



Escola Superior de Comércio Internacional



PRICING POLICIES

FIRST TRIMESTER. ACADEMIC YEAR 2010-2011

SCHEDULE:

Monday, 15.45-17.00

Tuesday, 15.45-17.00

Wednesday, 15.45-17.00

“Pricing is the moment of truth – all of marketing comes to focus in the pricing decision”.
(Raymond Corey)

INTRODUCTION TO THE COURSE:

Price setting is probably the most crucial of all marketing mix decisions. It involves an understanding of both supply side factors (e.g. costs) and demand side factors (e.g. consumer willingness to pay). While traditional approaches to pricing theory have revolved around an economic and financial framework, a broader and more pragmatic view entails a comprehensive understanding of the demand side; both at the level of individual customer values, and the more aggregate level of price sensitivities of the market. In this course, we will approach the pricing decision as an intersection of economic, strategic and behavioural considerations. Using product categories as diverse as financial services, healthcare, industrial products and consumer packaged goods, we will study economic and behavioural approaches to pricing, dynamic pricing, value pricing, price customization, price bundling and multi-part tariffs, menu costs and price stickiness, price presentation strategies, sales

promotions, pricing in the context of a channel, and the effect of pricing formats on consumption and customer value.

AIM OF THE COURSE:

The specific goals of this module are for you to be able to:

- Develop a “marketing economics” model of the business, and understand the role of the pricing decision in influencing customer value
- Learn how to calculate profit-maximizing prices
- Calculate expected value to customers (EVC) and therefore develop the concept of value pricing
- Understand relevant costs in determining prices, and develop a cost-based framework for pricing decisions
- Understand the importance of the demand curve and customer willingness-to-pay in pricing strategy, and learn methods of estimating the demand curve
- Execute a pricing strategy through an understanding of tactical issues in pricing (including menu costs, pricing formats etc.) and sales promotions (including coupons, rebates, trade promotions)
- Understand the effect of non-price factors on price image and perceived value
- Be sensitive to consumer behaviour factors that play a large role in pricing effectiveness
- Analyze a distribution channel in terms of impact of margin changes on channel value
- Understand innovative pricing strategies like peak period pricing, bundling, and price customisation
- Predict the effect of pricing on consumption, and hence on customer value

TEACHING METHODS:

The course is composed of a mixture of lectures, tutorials, seminars, and case discussions. The purpose of the lectures is to present and discuss theories, concepts, analytical techniques and empirical findings. We will supplement lectures with tutorials that will allow us to practice the analytical techniques introduced during the lectures. Furthermore, we will discuss a number of comprehensive business cases. The goal of the case discussion is to apply the concepts to the context provided by the case and to make decisions based on both qualitative and quantitative analysis.

These teaching methods require intensive students' involvement and therefore it is important that students read the assigned material prior to each class. Although the class is offered in English, many of the required cases are available in English and Spanish.

Students will be provided with the cases, readings, exercises and power point presentations either before or after the class via the Intranet site (“Aula”).

COURSE READINGS:

Students are required to read all of the assigned cases and articles. Although the course will loosely follow Nagle and Holden’s book listed in the bibliography section, there is no required text book for this course. In the Bibliography section listed are some of the books that you might want to refer to during the course or after for further reading on the topics covered during the class. Nevertheless, you will not need to buy or borrow any of these books to successfully complete the course.

PREREQUISITES:

The prerequisites for this course are solid knowledge of basic marketing, microeconomics, managerial accounting, and managerial finance concepts. Students are expected to be familiar with topics such as laws of demand and supply, fixed and variable costs, price elasticity, net present value, etc. Although many of these topics will not be officially discussed during the class, students will be provided with refresher power point slides that they can review in the preparation for the classes. Familiarity with some advanced managerial finance (e.g., options) and competitive strategy (e.g., game theory) concepts is beneficial, though not obligatory.

Warning for the number-fearing and/or number-challenged students: Although this course has a significant **QUANTITATIVE** component, required mathematical skills do not go beyond basic calculus (e.g., derivative of a linear function). However, solid control of the algebra is mandatory.

Fluency in use of EXCEL software application is mandatory.

MY EXPECTATIONS:

Class Preparation: I expect you to come to classes prepared. This includes reading of the assigned cases, articles, reviewing of the power point slides and exercises. Your preparation will make a significant part of your participation mark. While participation during the classes is predominantly voluntary, I also practice “cold calling”. This means that anyone can be asked to answer any question. Fear of public speaking or limited fluency in spoken English will not be accepted as an excuse.

Punctuality and Deadlines: I expect you to be on time for classes. I understand that due to unforeseen circumstances, you may be occasionally late. If possible, please let me know in advance if you are going to be late. Being habitually late is a good way of losing goodwill (i.e., not performing well on class participation). **Deadlines will always be strictly enforced and no exceptions of any kind will be made without prior approval.**

Attendance: I expect you to attend classes regularly. I understand that due to unforeseen circumstances, you may be occasionally absent. If possible, please let me know in advance if you are going to be absent. Being habitually absent and/or being absent without a valid reason is a good way of losing goodwill (i.e., not performing well on class participation). Being absent does not excuse you from the deadlines. It is your responsibility to ensure that I receive required material by the given deadline, in the specified format, even if you are not present. Absences due to touristic travels will be accepted for no more than 2 classes. These 2 classes will count as justified absences. If your attendance is below 80% (more than 6 unjustified absences), your participation mark is set to zero.

Class Discipline: Due to the large number of students in the classroom, it is of utmost importance that you respect your classmates and the professor by allowing them to work and study in a professional environment. Private conversations among students during the class will not be tolerated. According to ESCI rules, the professor may ask student(s) to leave the classroom. **If you are asked to leave the classroom, your attendance sheet will be marked as 'expelled' (counts as two unjustified absences) and you will be asked to meet with the program coordinator.**

Intranet ("Aula"): It is students' responsibility to ensure timely access to the Aula (<http://aula.esci.es/login/index.php>). International students: please talk to exchange program coordinators at your school and at ESCI in order to obtain Aula access as soon as possible. Until you obtain the access please ask one of your local classmates for the access to print or copy the class materials. **Not having the access to the Aula will not be accepted as an excuse for not doing required course work.**

YOUR EXPECTATIONS:

Responsiveness and Feedback: You should expect that questions and concerns that you raise with me would be answered, addressed and responded to. Besides formal feedback

mechanisms, feel free to jot me an e-mail with any question or feedback. I will try my best to respond as speedily as I possibly can.

ESCI does not have an official office hour requirement. If you need to talk to me, you can send me an e-mail requesting to meet either before or after the class and I will schedule time to sit and talk to you. Although I am usually available before and after the class for impromptu questions and consultations, unless you previously request to meet, you need to be prepared for the possibility that I may ask you to postpone the conversation for another day due to my previously scheduled obligations.

Punctuality: You should expect me to start and finish classes on time. If we need extra time to cover materials, or need to organize an extra session, I will only do so if the majority of the class agrees.

Preparation and Rigor: You should expect the most up-to-date and rigorous materials to be covered in class.

Guidelines and Expectations: For all assignments, exams and other course materials, I will state my expectations as clearly as possible.

If either of us finds that the other party has been violating expectations, it is our duty to inform the other party as promptly, and in as fair a manner as possible.

TENTATIVE CLASS SCHEDULE

Week	Date	Topics and required readings	Important Activity
1	Sep.27 (Mon) Sep. 28 (Tue) Sep. 29 (Wed)	Lecture I: Course Introduction Lecture II: Cost-Value-Profitability (CVP) Analysis – Part 1 Lecture II: Cost-Value-Profitability (CVP) Analysis – Part 2	
2	Oct. 4 (Mon) Oct. 5 (Tue) Oct. 5 (Tue) Oct. 6 (Wed)	Tutorial I: CVP Analysis – Part 1 Case I: <u>Beauregard Textile Co.</u> (HBS Case 9-151-058) Tutorial II: CVP Analysis – Part 2 Tutorial III: CVP Analysis – Part 3	GROUPS FORMED
3	Oct. 11 (Mon) Oct. 12 (Tue) Oct. 13 (Wed)	NO CLASS (make-up class: October 5th) HOLIDAY – NO CLASS NO CLASS (make-up class: October 19th)	
4	Oct. 18 (Mon) Oct. 19 (Tue) Oct. 19 (Tue) Oct. 20 (Wed)	Lecture III: Price Elasticity and Customer Willingness to Pay Article I: <u>Note on Price-Quantity Determination</u> (HBS Note 9-191-093) Case II: <u>Merck & Company: Evaluating Drug Licensing Opportunity</u> (HBS Case 9-201-023) Tutorial IV: Price Elasticity Lecture IV: Price Discrimination – Part 1	SIMULATION – FIRST ROUND ENDS
5	Oct. 25 (Mon) Oct. 26 (Tue) Oct. 26 (Tue) Oct. 27 (Wed)	Lecture IV: Price Discrimination – Part 2 Case III: <u>Virgin Mobile USA – Pricing for the Very First Time</u> (HBS Case 9-504-028) Tutorial V: Price Discrimination – Part 1 Tutorial VI: Price Discrimination – Part 2	
6	Nov. 01 (Mon) Nov. 02 (Tue) Nov. 02 (Tue) Nov. 03	HOLIDAY – NO CLASS Lecture V: Pricing Strategies – Part 1 Case IV: <u>Tweeter etc.</u> (HBS Case 9-597-028) Lecture V: Pricing Strategies – Part 2	

	(Wed)	Lecture VI: Product Line and New Product Pricing	
7	Nov. 8 (Mon) Nov. 9 (Tue) Nov. 10 (Wed)	MIDTERM EXAM Lecture VII: Value and Pricing Lecture VIII: Pricing Psychology	
8	Nov. 15 (Mon) Nov. 16 (Tue) Nov. 17 (Wed)	NO CLASS (Make-up class - October 26) NO CLASS (Make-up class – November 02) Case V: <i>Biopure Corporation</i> (HBS Case 9-598-150)	SIMULATION – SECOND ROUND ENDS
9	Nov. 22 (Mon) Nov. 23 (Tue) Nov. 24 (Wed)	Lecture IX: Competitive Pricing Tutorial VII: Pricing and Game Theory Lecture X: Ethical and Legal Issues in Pricing Case VI: <i>Burroughs Wellcome and AZT (A)</i> (HBS 9-792-004)	
10	Nov. 29 (Mon) Nov. 30 (Tue) Dec. 01 (Wed) Dec. 07 (Mon)	SEMINAR I SEMINAR II SEMINAR III Buffer/Free Topic Class	
11	TBD	FINAL EXAM	

BIBLIOGRAPHY:

- Nagle T. and Holden R., **“The Strategy and Tactics of Pricing”**, , Upper Saddle River, NJ: Prentice Hall
- Baker, R. J., **“Pricing on Purpose: Creating and Capturing Value”**, Hoboken, New Jersey: John Wiley & Sons,
- Dolan, R. and Simon H., **“Power Pricing”**, New York, NY: The Free Press [Dolan & Simon]
- Wilson R., **“Nonlinear Pricing”**, New York, NY: Oxford University

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Final exam – 35%

Students **must take the final exam** in order to obtain a final grade for the course. If a student does not take the final exam, the final grade assigned to the student will be “No presentado”.

Minimal grade needed to be obtained at the final exam, in order to consider the remaining course grading elements is **5.0**. If a student obtains a final exam grade below 5.0, the final grade of the course will be determined exclusively based on the grade of the final exam.

International students: Please **DO NOT BOOK** your tickets for your return flights home before the dates for the final exams are announced (usually at the end of the week 5). Even if you have a ticket and a valid reason, ESCI will **NOT PROVIDE ALTERNATIVE DATES** for the final exam.

Midterm Exam – 20%

Students do not have to take the midterm exam in order to obtain a final grade for the course. If a student does not take the midterm exam, the midterm exam grade assigned to the student will be “0” (zero). The midterm exam will be offered only once and **there will be no alternative date or work provided** as the compensation for the missed midterm exam, even if the absent student had a valid reason for the absence.

Class Participation – 20%

50% of the class participation mark (10% of the total mark) will be determined based on the case preparation homework and occasional unannounced quizzes that will test that you have prepared for the class (e.g., read the assigned case, article or power point presentation). The other 50% of your participation mark will be based on your class contribution. Some of the behaviors that contribute to effective class participation are captured in the questions that follow:

1. Is the participant a good listener?

2. Are the points that are made relevant to the discussion? Are they linked to the comments of others?
3. Do the comments add to our understanding of the situation?
4. Do the comments show evidence of analysis of the case?
5. Does the participant distinguish among different kinds of data (that is, facts, opinions, beliefs, concepts, etc.)?
6. Is there a willingness to share?
7. Is there a willingness to test new ideas, or are all comments "safe"? (For example, repetition of case facts without analysis and conclusions or a comment already made by a colleague.)
8. Is the participant willing to interact with other class members?
9. Do comments clarify and highlight the important aspects of earlier comments and lead to a clearer statement of the concepts being covered?

The questions above deal with both the process of class participation and (of equal or greater concern) the content of what you say. As noted above, class participation will be a significant portion of your grade in this course. **Please trust that both quality and frequency are important, but that quantity never can make up for low quality.**

Pricing simulation – 15%

During the term you will form groups that will have to play a pricing simulation. The simulation will take place in two rounds with the precise finish date and time for each round. The mark for this work will follow the normal distribution and will depend on how well your group does in comparison to other groups. Although each group as a whole will get one mark, individual marks will be adjusted (upward or downwards) based on the team evaluation of your teammates that you will have to complete during the final exam.

Seminars – 10%

During the term, the same groups that are working on the simulation will have to make an in-class presentation on the assigned topics. Although the group as a whole will get one mark, individual marks will be adjusted (upward or downwards) based on the team evaluation of your teammates that you will have to complete during the final exam.

SEPTEMBER SUPPLEMENTARY EXAM EVALUATION

In the case when a student has to take a supplementary exam in September the mid-term exam mark will not be counted and its weight will be added to the weight of the supplementary exam. Following evaluation schema will be applied:

Supplementary exam – 55%

Students who did not obtain a final course grade during the regular course/examination period must take the supplementary final exam in September in order to obtain a final grade for the course. In the case when a student does not take the supplementary final exam, the final grade assigned to the student will be “No presentado”.

Minimal grade needed to be obtained on the supplementary final exam, in order to consider the remaining course grading elements, is **5.0**. In the case when a student obtains a supplementary final exam grade below 5.0, the final grade of the course will be determined exclusively based on the grade of the supplementary final exam.

Participation – 20%

Pricing Simulation – 15%

Seminars – 10%