

1231.3412.01 – Pricing Policies

Semester A – 2014/2015

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Registering to the course: only students who have fulfilled the required prerequisites for the course, as defined in the faculty site, are eligible to be registered to the course. It is the students responsibility to check for such eligibility. Not being eligible may result in an automatic cancellation of the registration to the course some weeks into the semester. Please verify your eligibility for the course before registering.

Course Description and Objectives:

**“Pricing is the moment of truth –
all of marketing strategy comes
to focus on the pricing decision”**

**- Prof. Raymond Corey
Harvard Business School**

Price is indeed of a unique nature among the Marketing-Mix elements. Pricing is one of the least understood and most controversial aspects of managerial decision making.

In this course we survey popular pricing practices, explore their pitfalls, and identify the fallacies they are based on. We then set the economic and the psychological foundations for effective proactive pricing decisions. After considering and incorporating the cost and the competition factors of the pricing process, we turn to profitable pricing strategies and tactics including perceived-value pricing, segmented pricing, bundling, dynamic pricing, price competition.

The course framework starts with a set of commonly received three questions that most companies seem to employ when they decide on setting prices. After analyzing these questions shortcomings, the course develops approaches and tools that enable to overcome the limitations imposed by these questions. It ends with an integrative framework for making profitable pricing decisions and an alternative proposed set of strategic questions that should guide pricing decisions.

While the course incorporates issues and subjects from Economics, Game-Theory, Managerial Accounting, Behavioral Decision Theory, and more, it is decidedly a Marketing course in nature – Indeed it argues that Marketing should be the Price setter and the Pricing Manager in the corporation. However, as Marketing is too important to be left to the Marketing people alone - so is Pricing. Even if you do not plan to be involved in Pricing, or even in Marketing decisions, you would surely be exposed to your vendors' pricing conduct – this course may help you to understand it and to be able to respond more effectively.

The course objectives are:

1. To introduce the role of Pricing in the Marketing-Mix and its importance to the business strategy of the corporation.
2. To develop and enhance the student's ability to design and implement profitable pricing decisions by:
 - a. Providing the student with the knowledge and the understanding of the terms, concepts, approaches, problems, and tools required for the successful analysis, planning, implementation, and control of Pricing Strategies and Tactics.
 - b. Exercising these processes and tools via analyses and presentations of Pricing decisions, situations, and case studies.

Teaching/Studying Format:

Lectures, Discussions, Background readings, Role-Playing (Mini-Game), Case Analyses, and Exercises

Course Materials:

Copies of Lectures Slides, and Exercises – in the Course Site
A set of Articles – in the Course Site (in <http://moodle.tau.ac.il>)
A set of Case-studies - to be purchased from “Sifrut Zola”

Course Assignments and Grading

The faculty mandates setting a range of 83 – 87 on the average of the course grades for elective courses such as this one.

Group assignments:

- Case Study 1 20%
- Case Study 2 30%
- Case Study 3 30%

Individual assignments

- Price change impact exercise 20%

Total 100%

COURSE OUTLINE

Week # Class #	Subjects	Assignments
Week 1 1.	<u>Introduction and Overview</u> <ul style="list-style-type: none">- The uniqueness of Price in the Marketing Mix- Factors and Influences- The three Commonly used Questions when setting prices	Skim: "Prices: How They Get Set" Read: <i>Nagle & Hogan</i> : "The Quest for Market Share"
2.	<u>Economic Foundations in Pricing</u> <ul style="list-style-type: none">- Elasticity and Price Differentiation	Read: <i>Nagle</i> : "Economic Foundations of Pricing"
Week 2 3.	<u>The Role of Costs in Pricing</u> <ul style="list-style-type: none">- The problems of Cost based Pricing- Cost Accounting for Pricing	Read: <i>Cooper</i> : "Does Your Company Need a New Cost System?" <i>Cooper & Kaplan</i> : "Measuring Costs Right" <i>Lewis</i> : "Activity-Based Costing for Marketing" Prepare for preliminary discussion: Case 1:

4.	<ul style="list-style-type: none"> - Costing for Pricing: Calculations and Uses 	<p>Prepare: Price Elasticity Computations and Linear Demand Analysis</p> <p>Read: <i>Smith & Nagle</i> : “Financial Analysis for Profit-Driven Pricing” <i>Smith</i> : "Leveraging profitability in low-margin markets"</p>
Week 3 5.	<p><u>Psychological Foundations in Pricing</u></p> <ul style="list-style-type: none"> - Price Sensitivity Factors 	<p>Read: <i>Dickson & Sawyer</i> : “The Price Knowledge and Search of Supermarket Shoppers” <i>Capon & Kuhn</i> : “Can Consumer Calculate Best Buys?”</p>
6.	<p><u>Behavioral Decision Theory</u></p> <p><u>Case Analysis discussion:</u> CASE 1:</p>	<p>Read: "Note on Behavioral Pricing" <i>Thaler</i> : “Mental Accounting and Consumer Choice” <i>Diller</i> : "Price Fairness"</p> <p>Prepare and Submit (in groups): Case-Study Report and discussion of CASE 1:</p>
Week # Class # #	Subjects	Assignments
Week 4 7.	<p><u>Perceived Value to the Customer</u></p> <ul style="list-style-type: none"> - Calculating Economic Value to the Customer 	<p>Read: "Delivering Value to Customers" <i>Forbis & Mehta</i> : “Value Based Strategies for Industrial Products”</p> <p>Prepare for preliminary discussion: CASE 2:</p>
8.	<p><u>Conjoint Analysis"</u></p> <ul style="list-style-type: none"> - Preferences Measurement for Product and Pricing Design 	<p>Read: <i>Hogan & Nagle</i> : "The Use of Conjoint Analysis To Supplement Pricing Decisions" <i>Dolan</i>: "Conjoint Analysis: A Manager's Guide"</p>

<p>Week 5 9. – 10.</p>	<p><u>Segmented Pricing</u></p> <ul style="list-style-type: none"> - Existence and Problems of Unintentional Price Differentiation - Managed Price Differentiation 	<p>Read: <i>Hogan & Nagle:</i>"Segmented Pricing – Using Price Fences" <i>Bright et. al. :</i> "Profiting from Proliferation"</p> <p>Prepare and Submit (in group); Case-Study Report and discussion of CASE 2: :</p>
<p>Week 6 11.– 12.</p>	<p><u>Pricing on the Net</u></p> <ul style="list-style-type: none"> - Dynamic Pricing - Real-Time, Online Pricing 	<p>Read: <i>Sahay :</i> "How to Reap Higher Profits With Dynamic Pricing" <i>Baye et. al. :</i> " A Dashboard for Online Pricing"</p> <p>Prepare for preliminary discussion: CASE 3:</p>
<p>Week 7 13.</p>	<p><u>Competition in Pricing</u></p> <ul style="list-style-type: none"> - a mini-game in class Games and Consequences 	<p>Read: <i>Garda & Marn :</i> "Price Wars" <i>Rao et al. :</i> "How to fight Price War"</p> <p>Prepare and Submit (in group); Case-Study Report and discussion of CASE 3:</p>
<p>14.</p>	<p><u>A Framework for Effective Pricing</u></p> <ul style="list-style-type: none"> - Data Collection, Analysis, Strategy Design - Strategic Questions to Guide Pricing 	<p>Read: <i>Dolan :</i> "How Do You Know When the Price Is Right ?" <i>Nagle & Hogan :</i> "What is Strategic Pricing" <i>Baker et. al. :</i> "Building a better pricing infrastructure" <i>Hogan :</i> "Building a World-Class Pricing Capability:</p>

**Prepare (individually) and Submit (individually)
"Price Change Impact exercise"**