

Pricing Strategy
57-521-16A
Period BJ3, Winter 2019

CONTACT INFORMATION

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The objective of this course is to familiarize the students with different pricing strategies and tactics. The course will offer the students an in-depth understanding of the processes to determine prices and related strategies.

Pricing is the step of the marketing process where we monetize the value proposition that we are offering a target segment in order to make that segment's life better than it was before the we showed up. Pricing is also the mechanism through which we compensate our channel partners for working on our behalf with customers. Effective pricing is defined by the ability to reach our goals of serving the market while making a fair return for our efforts by capturing a part of the value that we are providing.

Pricing is much more than calculating costs or trying to emulate an economist's stylized supply and demand curves. It is about creating value for the market and then capturing a portion of that value for our efforts. It is, at the end of the day, a process incorporating social science that reflects our interactions with the market, our partners and our suppliers, as well as one that determines our interactions with the market, our partners and our suppliers.

In this course, using a combination of case method and discussion, participants will gain an appreciation of the processes for setting and managing prices. At the end of this course, participants should be comfortable determining the value of the benefits that they are providing to the market and how to price to capture part of that value for their organizations.

COURSE FORMAT

This course uses the case method as the primary pedagogical tool to facilitate learning. The case method is a subset of the active learning approach, considered the most effective at ensuring long-term retention of concepts and the ability to effectively utilize those concepts by participants. Accordingly, for each session we will focus on developing solutions – both individually and collectively – for an actual business case.

For each of our meetings, we will have the following:

- Reading assignment
 - For each session, you are expected to read the assigned textbook readings. Be sure to read them *before* addressing the assigned case in any depth. The textbook readings and the cases are assigned in tandem to complement each other – although there is never a 1:1 relationship between them. (This isn't a math class.)
- Written assignment
 - Each week, each participant will submit a typed case write-up. These case write-ups must be submitted electronically on Zonecours before the beginning of class. Requiring individual case write-ups ensures you keep up with the readings and analyze the case on your own, which will maximize what you learn during our class sessions.
 - Late submissions will receive no more than 80% of credit and anything submitted 30 minutes after the start time of the class will receive a 0.
 - No write-ups will be accepted after the class has discussed the case.
No exceptions!
 - Given you are submitting *individual* case write-ups, I don't expect the depth or breadth of analysis that I would from group cases. We will discuss the parameters of case write-ups on the first day of class.
 - I am utilizing individual case write-ups *instead* of group projects because it ensures that each student keep up to date with the concepts presented in the textbook and take the time to read and analyze each case. This, in turn, enriches the classroom experience through lively and informed discussions relating to a common body of information. Also, session-based assignments avoid a common dysfunctional behavior in educational settings, such as cramming before an exam, which has to be the least effective way to actually *learn anything*. You're here to learn, not to take tests.
- Case discussion
 - Each week, the majority of classroom time will be spent discussing the case as a class. I will provide more guidance for the process on the first day of class.
 - Participation in our case discussions is a critical component of the class and represents 25% of your final grade. That being said, it is important to understand that *frequent* participation in class is not as important as the *quality* of participation. That is, you should strive to make effective use of discussion time in class, through thoughtful, timely, and constructive participation.
 - *I reserve the right to cold call on anyone during class discussions related to assigned readings or case material.*

EXPECTATIONS REGARDING CASE WRITE-UPS, CLASS DISCUSSIONS, AND EXAM

Each week, participants are expected to analyze each case *individually* and submit *individual case write-ups*, and then we will all discuss, analyze, and solve each case collectively in class.

The overwhelming majority of participants in prior classes have been surprised by how much they have learned using this approach.

Successfully using this learning model requires that participants imagine themselves as characters in the case and try to solve the case the best they can on their own. Then, when the entire class gets together to discuss the case, the discussion is very interesting and, typically, people see a lot more and learn a lot more about how to solve complex problems than they did on their own.

In order to make this approach work – which means ensuring YOU will learn the most out of the class that you possibly can – you should *only use data in the case and models/tools from the assigned readings (or other textbooks you have used in the MBA program)*. Participants should never try to “find out” what really happened or get outside data when analyzing the case. Once that happens, the mental process of learning how to solve a problem on your own is destroyed.

Hence, there are a few ground rules for analyzing and preparing cases that I have for this course:

- Participants must individually complete assignments,
- Participants should not seek an unfair advantage over other participants,
- Participants must truthfully represent fact and self at all times, and
- I must be able to trust that these rules are followed in order to grade assignments, grade exams and facilitate classroom discussion.

To ensure these goals and the goals of the class, participants are expected to:

- Work individually on each week’s case write-up;
- Not discuss cases or case questions with other students or people who could give them an unfair advantage before our class discussion;
- Not share any data, information or formatting for write-ups with other participants; and
- Abstain from seeking any information from outside the assigned case or MBA textbooks to when solving the case.

Any violation of these rules will be referred to the Director of the MBA Program.

GRADING/EVALUATION CRITERIA

Participants earn grades based on written assignments, classroom participation and a final examination at the end of the course. Submitting assignments late and arriving late to class will be tracked and negatively impact a participant's final grade.

Every session I will assess each participant's written assignment using the following scheme:

- High Pass (HP)
- Pass (P)
- Low Pass (LP)
- Unsatisfactory (U)

Every session I will assess class participation using the following scheme:

- High contribution (HC)
- Positive Contribution (PC)
- Low contribution (LC)
- Unsatisfactory contribution (UC)

These scoring schemes have multiple advantages:

- Simple ☺,
- Provide constant participant feedback without a false sense of accuracy,
- More descriptive than letter grades,
- Allows me to assign scores with lower risk of grade inflation or deflation across time,
- Allows me to assign session scores for writing and participation more efficiently and fairly, and
- Permits a more holistic assessment of your performance at the end of the period.

To calculate final grades – and to be able to enter your weekly performance into ZoneCours – I will convert assessments into points as follows:

ASSESSMENT CONVERSION CHART		
Written Assessment	Participation Assessment	Points
High Pass (HP)	High Contribution (HC)	10
Pass (P)	Positive Contribution (PC)	7.5
Low Pass (LP)	Low Contribution (LC)	5
Unsatisfactory (U)	Unsatisfactory Contribution (UC)	0

Course grades will be determined using: (1) the three highest written assignment scores (out of five); (2) the four highest classroom participation scores (out of five); and (3) your performance on the final examination.

Final grades will be assigned based on the following table:

	Number of Opportunities	Number included in Grade	Assessment	Final Grade Weight
Write-ups	5	3 Highest	HP/P/LP/U	25%
Participation	5	4 highest	HC/PC/LC/U	25%
Final Exam	1	1	0-100 points	50%

LEARNING MATERIAL

Nagle, Thomas T. and Georg Müller (2018), **The Strategy and Tactics of Pricing: A Guide to Growing More Profitably** (Sixth ed.). New York: Routledge.

LIST OF SESSIONS

SESSION 1: OVERVIEW AND INTRODUCTION

Overview of the class, explanation of case method (as used in this class), and an introduction to basic pricing concepts: Cost-Plus Pricing, Status Quo Pricing, Competitive Pricing and Value-in-Use Pricing.

Recommended Reading:

- Chapter 1 – Strategic Pricing in **The Strategy and Tactics of Pricing (STP)** by Thomas T. Nagle and Georg Müller (6th edition, 2018)

Case Assignment:

- Atlantic Computer: A Bundle of Pricing Options, by Neeraj Bharadwaj, John B. Gordon; HBSP Product Number 2078-PDF-ENG
 - READ through this case and be ready to discuss it in class. We will solve the case in teams and then present our solutions to each other during the second half of the session.

SESSION 2: USING ECONOMIC VALUE TO SET PRICES

Creating value for the market (and our partners) is the cornerstone of capitalism and the marketing concept. In this session, we will learn how to calculate the value that we provide through our value propositions and how to price to capture that value.

Recommended Reading:

- Chapter 2 – Economic Value in **STP**
- Chapter 3 – Price and Value Communication in **STP**

Case Assignment:

- Curled Metal Inc.--Engineered Products Division, by Benson P. Shapiro and Frank V. Cespedes; HBSP Product Number: 709434-PDF-ENG

SESSION 3: PRICE LEVELS AND COMPETITION

Customer and channel price expectations are a function not only of what we bring to the market, but also what our competitors offer. Competition for our value proposition is comprised of competitors' comparable offerings, offerings through alternative value chains/channels, and plausible substitutes, such as “doing nothing” on the part of the customer.

Recommended Reading:

- Chapter 6 – Price Level in **STP**
- Chapter 7 – Price Competition in **STP**
- Price Waterfalls, pages 284-6 in Chapter 11 – Creating Strategic Pricing Capability **STP**

Case Assignment:

- BioPure Corp., by John T. Gourville; HBSP Product Number: 598150-PDF-ENG

SESSION 4: PRICE STRUCTURES, FINANCIAL ANALYSIS AND REVENUE MANAGEMENT

Although you should NEVER start with costs to determine prices – never, ever – you do need to

ensure that your anticipated costs are lower than realizable prices to make a profit. In this session, you will learn about ways to structure prices for different target segments, as well as how to calculate anticipated returns using various pricing schemes and how to maximize your profit through cost and pricing tradeoffs. This session will use a case involving minor league baseball, to understand how to manage prices with a relatively fixed set of costs – similar to many service contexts, such as performances, telecommunications, travel, etc.

Recommended Reading:

- Chapter 4 – Price Structure in **STP**
- Chapter 9 – Financial Analysis in **STP**

Case Assignment:

- The Springfield Nor'easters: Maximizing Revenues in the Minor Leagues, by Frank V. Cespedes, Laura Winig, Christopher H. Lovelock; HBSP Product Number: 2510-PDF-ENG

SESSION 5: PRICING SENSITIVITY AND TRADEOFFS

In this session, you will learn methods to determine price sensitivity and tradeoffs. The goal in this session is to become aware and familiar with the various tools at your disposal to determine optimal prices based on anticipated market reactions to those prices.

Recommended Reading:

- Chapter 8 – Measurement of Price Sensitivity in **STP**

Case Assignment:

- MSA: The Software Company--Planning the AMAPs Product Line, by Robert J. Dolan; HBSP Product Number: 590069-PDF-ENG

SESSION 6: PRICING POLICIES AND PROMOTIONAL PRICING

In our last session, we will discuss how to manage pricing over time and in partnership with the various channels that make up the value chain, including salespeople and third-party channels.

Recommended Reading:

- Chapter 5 – Pricing Policy in **STP**
- Chapter 12 – Ethics and the Law in **STP**

Case Assignment:

- Culinarian Cookware: Pondering Price Promotion, by John A. Quelch, Heather Beckham, HBSP Product Number: 4057-PDF-ENG