through Harvard Business Publishing

It will be assumed that students have done the required reading for each class, have analyzed assigned case materials, and are prepared to discuss these in the class.

**OPTIONAL MATERIALS**

I have refrained from listing optional materials in the syllabus in order to focus students on the readings most closely tied to the learning objectives. If you are interested in learning more about a particular subject, I will be happy to point you to related readings.

**GRADING**

- Contribution to Discussion: 10%
- Individual Price Response Estimation: 10%
- Case Questions Homework: 30%
- Individual Singapore Metals Limited Case Analysis: 15%
- Team Final Project: 35%

The assignments in this course are designed to engender several skills and processes used in approaching pricing problems.

**Collaboration**

Pricing decisions are often made in management teams. Team members should raise thoughtful points, respectfully challenge assumptions, and work to build consensus regarding the beliefs about the market and how to use these beliefs in the pricing strategy. Team members must come to meetings prepared to make informed contributions to the process. As such, students will be evaluated on their contribution to discussion. Quality of comments will be weighted more heavily than the quantity of comments. Coming to class prepared by having read the required readings will be useful in generating insightful contributions to discussion. I will take every
measures to promote a warm environment in which students feel at ease in participating in discussions. I call upon the students to do their part in welcoming their peers’ points of view.

Estimation of Value to Customer
When launching a new product, a manager cannot use historical sales data to guide the pricing decision. However, a manager can use knowledge of the customer’s value drivers and the knowledge of the product’s attributes to inform the pricing decision in an Economic Value Estimation. Through the Medicines Company Case Analysis, student teams will apply the concepts of Economic Value Estimation and Value Communication to a pricing problem.

Price Response Estimation
When there is considerable variance in customer value, a manager will want to find a price that balances the trade-off between profit margin and volume. Price elasticity is the metric that forecasts how changes in price will affect sales. In the Price Response Estimation Assignment to be completed individually, each student will practice estimating price elasticity from market research data. Managers commonly face the question of whether there are sufficient differences in price elasticities across customer segments to merit price discrimination. In this assignment, students will make this determination and choose the specific price or set of prices. Students will also use the data to forecast the outcome of the proposal.

Versioning
Versioning offers managers an opportunity to price discriminate between customers with lower and higher willingness to pay. Versioning is practiced by companies across a wide array of industries such as automotive, software, and gaming. When done properly, versioning can improve profitability. However, there are downside risks that should be carefully considered. In the Cambridge Software Case Analysis, student teams will analyze the facts of the case to determine which versions of the software should be offered and how to react to a competitive introduction.

Managing Collaborator Incentives
Managers often rely on collaborators to create value for the end user. Collaborators respond to incentives and thus a manager needs to develop a price structure that will create value for the company, the collaborators, and the customers. In the Owens and Minor Case Analysis and a component of the Keurig Case Analysis, students will analyze the market to anticipate how customers and collaborators will respond to innovative pricing ideas.

Pricing Complementary Products
Many companies have multiple offerings with demands for each that are related. For instance, Microsoft sells the Xbox hardware and collects royalties on the video games. AT&T sells phones and voice & data plans. These offerings should not be priced in isolation. In the Keurig Case Analysis, student teams will determine how to account for the sales of a complementary product in the choosing the price levels.

Integrating Pricing Knowledge
The pricing problems that managers face do not always look like problems they have seen solved before. The key to solving complex problems is applying the appropriate frameworks. Students
will practice determining which frameworks to apply to two complex situations. The **Pricing Audit Project**, to be completed in teams, and the **Singapore Metals Limited Case Analysis**, to be completed individually, give students the opportunity to integrate the pricing concepts learned throughout the course and choose how to approach unique problems.

**CASE ANALYSIS LOGISTICS**

There are a total of five cases. The Singapore Metals Case Analysis is to be completed individually by all students. Of the remaining four cases, teams will submit write-ups for two of the cases, will make a presentation for one case, and will simply be involved in class discussion for the remaining case. The dates of the presentation will be assigned during the first week of class and teams are free to choose for which remaining two cases to submit the write-up. Students are expected to complete their own work, consulting the instructor for additional help. The case and the course readings are sufficient for completion of the assignment and outside resources are prohibited.

**Team Case Presentation**

For each case, we will have teams present their recommended course of action. Each team will be designated as presenters for one case with the specific case delegated during the first week of class. Presentations will be 15 minutes with an additional 5 minutes for Q&A. Teams should be prepared to describe their objective, summarize several alternatives considered as a means to achieve this objective, and describe the specifics of their recommended course of action. Teams should be prepared to defend their proposal, logic and assumptions to their peers. Each member of the team should participate in the presentation and take part in answering questions. Please limit discussion of the case facts to how they support your objectives and proposal. A summary of case facts is unnecessary given that the audience will have read these facts.

After debating the merits of the two proposals, classmates will vote on which proposal was most compelling.

In addition to preparing a proposed plan of action, the presenting teams should answer the following two questions:

1. What are the impediments to applying the method of analysis to situations that may arise in your industry?
2. How can you overcome these impediments?

**SCHEDULE**

The purpose of this course is to equip students with a process to make informed, strategic pricing decisions. The course is organized around the Strategic Pricing Pyramid and its applications to channel pricing, new product pricing, and competitive dynamics. Please see Appendix A for a list of specific learning objectives associated with each class session.

The following schedule includes the topics, the reading assigned, and the assignments due. All cases and readings from outside the textbook are available in the case packet from Harvard
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<tr>
<th>Week</th>
<th>Date</th>
<th>Topics</th>
<th>Reading</th>
<th>Assignments Due</th>
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<td>1</td>
<td>1/8/14</td>
<td>Introduction to Strategic Pricing</td>
<td>NHZ Chapter 1</td>
<td>Overview</td>
</tr>
<tr>
<td>2</td>
<td>1/15/14</td>
<td>Economic Value Estimation</td>
<td>NHZ Chapter 2</td>
<td>Value Creation</td>
</tr>
<tr>
<td>3</td>
<td>1/22/14</td>
<td>Medicines Company Case Discussion</td>
<td>NHZ Chapter 12</td>
<td>Medicine Company Case Write-Up</td>
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<tr>
<td>4</td>
<td>1/29/14</td>
<td>Guest Speaker: Cory Armstrong-Hoss, YMCA</td>
<td>NHZ Chapter 3</td>
<td>Price Response Estimation</td>
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<td></td>
<td></td>
<td>Price Structure: Metrics, Fences and Price-Offer Configuration</td>
<td>“How to Make After-Sales Services Pay Off”</td>
<td>Price Structure</td>
</tr>
<tr>
<td>5</td>
<td>2/5/14</td>
<td>Guest Speaker: Greg Kolb, Zayo</td>
<td>NHZ Chapter 4, pp.72-86</td>
<td>Value Communication</td>
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<td>Cambridge Software Case Discussion</td>
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<td>Price and Value Communication</td>
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<tr>
<td>Week</td>
<td>Date</td>
<td>Topic</td>
<td>Reading Material</td>
<td>Application</td>
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<td>6</td>
<td>2/12/14</td>
<td>Pricing Policy, Behavioral Pricing</td>
<td>NHZ Chapter 5 and pp 87-93 “Note on Behavioral Pricing” “Mind your Pricing Cues”</td>
<td>Pricing Policy and Price Levels</td>
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<tr>
<td>7</td>
<td>2/19/14</td>
<td>Owens and Minor Case Discussion, Channel Pricing</td>
<td>“Shedding the Commodity Mindset”</td>
<td>Owens and Minor Case Write-Up</td>
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<td>8</td>
<td>2/26/14</td>
<td>Keurig Case Discussion, Pricing New Products, Life-Cycle Pricing</td>
<td>“Pricing New Products” NHZ Chapter 6 and 7</td>
<td>Keurig Case Write-Up</td>
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<tr>
<td>10</td>
<td>3/12/14</td>
<td>Final Presentations</td>
<td>Pricing Audit: Written Report</td>
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## Appendix A: Week-by-Week Learning Objectives

<table>
<thead>
<tr>
<th>Date</th>
<th>Topics</th>
<th>Specific Learning Objectives</th>
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</table>
| Week 1 | Introduction to Strategic Pricing | At the end of this week, you should be able to:  
1. Know the five-steps of strategic pricing  
2. Understand the underlying purpose of the five-step process  
3. Recognize the drawbacks of alternative pricing methods |
| Week 2 | Economic Value Estimation        | At the end of this week, you should be able to:  
1. Identify customer value drivers  
2. Estimate economic value  
3. Use economic value to optimize price and value communication |
| Week 3 | Price Response Estimation        | At the end of this week, you should be able to:  
1. Design, implement, and interpret a monadic pricing study  
2. Determine whether to implement a conjoint study  
3. Calculate and interpret price elasticities |
| Week 4 | Price Structure                  | At the end of this week, you should be able to:  
1. Raise effective prices by amending price structure  
2. Create customer value via price structure  
3. Attract new customers without diminishing value from existing customers |
| Week 5 | Value Communication              | At the end of this week, you should be able to:  
1. Develop an appropriate value communication strategy |
<table>
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<tr>
<th>Week</th>
<th>Topic</th>
<th>At the end of this week, you should be able to:</th>
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| Week 6 | Pricing Policy                | 1. Choose a pricing policy to maximize long-run profitability  
2. Exercise control over pocket prices  
3. Use price to communicate value  
4. Price dynamically while maintaining perceived fairness |
|        | Behavioral Pricing            |                                                 |
| Week 7 | Channel Pricing               | 1. Maintain valuable collaborator relationships  
2. Use pricing structure to influence the value delivered |
| Week 8 | Pricing New Products          | 1. Adapt prices as strategic environment changes  
2. Price above commodity levels |
|        | Life-Cycle Pricing            |                                                 |
| Week 9 | Managing Competitive Dynamics | 1. Avoid competition on price  
2. Anticipate competitive reactions to pricing decisions |
| Week 10| Team Presentations            | 1. Increase a company's profitability  
2. Identify unique value segments  
3. Design a new price structure  
4. Communicate price structure and value to consumer  
5. Increase effective prices |