

## Course Syllabus and Schedule

<i>Instructor:</i>	Professor Teck H. Ho Email: hoteck@haas.berkeley.edu
<i>Coordinator:</i>	Amber Zambelli, Tel (510) 642-8332
<i>Office Hours:</i>	Tuesday 3:00-5:00 p.m. (Class Hours, MW 11:00–12:30 p.m.)
<i>Required Text:</i>	The Strategy and Tactics of Pricing: A Guide to Growing More Profitably (5 <sup>th</sup> Ed.) by Thomas Nagle, John Hogan and and Joseph Zale
<i>Individual Assignment:</i>	Due on <b>March 4, 2015</b>
<i>Group Project:</i>	Due on <b>May 6, 2015</b>

## Overview and Objectives

Pricing is one of the most important and least understood marketing decisions. This course aims to equip participants with proven concepts, techniques, and frameworks for assessing and formulating pricing strategies. We will learn the process of making pricing decisions and explore innovative approaches for setting prices.

This course consists of three modules. The first module develops the economic and behavioral foundations of pricing. The second module discusses several innovative pricing concepts including price customization, nonlinear pricing, price matching, and product line pricing. The third module analyzes the strengths and weaknesses of several internet-based, buyer-determined pricing models including those of [www.priceline.com](http://www.priceline.com), [www.ebay.com](http://www.ebay.com), and [www.google.com](http://www.google.com). We will also discuss strategies for migrating revenue models.

Upon completion of this course, participants will

- Gain a solid understanding of current pricing practices in both manufacturing and service industries
- Learn state-of-the-art frameworks for analyzing pricing decisions
- Master strategies for revenue model migration and growing more profitability

## Course Materials and Approach

In the course we will use the classic textbook by Nagle and Hogan, a variety of readings, and cases. The most important readings and the complete list of cases are contained in the course bulkpack. In addition, lecture notes and handouts will be made available throughout the semester. The textbook and the readings are designed to introduce basic concepts and principles. Cases will allow us to examine, in detail, the application of particular concepts and principles in real company settings. We will sometimes make visits to websites to conduct a “quick survey” of actual prices charged by firms. There will also be four computer simulation exercises that will allow you to play the role of a pricing manager and apply some of the tools you learned in class.

## Assessment

Your final grade in the course will be based on both individual and group work. The evaluation is as follows:

A. Class Participation (individual)	15%
B. Individual Case Write-up	15%
C. Group Assignment (Project)	30%
D. Take-Home Final Exam	40%

Please note that no late assignments will be accepted. All written work is due at the beginning of class on the due date. The due dates for the assignments are listed on the course schedule. A more detailed outline of the evaluation procedures and requirements is included at the end of this document. Please refer to this detailed section before preparing for the first class.

## Schedule of Class Meetings

In many instances we will not lecture from the assigned readings, but will assume that you have prepared the relevant material prior to coming to class. Nevertheless, we will discuss issues related to assigned material during the class and there will be opportunities for clarification.

Dates in red and bold underlined type (e.g., **February 11**) indicate classes for which there will be material to hand in at the beginning of the class.

<i>Date</i>	<i>Topic, Readings, Cases</i>	<i>Book Chapters (5<sup>th</sup> ed.)</i>
-------------	-------------------------------	---

**MODULE I: ECONOMIC AND BEHAVIORAL FOUNDATIONS OF PRICING**

January 21	<u>Overview and Introduction</u> READING: * “Precision Pricing for Profit in the New World Order” HBS	1
January 26	<u>Customers: Understanding and Influencing Purchase Decision</u> READING: * “Principles of Pricing” HBS	2/6
January 28	Costs: How Should They Affect Prices	9/10
<b>February 2</b>	<b><u>Competition: Pricing Simulation I</u></b> <b>Computer Lab</b> Experimental Simulation: <a href="http://www.mba269.com/ps/">http://www.mba269.com/ps/</a> READING: * “How to Fight a Price War” HBR	
February 4	<u>Competition-Driven Pricing</u>	11
February 9	<u>Psychology of Pricing</u> CASE: Cumberland Industries (HBS 9-580-104) READING: * “Note on Behavioral Pricing”	4
<b>February 11</b>	<u>Measuring Price Response Function</u> <b>(Due: List of Group Members &amp; Project Definition)</b>	12
February 16	President’s Day – NO CLASS	

**MODULE II: INNOVATIVE PRICING CONCEPTS AND TOOLS**

February 18	<u>Price Customization: Segmentation Pricing</u>	3
February 23	<u>Price Line Pricing</u> READING: * “How do you know when the price is right?” HBR	

February 25	<u>Software Versioning</u> CASE: Cambridge Software (HBS 9-191-072)	
<b>March 2</b>	<b><u>Price Matching: Pricing Simulation II</u></b> <b>Computer Lab</b> CASE: Tweeter etc. (HBS 9-597-028)	
<b>March 4</b>	<u>Product Line Pricing / Bundling</u> CASE: Biopure (HBS 9-598-150) <b>(Due: Individual Case Write-up)</b>	3
March 9	Price Negotiation Exercise	5
March 11	<u>Mid-semester Review</u> <u>Competitive Bidding</u> CASE: Computron (HBS 9-597-063) * “Case for Discount Discipline”, HBS	
March 16	Pricing and Customer Value Analysis	
<b>March 18</b>	<b>Justin Murphy</b> <b>Partner</b> <b>Bain &amp; Company, Inc.</b>	
<b>March 30</b>	<b><u>B2B Pricing Contract Design: Pricing Simulation III</u></b> <b>Computer Lab</b>	
April 1	Nonlinear Pricing	
April 6	<u>Ethical Aspects of Pricing</u> CASE: Burroughs Wellcome and AZT(A) (HBS 9-792-004) “Retail Promotional Pricing..” HBS	13
<b>MODULE III: INTERNET PRICING MODEL</b>		
April 8	<u>Internet-Based Pricing Models</u> READING: * “Pricing and Market Making on the Internet” HBR	
April 13	<u>Pricing of Services: Revenue Model Design</u> CASE: <a href="http://www.freemarkets.com">www.freemarkets.com</a> (HBS 9-598-109)	

- April 15**      **Wayne Ting**  
**GM**  
**Uber at SF**
- April 20**      **Dynamic Pricing I: Pricing Simulation IV**  
**Computer Lab**  
Experimental Simulation: <http://www.mba269.com/regular/>
- April 22      **Dynamic Pricing II: Auction Principles / eBay Revenue Model**  
READING:  
\* “Auctions on the Internet” JIE
- April 27      **Dynamic Pricing III: Auction Formats and Design**  
READING:  
\* “Using Field Experiments to Test Equivalence.” AER
- April 29      **Main Takeaways / Practice Exam Questions**
- May 4      **Project Presentation I**
- May 6**      **Project Presentation II**  
**(Due: Group Project Report)**

I look forward to meeting you all on the first day of class. In the meantime, please feel free to contact me if you have any questions regarding the course.

## Assessment Details

### A. Class Participation/Preparation (15%)

Every session of the course will involve interaction in the form of class discussion. We expect each class member to be prepared at all times to comment in any class session. To reinforce this expectation, we will “cold call” throughout the ensuing discussion (whether or not the class member’s hand is raised).

Some class sessions in this course follow a case discussion format. The case method is not always an efficient learning vehicle, but it is one of the most effective means of sharpening your decision-making abilities, requiring you to be an active participant in resolving a marketing problem. Further, the case method provides a vehicle by which to apply the theories and concepts discussed in a class or in the reading materials. Finally, the discussion forum provides an opportunity to argue your position and to learn from others by listening to their comments and criticisms.

As part of your preparation for class, we ask that you form discussion groups to prepare the assigned case studies. The purpose of these groups is to assist each participant in developing his or her understanding of the issues and topics raised in the cases. The discussion group is a useful and informal forum in which to test your ideas. Further, your discussion group should also be the same group you work with on the group project, thus allowing you to build your problem solving skills as a group as the quarter progresses.

We expect class members to select their own project groups and to be responsible for managing the division of labor within the group. Experience indicates that the best group size is four persons; groups larger or smaller than this are strongly discouraged. ***Please submit a typewritten list of the persons comprising your group to me at the beginning of the seventh session (February 11).***

Evaluating class participation. Grading class participation is necessarily subjective. Some of the criteria for evaluating effective class participation include:

1. Is the participant prepared? Do comments show evidence of analysis of the case? Do comments add to our understanding of the situation? Does the participant go beyond simple repetition of case facts without analysis and conclusions? Do comments show an understanding of theories, concepts presented in class lectures or reading materials?
2. Is the participant a good listener? Are the points made relevant to the discussion? Are they linked to the comments of others? Is the participant willing to interact with other class members?

3. Is the participant an effective communicator? Are concepts presented in a concise and convincing fashion?

Keep in mind that your grade for class participation is not simply a function of the amount of "air time" you take up. In general, we will evaluate you on how well you respond to questions and on how effectively you take into account the comments and analyses of your classmates. In order to obtain a grade for class participation you must attend the class sessions.

*Case preparation.* In preparing for cases prior to class, we recommend that you read the case more than once. Many people like to underline or otherwise mark up their cases to pick out important points relating to the business and the situation; e.g., customer behavior and trends, marketing decision problem, business models used, etc. Be sure to pay attention to the exhibits in the case; these often contain information that will be useful in analyzing the situation.

#### B. Individual Assignments (15%)

The assignment must be completed on your own and it is due on **March 4**. There is a strict upper limit of **seven** double-spaced pages of text (assuming 12-point font size and one inch margins) and three pages of exhibits. If you submit a lengthier write-up, it will likely be counted against you. Keep in mind that exhibits should not be used simply as an extension of textual material (furthermore, they should be tied to the report write-up in some meaningful way). The assignment involves an analysis of Biopure case.

In preparing your write-up, I suggest you consider the following questions:

1. How do you assess Biopure's potential in the human market? The animal market?
2. How might Oxyglobin be a threat to Hemopure? How might it be an asset to Hemopure?
3. What should Biopure do regarding the commercial release of Oxyglobin? If they release, what price should they set? How should it be distributed?

Some general guidelines for preparing an effective write-up are:

1. Provide a coherent, well-organized analysis, not simply a set of notes pieced together from sections written by different people. Redraft and proofread the report.
2. Be concise. Keep the Problem and Recommendations sections short, and provide a strong, logical flow in the Analysis section. Above all, do not spend time rehashing or paraphrasing the details of the case.

3. Focus your specific recommendations on the important issues in the case. Make your assumptions explicit whenever necessary.
4. Recommendations should be practical, cost-effective, and appropriate to the timing (short-term or long-term) of the problem at hand. The supporting analysis should be thorough, carried out correctly, and should draw whenever relevant on material presented in class or assigned in readings.
5. Tie your exhibits (if any) to the text of the report.

The cases will be graded and returned during the term, in order to provide you with some mid-term indication of your progress and to give you some feedback that might prove useful in preparing for your final exam.

### C. Group Project (30%)

The group project will give you an opportunity to survey prices of a product category and collect relevant customer and competitive information to help determine optimal prices for a firm competing in the category. Details will be provided in class. Since the group project will involve a considerable amount of time and effort, it is vitally important that you work on a project that you find interesting. Evening MBA students should consider their own company pricing problems as possible group projects.

On **February 11**, you will be expected to turn in a one-page project definition of your topic, which will be the focus of your study. In the one-page summary, you should clearly identify the pricing problem you are working on, make a case for its importance, and translate this problem into a set of clear deliverables which you will provide in your final report.

All teams should prepare and make their final project presentation (in PowerPoint) in the last week of class. On **May 6**, the final report will be due. The report should be no longer than twenty double-spaced pages in total.

### D. Take-Home Exam (40%)

A take-home exam will be used to test your understanding of the key concepts taught in the class. The exam must be completed individually.