

Spring 2014

Scott Davis

MGT/MGP 234: Pricing Syllabus

COURSE DESCRIPTION

Course Objectives

One of the most important decisions that a manager has to make concerns the price that should be charged for the firm's goods and/or services. Pricing decisions influence the quantity that can be sold and therefore have an impact on the firm's revenues, costs, and profits. This course is designed to deepen your understanding of pricing issues faced by organizations having some degree of market power and to suggest pricing strategies that can be used to increase profitability. Some of the basic principles from economics, marketing and other business disciplines will be developed and implications for managerial pricing decision-making will be presented. There will be an opportunity to apply these concepts to address the problems facing real organizations through specific examples and cases. The hope is that you will develop an understanding of the types of information that are useful in making pricing decisions and how to use that information when developing pricing policies.

Prerequisites

You should be comfortable with the fundamentals of microeconomics as presented in an introductory course. Further, an introductory marketing course will be useful to provide an understanding of the overall marketing environment in which pricing decisions are made. A basic understanding of statistics and differential calculus will be helpful.

Teaching Methods

Course materials will be presented through lectures, cases and class discussions. The lectures will be used to present the basic theories and concepts that are important for making pricing decisions. Lecture notes will be provided on a regular basis to assist in note taking and reduce the need for you to draw graphs. Your questions and comments are welcomed on lecture days and are expected when we are discussing cases. The cases in this course are based on the pricing problems facing real organizations. They serve two basic purposes: (1) they introduce some of the major pricing issues facing real organizations, and (2) they provide real world settings for the application of the pricing principles presented in lectures. An analysis of the cases should provide practice in recognizing how real pricing decisions differ from the "ideal" assumed in the models and how the "optimal" pricing policies must be modified to accommodate these differences.

In addition to the lectures and cases there will be periodic exercises, a midterm, and a final project. The midterm will cover the core concepts of costs, customer behavior and demand, and pricing with competition. The final project will require the systematic analysis of a pricing decision facing a real company or making pricing recommendations for a hypothetical company which would require the development of a pricing simulator incorporating a number of the pricing principles introduced in the course.

Course Organization

The course will be divided into four sections. The first section concerns the producer's costs and the demand for its product when it has substantial market power. We will begin by reviewing the classical economic models of price and output selection. Then we will look more closely at the producer's costs and determine how costs can and do have an impact on the firm's pricing decision. Next, we will turn our attention to the demand (willingness to pay) for the producer's output and the factors influencing it. We will consider methods for estimating the demand for a good or service and the resulting implications of demand on the revenues that can be obtained by charging different prices. We will see that prices normally have a lower bound given by the producer's variable costs and an upper bound given by consumer demand.

The second section concerns the problems of pricing in competitive environments. In competitive industries, the firms are mutually interdependent implying that a firm's optimal price depends on the prices charged by its competitors. We will see that it is important for a firm to forecast how competitors will respond to its pricing policies and assess the impact of those responses on its demand. Several models will be developed to illustrate approaches the firm can take to operate profitably in the face of competition, including: capacity limitations, product differentiation, and signaling to competitors through its responses to competitive activity. We will also consider the challenges of pricing with multiple objectives in an uncertain environment.

The third section of the course addresses the issues of pricing in a market in which consumers vary in their demands for products and product features. We will discuss several approaches that allow a firm to legally increase profits by charging different prices to different customers. In particular, we will examine techniques that will allow the firm to profitably take advantage of differences in purchase timing, desired purchase quantities, and patience through the establishment of an effective pricing policy.

The final section of the course deals with the issue of developing a pricing policy that is consistent with the rest of the firm's marketing mix. We will begin by considering how a firm's pricing policy can influence the demand for multiple products in the product mix and the implications for the development of product lines and the prices of the products within and between lines. The impacts of advertising and various types of promotions on a product's demand and the structure of markets will then be discussed to provide a basis for developing integrated marketing policies. We will conclude with an analysis of the issues that arise when a supplier uses intermediaries to sell its product to consumers. We will discuss the pricing and product adoption decisions of intermediaries (in particular, retailers) and how this behavior may influence the pricing and promotional policies of a supplier.

Textbook and Readings

The required text for this course is *The Strategies and Tactics of Pricing* – Fifth Edition, by Thomas Nagle, John Hogan and Tom Zale (Prentice-Hall, 2010). We will be jumping around in the text a bit since the organization of the book doesn't correspond to the organization of the course that closely. This fact should not be a concern since the assigned sections can be read on their own and do not depend on preceding sections. In addition, there will be the collection of readings enclosed in a packet. The readings have been selected to provide a more complete background for some of the topics than I will be able to present in lecture. You may find a few of the articles to be somewhat technical. From those readings you should only try to glean the key issues that are raised and their general conclusions. Don't get bogged down in the mathematical or statistical analysis unless it really interests you.

Course Requirements

The course requirements will consist of the following elements that will be considered in determining the course grade.

Class Participation

Your grade for class participation will be determined by your attendance, your contributions to the class discussions, your group's case analyses, and your efforts on periodic problem sets. With regard to your contributions to the class discussions, both quantity and quality are important because much of the value of a class discussion comes from hearing other people's opinions and insights. Absence from class for case discussions will therefore be penalized. As for the quality of participation, prior preparation is obviously important. I will assume that you have done the assigned readings and/or analyzed the assigned case before you come to class. Time is generally limited when we discuss cases and we will not have much time to spend regurgitating the facts of the cases we will discuss. You should be prepared to present your recommendations and analyses if called on to do so since I will randomly select class members or study groups to contribute to the class discussion.

Each student will be expected to actively take part in a study group that should meet to analyze the assigned cases. Each group will be expected to prepare several short written assignments requiring a specific analysis of a case to be discussed in class. These assignments will be due at the end of the class session in which the case is to be discussed. There will be severe penalties for late case assignments. Groups should analyze the cases completely even if they are not required to submit a written write-up since I may randomly “cold call” on groups to contribute to the case discussions. Experience suggests that the optimal group size is three to four persons. Groups larger or smaller than that will be allowed only under extenuating circumstances and will require my permission.

When preparing case analyses you should only consider information provided in the case. You should not devote your time to obtaining outside data sources since you will not be given credit for points based on outside data and doing so will distract you from effectively analyzing the facts in the presented in the case. When preparing your analyses, you may only consult other students currently enrolled in the class or the instructor. Under no circumstances will you be allowed to consult other individuals who have analyzed the case or use notes that relate to the case analyses.

Midterm Examination

There will be a midterm examination given in this course that is scheduled to be held May 20th. It will be designed to take no more than an hour and a half although you will be given two hours to complete it. It will consist of several true/false questions requiring explanations and several problems and short essays. *Alternative midterm times after the regularly scheduled exam time will not be given for any reason.*

Final Project

There will be three options for a final project for the course.

Option 1 will be to conduct a pricing analysis and recommend a pricing policy for a real world company. At the end of the day of the sixth class session a proposal will be required summarizing the problem to be addressed and the approach (including a brief summary of available data). Under this option a student may choose work with one other classmate to prepare the analysis and pricing recommendations. There will be an expectation that the projects that are prepared through a joint effort will have a greater level of depth than projects that are prepared individually. See the Outline of Class Assignments for more details concerning the requirements.

Option 2 will be to prepare an analysis of the New York Times’ paywall policy based on the Harvard Business School Case “The New York Times Paywall” Case (5-512-090). If you choose this option you will be asked to evaluate the effectiveness of the policy at the time of the case, suggest potential analysis that could be conducted to help improve the policy, and a recommendation about whether the policy should be changed and, if so, how. Under this option, the case analysis will need to be done individually without consulting your classmates (much like a take-home exam).

Option 3 will be to take a final exam. This option will be offered only if selected by 30% of the students across both sections of the course. The written final will cover all of the material covered in the course but will emphasize the material covered since the midterm. It will be offered during the regularly scheduled exam time. The exam will be designed to be completed in two hours but you will be given three hours to complete it. The format will be similar to that of the midterm.

Grading

The weights for the course requirements in determining the course grade will depend on the final project option chosen.

Option 1 (Pricing analysis for a real world company of your choice):

- Class/Group Participation: 35%
 - Midterm Examination: 35%
 - Final Project: 60%
- (The lowest 30% will be dropped)

Option 2 (Pricing analysis of New York Times Paywall):

- Class/Group Participation: 35%
 - Midterm Examination: 35%
 - Final Project: 50%
- (The lowest 20% will be dropped)

Option 3 (Final exam):

(This option will only be offered if selected by 30% of the students across both sections of the course)

- Class/Group Participation: 35%
 - Midterm Examination: 35%
 - Final Project: 40%
- (The lowest 10% will be dropped)

In order to provide reduce the impact of a weak performance in one aspect of the course, the requirement with the lowest grade will receive a reduced weight depending on the option. The difference in weight reflects the differences in expected effort required. However, excessive absences for case discussions or poor contributions to the group assignments will result in a grade penalty regardless of the grading option. More detailed information about these requirements is given in the document titled "Outline of Class Assignments."

The mean for each component of the grade generally will be a B+, although adjustments may be made if the overall performance of the class is significantly better or worse than historical norms. The performance on the optional problem sets will be used to potentially raise the grades of students whose grades are close to the next highest grade. Based on experience from numerous previous offerings of the course a solid performance on the problem sets (e.g. around an average of 4 out of 5) will lead to a grade jump between 25% to 35% of the time.

OUTLINE OF CLASS ASSIGNMENTS (Subject to Change)

The pages that follow contain a summary of the material we expect to cover in the class and the course assignments. They provide brief descriptions of each class session and the assignments for each class meeting.

The readings from the text will be used primarily to provide background for the lectures. The text tends to be very qualitative in its approach and will be useful for providing a context for the more analytical material covered in lecture. Unless you are told otherwise, you will not be tested on material covered in the text that is not covered in lecture. However, reading the assigned sections of the text prior to lecture will enhance your ability to see understand the managerial implications of the material presented in lecture. There are also several readings contained in course reader. These readings are designed to give you more detail on some of the concepts covered in the class. Again, you are encouraged to do the assigned readings prior to the class meeting for which they are assigned because doing so will increase the value you receive from the lecture. This is particularly true for some of the more technical topics such as those dealing with approaches to estimating utility and demand.

This outline also contains the case assignments for the course. By the end of the first class meeting you should be assigned to a study group. The purpose of the group is to provide a forum for discussing the assigned cases. You should read the cases carefully, discuss them with your group members and be prepared to provide your group's recommendations prior to the class for which they are assigned. A recommended format for written "position paper" assignments is given below.

You are encouraged to read the description of the classes at least a week in advance so that you will have adequate time to prepare for them, especially if they involve group case assignments.

Group Written Case Assignments - Position Papers

The position paper assignments should not exceed three double spaced pages in length (font size not to be less than 10 point) plus any exhibits you feel will help support your recommendations. I strongly recommend the following format for presenting your written case assignments:

Begin with a brief (one paragraph) introduction describing the problem facing the company that you are addressing.

Summarize the key points in your recommendation. You may wish to present the details of your proposal in exhibits following the text of the case.

Justify your recommendations. To effectively do this, you should draw on information from a careful situation analysis to support why your proposal should be effective in addressing the company's problem. You may assume that the reader is familiar with the case and, therefore, should not devote space repeating facts provided in the case unless needed to support you recommendations. When you do refer to facts presented in the case they should support an argument that you are making and you should provide page or exhibit numbers as references.

You should use exhibits when appropriate and include them after the text of your position paper. Exhibits should be used in support of your arguments and they all should be referenced in the body of your write-up. They will not be considered unless they are referenced in the text of your paper.

These assignments will be graded on a ten-point basis, with a score of 5 corresponding to a B-.

You should use these position papers as a basis for discussing the cases in class. *I expect that all group members to make significant contributions with regard to the recommendations for each group project. It is not an acceptable group preparation practice to allocate group case assignments to different group members and who then prepare them individually.* These assignments will be due at the end of the class period in which the case is discussed. Late case assignments will not be accepted.

When preparing case assignments, you should restrict your attention to the material in the cases unless specifically instructed otherwise! You should not seek out additional information from the internet or other sources.

Problem Sets

There will be several problem sets given out over the course of the semester. These assignments are optional; however, completing (or at least attempting) them by the due date will enhance your understanding of the course material as well as your performance on the midterm exam. In addition your efforts toward completing the problem sets may help your grade if your course performance is on the border between two grades. Attempting the problem sets will not count against your grade even if you are not very successful. As such you are encouraged to attempt them and turn in what you are able to complete. You may discuss approaches to addressing the problem sets with your classmates but copying answers from a classmate is not allowed. You may also not consult students who have taken this course previously or any solution sets they may have received. *To get credit for the problem sets you must turn them in on the date they are due (before solutions are provided).*

Midterm Exam

A midterm exam is scheduled for May 13. See the assignment description for more details.

Course Final Options

There will be three options for the course final.

Option 1: Recommendations concerning a real company's pricing policy
(Counts as 30% to 60% of the course grade)

For this option you are to make recommendations concerning a real company's pricing policies and justify your recommendations. Pricing decisions you may consider include: 1) the possibility of repricing an existing product (good and/or service) or product line, or 2) designing and pricing a new product or product line.

You should include the following in your write-up:

- A summary of the pricing decision you are going to address. This should include a brief company overview, the company's strategic positioning and how the product(s) you are considering fit(s) in with the company's objectives.
- Identify and summarize the current pricing practices (i.e. how prices are currently set) and existing data that can be used to help an effective pricing policy.
- Recommend the next steps that should be taken given the available data. Recommendations could include interim price changes, data to be collected (both specific market research and data to be collected on an ongoing basis) and how that data should be analyzed, and processes that will be implemented to review and implement price changes.
- Provide support for your recommendations. Explain why your recommendations will improve on current practices. Technical details of the analysis (e.g. data sources, marketing models used, assumptions, etc.) are probably best presented in an appendix.

If you choose this option there will be a required proposal that contains: a summary of the problem, an assessment of the availability of relevant data, and a brief summary of the basic types of analyses will be used to develop a pricing recommendation. It will be due no later week eight of the class but may be submitted at any time prior to that session. The purpose of this proposal is to ensure the feasibility of the project and to make sure that the scope is appropriate. Approval will be granted if there is enough potential for a substantive project. If the project will involve confidential information, please include any necessary Non-Disclosure Agreements with the proposal. I will sign these when the project is approved.

The write-up for this option should be approximately 8-12 pages plus exhibits. It will be due the Monday following the final class session. Grades will be based on the clarity of the presentation and the rigor of the analysis. Additional credit will be given if new data is collected to support recommendations.

Under certain circumstances I will allow this project to be prepared in collaboration with one other student. Such collaborations will require a sufficiently substantial project to justify the effort of two people and will need my approval. With such a project, the page guidelines will be approximately 12-20 pages plus exhibits and will be due by midnight on [DATE].

Note: A maximum course grade of "A+" will only be granted to students who choose this option. For all other course options the maximum possible grade is an "A."

Option 2: Recommendations concerning the New York Times Paywall
(Counts as 30% to 45% of the course grade)

For is option you read the Harvard Business School case "The New York Times Paywall," evaluate the effectiveness of the policy and determine what if any adjustments in the policy would be appropriate. You may also recommend research that would identify how policy can be improved.

Unlike the group case analyses you will prepare for class discussion, you may use outside sources of information in your analysis of the case. This analysis must be done independently. You should treat this as a take-home exam and any collaboration is prohibited. The write-up should be approximately 4-8 pages plus exhibits and will be due by midnight on [DATE].

Option 3: Final Examination
(Counts as 30% to 40% of the course grade)

A final exam will be offered only if selected by 30% of the students across both sections of the course. Students will be asked in week eight if they intend to opt for a written final exam.

The exam will cover all of the material covered in the course but will emphasize the material covered since the midterm. It will be offered during the regularly scheduled exam time. The exam will be designed to be completed in two hours but you will be given three hours to complete it. The format will be similar to that of the midterm.

See "Course Description" section for details as to how the weight of the course final will enter into the calculation of the course grade.

Session 1. Tuesday Evening, April 1

PART I. PRICING WITH MARKET POWER

FUNDAMENTAL CONCEPTS AND ACCOUNTING FOR COSTS IN PRICING DECISIONS

Our first session will begin with a review of the basic microeconomic principles that are useful in making pricing decisions. We will consider the limitations of the basic monopoly pricing models and introduce the topics we will discuss in the course.

The second part of the session will address the role of costs in developing pricing policies. There should be a very close relationship between the production technology adopted by a firm and its pricing decisions. The way costs are treated for accounting purposes is often not the most appropriate way to use them in making pricing decisions. We will examine approaches to cost-based pricing and when this method is appropriate.

Readings:

Course Outline and Course Description

Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing* - Fifth Edition, Chapter 9, Chapter 10 (optional)
Davis, *Effective Pricing Tactics and Analysis*, Chapter 1 (Recommended for review purposes only. This is a preliminary draft. If you choose to read this chapter, comments would be appreciated.)

Davis, *Effective Pricing Tactics and Analysis*, Chapter 2 (Recommended to complement Nagle, Hogan and Zale, Chapter 9. Again, this is a preliminary draft. If you choose to read this chapter, comments would be appreciated.)

Review:

If you feel a bit unsure about the fundamentals of microeconomics you may wish to review the following topics in your microeconomics text: supply and demand, the firm's costs, and price determination in monopolistic and competitive markets. You may find the first recommended reading (Chapter 1) useful if you need a review of the economics principles.

Session 2. Tuesday Evening, April 8

THE FUNDAMENTALS OF DEMAND AND TOOLS FOR ESTIMATING VALUE AND WILLINGNESS TO PAY

A limitation to cost-based pricing is that it doesn't address the customer's willingness to purchase the product at a given price. It is also important to consider the demand for a product when setting price. An individual's demand function, which describes the highest price he or she is willing to pay for a given quantity of a good or service and the demand function facing a supplier is the sum of the demands by the individuals in the market it serves. This session will review several different techniques such as economic value to the customer (EVC) analysis and utility estimation based on stated preferences that can be used to estimate how brand preference should vary with price. Effectively estimating a demand function requires predicting how estimated preferences translate into actual choice and purchase behavior. We will review several approaches to modeling and estimating brand choice and market share and how these models can be modified to improve predictive power.

Reading:

Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*, pages 17-32 (top) and Chapter 12
"Conjoint Analysis: Understanding Consumer Decision Making" by David Bakken and Curtis Frazier,
Chapter 15 of Rajiv Grover and Marco Vriens (editors), *The Handbook of Marketing Research* (It is strongly recommended that you review this reading prior to the class meeting, with an emphasis on pages 288-303)

Individual Assignment Due:

Problem Set 1 - Optional

Session 3. Tuesday Evening, April 15

ACCOUNTING FOR PSYCHOLOGICAL INFLUENCES ON DEMAND

Many approaches to modeling consumer buying behavior assume that consumers act like rational utility maximizers. However, there is a large body of evidence that suggests that consumers often act in ways that appear inconsistent with “economically rational” behavior. In this session we will review how psychological factors influence consumers’ price judgments and their resulting purchase behavior.

Reading:

HBS Article: *Note on Behavioral Pricing*

A CASE IN VALUE ESTIMATION: *CURLED METAL INC.*

Synopsis:

Curled Metals Inc. (CMI) had net sales fall approximately ten percent from 1978 to 1979. The company may have found a cure for its ills with a new product: curled metal pile driver pads. Two field tests showed that these pads could potentially provide substantial consumer benefits. Developing an effective pricing policy is critical in capturing the potential gains from this new product.

Group Written Position Paper Assignment Due:

Propose a suggested retail price and wholesale price for the pads. To do this you will need to determine an upper and lower bound on the suggested retail price (price to be paid by the final customers). In doing this you should estimate the Customer Economic Value of CMI’s curled metal pads based on the two field tests. Demonstrate how you came up with your estimate by clearly showing any relevant computations in an exhibit. Also be prepared to summarize your assumptions (particularly with regard to the value of time savings) and identify the potential for market segmentation and best target markets. Do the differences in economic value for the two projects reflect different segments or random variation?

You should show how you determined the lower bound on price based on CMI’s costs. Do a complete cost analysis considering the possibility of retooling. For this exercise you may assume that retailers will find the current markup rate sufficient to encourage them to carry and support the product if doing so has no impact on revenues earned from other products. In preparing your write-up you are encouraged to use the format recommended at the front of this outline.

Class Discussion Questions

1. Recommend whether or not CMI should engage in retooling. Be prepared to justify your recommendations with any appropriate computations.
2. Be prepared to justify your price recommendation based on an analysis of CMI’s situation (the Four C’s: customer, competition, company, and contributors (e.g. resellers)).

Session 4. Tuesday Evening, April 22

PART II. PRICING IN A COMPETITIVE ENVIRONMENT

PRICING IN COMPETITIVE MARKETS

The demand function faced by a supplier will generally depend on the actions of its competitors. Furthermore, a supplier's pricing and positioning policies will influence a competitor's actions. This session will apply the basic concepts of game theory to examine the competitive interactions between sellers and competitive decision-making. When products are undifferentiated, price competition can be very intense. However, there are several possibilities that can reduce competitive intensity such as capacity limitations, targeting selected segments, and building a reputation through repeated interactions. We will consider how these actions can influence market prices and help maintain price discipline in a competitive environment.

The second half of the session will examine how product differentiation influences the nature of competition. Specifically when products are differentiated small changes in price will not necessarily trigger large changes in supplier choice. We will also consider the role of price leadership in increasing the profitability of an industry.

Reading:

Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*, Chapter 11,
Pashigian, *Price Theory and Applications*, Chapter 10: "Pricing in Oligopoly"
Harvard Business Review Article: Rao, Bergen and Davis "How to Fight a Price War"

Individual Assignment Due:

Problem Set 2 – Optional

Tuesday Evening, April 29– **No Class Meeting**

Session 5. Tuesday Evening, May 6

A CASE IN PRICING UNDIFFERENTIATED PRODUCTS: *FEDERATED INDUSTRIES*

Synopsis:

Federated Industries has historically been the market share leader in the capacitor industry. However, during the period from 1971 to 1984, both prices and profitability have declined rapidly. They are currently faced with a decision with respect to a bid on a contract with the Southern Valley Association.

Group Discussion Assignment Due:

As a group, recommend whether or not Federated should bid on this contract. If you decide they should bid, recommend a price that they should bid. You should be prepared to present and justify your bid in class. There is no written assignment for this case.

Class Discussion Questions

1. Should Federated bid on this contract? If so, how much?
2. What are the market forces that have led to the recent price declines?
3. What steps, if any, can be taken to reduce the price erosion?
4. What are Federated's relative strengths with respect to the market? Is Federated in a good position to remain in the market?

Individual Assignment Due:

Problem Set 3 – Optional

PRICING TO SATISFY VARYING OBJECTIVES

We will conclude this session with a discussion of the implications and appropriateness of objectives other than profit maximization when formulating a pricing policy.

MIDTERM REVIEW

Session 6. Tuesday Evening, May 13

MIDTERM EXAM

The session will be devoted to the midterm exam. It will cover material up through the introduction to segmented pricing at the beginning of Session 5. The exam will be designed to take an hour and a half to complete but you will be given two hours to complete the exam. The exam will include true/false questions that require an explanation and several problems that will require some mathematical and verbal analysis. The best way to study for the exam is to review to be sure that you are comfortable with the thought processes that go into pricing decisions. Typically reviewing the lecture notes and working through problem sets and the sample exam (which will be provided in the previous session) are helpful. DO NOT MEMORIZE FORMULAS, as I often intentionally write problems for which the formulas derived in class are not appropriate.

Session 7. Tuesday Evening, May 20

PART III. INCREASING PROFITS THROUGH SEGMENTED PRICING

SEGMENTED PRICING

Segmented pricing is the practice of charging prices to different consumers based on differences in their willingness to pay or the cost of serving them. We will introduce the notion of price discrimination and consider different ways of applying it legally and profitably.

Reading:

Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*, Chapter 3

PRICE PROMOTIONS

There are many potential benefits from promotions. They can help to clear excessive inventories and provide customers with the sense that they are getting a good deal. However, they often cannibalize full-priced sales and possibly lead to price competition. We will place particular emphasis on how price promotions, coupons and rebates can be used to increase profits by charging different prices to different customers. We will review the factors that should be considered when designing a price discount policy. We will go over answers to the midterm exam at the end of the session.

NONLINEAR PRICING

Nonlinear pricing refers to the policy of setting a price schedule (often called a tariff) in which the price of an additional unit depends on the number of units purchased. The concepts can also be applied to designing packages of different sizes. We will discuss conditions under which a non-linear pricing scheme might be profitable and will present several approaches to implementing a nonlinear pricing policy.

Reading:

Robert Dolan, "Quantity Discounts: Managerial Issues and Opportunities"

Session 8. Tuesday Evening, May 27

A CASE IN PRICE PROMOTION MANAGEMENT: *CULINARIAN COOKWARE*

Synopsis:

Culinarian Cookware Company is one of the leading manufacturers of high quality Cookware. The company's executives are considering what strategy Culinarian should pursue to achieve earnings and sales growth goals and what role, if any, price promotion should play in this strategy.

Group Written Position Paper Assignment Due:

Formulate a recommendation concerning Culinarian's promotion policy for 2007. Design the best possible promotion that Culinarian could run given what you learned from the 2004 promotion. You should consider whether Culinarian should undertake the price promotion you designed or take other steps to achieve its desired objectives. If you recommend that Culinarian undertake a price promotion, you should specify how it should be implemented. If you recommend against a promotion you should explain why other policies would be more consistent with the company's objectives. In either case, you should clearly justify your recommendations. In formulating your recommendations, you should consider the discussion questions below which will be discussed in class.

Class Discussion Questions

1. How would you characterize consumer behavior in the cookware market? How might you segment the market? What are (or should be) Culinarian's target segments?
2. What are the strengths and weaknesses in Culinarian's current position?
3. Was the 2004 promotion profitable? Why? Whose assumptions, Brown's or the consultants', are the most credible?
4. If Culinarian were to run a price promotion in 2007, how could the promotion be designed to be consistent with the company's market position and objectives? Consider product scope, discount rate, timing, and communication.
5. Should Culinarian run a price promotion in 2007? Why or why not?

PART IV. PRICING AND THE MARKETING MIX

THE DESIGN AND PRICING OF PRODUCTS AND PRODUCT LINES

Price should be a key consideration in the design of product lines. The level of quality chosen for different offerings should be based on what a target segment is willing to pay for quality improvements. When attempting to serve multiple segments with a range of product offerings, product designs should account for the cannibalization of high margin products by lower priced products targeted to more price sensitive customers. There are often opportunities for a seller to increase profits by selling groups of products together in bundles in addition to or instead of selling the products individually. We will consider the conditions in which bundling is most likely to be profitable and an approach to setting prices for those bundles.

Reading:

[HBR Article: "Versioning: The Smart Way to Sell Information"](#)

Final Exam Commitment: Students desiring to take a written final exam will be asked to commit to this option during this session

Session 9. Tuesday Evening, June 3

NEW PRODUCT PRICING

The long run profitability of a new product introduction may depend on the pricing policy adopted when the product is introduced. We will examine how long term considerations should influence the decision to adopt a skimming or penetration pricing policy.

Reading:

Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*, pages 118-129

[HBR Article: "Versioning: The Smart Way to Sell Information"](#)

Individual Assignment Due:

Problem Set 4 - Optional

PRICING WITH CHANNELS AND ADVERTISING

Suppliers often use intermediaries to sell their products. Although channel members may be more efficient in performing the distribution task, using them results in some loss of control over the prices consumers will pay for the supplier's products and the promotional effort supporting the product. It is therefore important for a supplier to account for the incentives of intermediaries when developing its pricing policies. In this session we will look at the impact of using intermediaries on retail prices and channel profits and suggest ways of improving channel performance. The key impact of advertising is on the demand for a product. As a result, a product's price should be consistent with the advertising and promotion policies that support the product. We will also consider the potential impact of advertising on the behavior of retailers.

Reading:

Pashigian, *Price Theory and Applications*, Chapter 13: "The Free Rider Problem and Pricing" (Focus on Sections 13-2 and 13-3)

Individual Assignment Due:

Problem Set 5 - Optional

Midnight the evening of Sunday, June 8

Final Project Due (Option 1 and 2) – E-Mail to sdavis@marketingdecisions.com