



PRICING POLICIES

“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, exercises and case discussions. The purpose of the lectures is to present and discuss theories, concepts, analytical techniques and empirical findings. 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. In some classes, we will also supplement the lectures with exercises.

This methodology requires intensive student's involvement in discussions, and therefore it is important that students read the assigned material prior to each class. The case analysis will be starting with a five- to ten-minute student presentation. 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. 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 AND EXPECTATIONS:

Prerequisites:

The prerequisites for this course are solid knowledge of basic Marketing and Managerial Economics concepts. We will draw from the materials covered in both these classes.

MY EXPECTATIONS:

Class Preparation: I expect you to have prepared the assigned case, discussion article or exercises.

Excel: I assume that you have a good working knowledge of Excel

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). Also, 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.

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.

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.25 (Tue)	Lecture I: Course Introduction Text: Chapters 1 and 8	
	Sep. 26 (Wed)	Lecture II: Role of Costs in Pricing Decision Text: Chapters 2 and 3 Article I: <u>Note on Price-Quantity Determination</u> (HBS Note 9-191-093) – English Version	
	Oct. 1 (Mon)	Case I: <u>Beauregard Textile Co.</u> (HBS Case 9-151-058) – English Version	
2	Oct. 2 (Tue)	Exercises I: Cost and Pricing	
	Oct. 3 (Wed)	Lecture III: Price Elasticity and Customer Willingness to Pay Text: Chapter 4	
	Oct. 8 (Mon)	Case II: <u>Philip Morris: Marlboro Friday (A)</u> (HBS Case 9-596-001) – English and Spanish Version	ASSIGNMENT I DUE
3	Oct. 9 (Tue)	Exercises II: Elasticity and Customer Willingness to Pay	
	Oct. 10 (Wed)	Lecture IV: Value Pricing and Price Customization.	
	Oct. 15 (Mon)	Case III: <u>The Medicines Company</u> – In Class Case – No Reading Required	ASSIGNMENT II DUE
4	Oct. 16 (Tue)	Case IV: <u>Coca-Cola's New Vending Machine (A): Pricing to Capture Value</u> - In Class Case – No Reading Required	
	Oct. 17 (Wed)	Lecture V: Price Discrimination (A) Text: Chapter 9	
	Oct. 22 (Mon)	Case V: <u>Delays at Logan Airport</u> (HBS Case 9-102-011) – English Version Only <u>Delays at Logan Airport</u> (HBS Problem Set 9-102-022)	
5	Oct. 23 (Tue)	Lecture VI: Price Discrimination (B)	
	Oct. 24 (Wed)	Exercises III: Price Discrimination	
	Oct. 29 (Mon)	MIDTERM EXAM	

6	Oct. 30 (Tue)	Lecture VII: Competition and Pricing. Price Promotions. Text: Chapter 10	ASSIGNMENT III DUE
	Oct. 31 (Wed)	Lecture VIII: Product Line and New Product Pricing Text: Chapter 10	
	Nov. 5 (Mon)	Case VI: <u><i>Tweeter etc.</i></u> (HBS Case 9-597-028) – English and Spanish Version	
7	Nov. 6 (Tue)	Case VII: <u><i>Biopure Corporation</i></u> (HBS Case 9-598-150) – English and Spanish Version	
	Nov. 7 (Wed)	Exercises IV: Product Line and New Product Pricing	
	Nov. 12 (Mon)	Lecture IX: Integrating Pricing Into Marketing Text: Chapters 12 and 14	
8	Nov. 13 (Tue)	Lecture X: Negotiated Pricing, Bidding, and Auctions (A) Text: Chapters 5 and 8	
	Nov. 14 (Wed)	Lecture XI: Negotiated Pricing, Bidding, and Auctions (B) Article II: How Auctions Work For Wine and Art – English Version	
	Nov. 19 (Mon)	Case VIII: <u><i>Computron, Inc. – 1996</i></u> (HBS Case 9-597-063) – English Version	
9	Nov. 20 (Tues)	Lecture XII: Pricing Strategies for Base of the Pyramid Markets; Corporate Social Responsibility; Sustainability. Legal and ethical aspects of pricing. Text: Chapter 14	
	Nov. 21 (Wed)	Article III: <u><i>Note on Pricing Strategies for Industrial Products</i></u> (HBS Note 9-582-124)	
	Nov. 26 (Mon)	Case IX: <u><i>Funai Consulting Co. Ltd. (A)</i></u> (HBS Case 9-398-017) – English Version	
10	Nov. 27 (Tue)	Case X: <u><i>Burroughs Wellcome and AZT (A)</i></u> (HBS 9-792-004) – English Version	
	Nov. 28 (Wed)	Exercises V: Review	
	Dec. 3 (Mon)	Lecture XIII: Summary of the Class	
11	TBD	FINAL EXAM	

BIBLIOGRAPHY:

- The Strategy and Tactics of Pricing, Thomas Nagle and Reed Holden, Upper Saddle River, NJ: Prentice Hall [Text]
- Power Pricing, Robert Dolan and Hermann Simon, New York, NY: The Free Press [Dolan & Simon]
- Nonlinear Pricing, Robert Wilson, New York, NY: Oxford University

PRICING POLICIES

Final exam – 50%

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 4.0. If a student obtains a final exam grade below 4.0, the final grade of the course will be determined exclusively based on the grade of 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.

Assignments – 30%

Completion of 3 assignments is necessary in order to complete the course. Failure to submit/present all three assignments by the given deadlines will result in the final course mark being determined as lesser of 4.0 and the mark obtained during the final examination.

Student participation and attendance is essential for this class and although participation is not a part of the formal grading schema the instructor will take

it in consideration while determining the final grade exclusively on the bonus schema not to exceed 20% of the total mark.

September

Supplementary

Exam Evaluation

In the case when a student has to take a supplementary exam in September the following evaluation schema will be applied:

Supplementary exam – 70%

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 4.0. In the case when a student obtains a supplementary final exam grade below 4.0, the final grade of the course will be determined exclusively based on the grade of the supplementary final exam.

Assignments – 30%

Completion of the 3 assignments is necessary in order to complete the course. Students who completed this part of the course work during the regular evaluation period will not be required to repeat it. The mark obtained during that period will be used in determination of the final course grade. Students who did not submit their work or did not obtain a passing grade will be required to complete this in work during the supplementary exam period.