Pricing Strategies

MKTG-GB.2353.00
Fall 2013

Professor: Joachim (Joe) Eberhardt
Class Times: Sat. 9:00AM-12:00 Noon
Class Location: K-MEC4-80
Office: Tisch Hall, room 904
Office Hours: After class and by appointment
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Course Description:

Pricing is not a choice an organization can make; every company has to price its products and services - even commodities and firms that operate in a regulated and price controlled environment. Pricing is the only element of the marketing mix that represents revenue to the firm. The other marketing instruments typically drive cost in the process of creating customer value, which is being recaptured through effective pricing. In today's dramatically more complex and rapidly changing environment of globalized economies, unlimited consumer choice and explosive technology innovation, pricing strategies and tactics are essential determinants of the competitive position, success and ultimately profitability of an organization.

Pricing and yield management is one of the most important, however often least understood and developed marketing decisions. Organizations and marketing professionals today face many challenges in optimizing pricing strategies, processes and tactics. Straight-forward, simplistic, often cost-based or rule-of-thumb pricing methods are no longer sufficient and need to be replaced with sophisticated, dynamic and evolving pricing tools and processes.

Goals and objectives:

Pricing involves the understanding of both the supply (e.g. cost) and demand (e.g. customer value) side of the value creation process. This pricing strategy course provides a comprehensive examination and discussion of relevant theories, models, concepts, mechanisms as well as the role of technological innovation. The theoretical framework will be enhanced with practical applications, examples and case studies in all relevant areas. Two simulation exercises will further illustrate pricing decisions in various circumstances. The course
will integrate strategic, economic, marketing, psychological, legal and ethical principles and considerations and enable the student to maximize profitability through application of relevant techniques.

1. Basic Pricing Frameworks
You will be provided with a basic overview of the demand and cost functions applicable to pricing analysis, including demand, elasticity and revenue functions. We will discuss customer value theories, economic price optimization as well as the basic principles of pricing strategies.

2. Pricing strategies, policies and tactics
We will discuss the various aspects of setting price levels, implementation of pricing policies and structures and optimizing pricing strategies. Price customization, segment pricing, bundling, portfolio and product line and life-cycle pricing are some of the concepts covered. You will learn the concepts of customer life-time value, non-linear and dynamic pricing. We will discuss the role of promotions and incentives to achieve pricing objectives.

3. The psychology, measurement and communication of pricing
Pricing strategies and measures are not designed in a vacuum, and their effectiveness is largely dependent on a deep understanding of consumer motivation and behavior. It is essential to measure and anticipate consumer response to pricing actions, which to a large degree depend on the effectiveness of pricing communication.

4. Pricing challenges/opportunities in particular industries and market characteristics
In this section, we will discuss industry and market specific challenges and solutions. Examples include peak load pricing, pricing in two-sided markets and markets with externalities as well as pricing for services.

5. Pricing innovation
Technology and the ability to manage large amounts of data have enabled innovation in pricing models, and in many instances shifted the pricing power away from sellers to buyers. Examples discussed will include various auction models, bid structures, dynamic yield and revenue management tools and price optimization software.

6. Managerial concerns and organizational requirements
Effective pricing requires a formalized process and an understanding and anticipation of competitive response mechanisms. Organizations that embrace and excel at pricing have instituted skilled pricing organizations and pricing processes. Lastly, we will cover ethical and legal considerations that are important in making pricing decisions.

Class Policies and Requirements:
Course components will include case analysis (2 written assignments), a team pricing project and team presentation of a pricing curiosity. Throughout the course you will individually compete in a pricing simulation (Universal rental car) and we will use the MIT salt commodity pricing simulation in which study
groups will compete. In the Universal rental car simulation, you will have the opportunity to complete the simulation multiple times under changing circumstances and we will compare the rankings at multiple points. At the end of the simulations you are to submit a graded report that describes your actions, results and the overall learning.

The individual course components carry the following weight in determining your final grade:

- Class Preparation and Participation (incl. 2 written cases): 40%
- Team Pricing Project and Pricing “Curiosity”: 40%
- Individual Write up of Pricing Simulation Learnings: 20%

There are no written exams in this course. It will be up to you to learn the pricing strategy concepts and terminology explained in lectures and reading (including the Nagle/Hogan/Zale text), and to apply them persuasively in class discussion, your team projects and case analysis documents.

**How to Get the Most Out of This Course**

**Stay up with the reading**

The Nagle/Hogan/Zale text, cases and assigned reading are rich with information and insights that you will be able to use in your pricing work.

**Anticipate the Case analysis, assignments and reports**

As you will see from the course outline, I ask that you complete some informal pre-class assignments that are intended to facilitate in-class discussion. You need to be prepared to discuss the required cases (and hand in your choice of two written cases), and submit projects and reports on time. It is critical that you anticipate the work that will be needed to complete those assignments with quality deliverables. You are expected to integrate the lecture/discussion issues and key points from the text into your written case analysis, pricing team presentations and individual report on your experiences with the pricing simulations.

**Work productively in your teams**

**Participate energetically in class discussions and follow the few rules that there are**

This class is designed to be interactive so that all students can demonstrate their grasp of the material presented. To facilitate participation, name cards need to be used throughout the semester and please try to stay in the same seat. In order to be able to participate in class discussions, attendance is mandatory. Attendance will be taken at the beginning of each class. If for any reason you cannot attend a class session, please let me know in advance. You can miss one class per term without impact on your grade. Missing two or more classes can adversely affect your class participation grade.

Class participation is evaluated on the quality of your participation and its contribution to improving the learning experience of the class. Note that quality is not necessarily a function of quantity. Quality of
participation is assessed according to preparation, argument strength, and the extent to which the entire class benefited from your comments.

Laptop computers, smart phones, PDAs and anything I- are welcome in class for the purpose of taking notes, but not for surfing or entertainment purposes unless specifically instructed to do so. Please turn off all cell phones, pagers, and laptop or PDA alarms at all times during the class period.

**Case Analysis/Preparation**

This course will use numerous cases to help you to enhance your critical thinking and decision-making ability within actual business situations. You are expected to choose 2 cases from the syllabus for written analysis. For the other cases please be prepared to participate in the class discussion. Case analyses are individual assignments and should be worked on independently. The written analysis should consist of:

- Brief overview of the company’s key issues (no more than 1 page)
- Brief identification and description of the competitor brands in the marketplace (if applicable)
- A half-page response to each question asked for each case selected.
- A case recommendation (when asked) should be treated as a formal proposal submitted to management.

When writing a case analysis, consider the following points:

- You may use the shorter “bullet” point form for part of your answer. However, the point must be argued in its entirety and brought to understandable conclusion.
- Do not simply restate data from the case. Management is already familiar with the business and case facts!

All written assignments should be turned in on NYU Classes, the Friday before the class on the Saturday they will be discussed. Grades will be posted on NYU Classes.

**Please choose and hand in two written case assignments!**

I may call on some of you to help introduce a case discussion. Please be ready with your recommendations. Your performance on the case lead-off will be included in the class participation component of your course grade. In order to prepare for an effective discussion, each case should be reviewed with particular attention paid to the facts of the overarching pricing situation, the decisions faced by the company’s management, and the viable options open to them in order to achieve their marketing/business goals. We will be searching for the best options for the company, not necessarily a single “right” answer.

**Team project Presentations:**

Beyond class participation, two other elements will be used to determine final grades:

**Pricing Strategy project**
This project is a central component of the course and is to be undertaken by a team of six to eight students for an organization of the students’ choice (with approval of the instructor). We should target a total of 8 teams/projects for the class. Ideally you are looking for a situation that has a set of strategic pricing challenges or opportunities.

Each team is required to select an entire industry, a firm, or a BU within a company and analyze and assess either the pricing strategy or policies in more generic terms or take a deeper dive look at specific pricing decisions that were implemented in the past or are currently being considered. It would be ideal to have access to the pricing team and/or executive management at the chosen organization so as to enrich the background and available data and propose suggested solutions for the benefit of the company. However, realizing that it might be difficult and not in all cases practical to accomplish, teams are encouraged to be creative in their data collection and analysis. Please use all available sources (analyst reports, market research studies, expert interviews, etc.) to assemble qualitative and quantitative data as basis for your discussion and recommendations.

There are many pricing situations and challenges/opportunities that can make for interesting analysis and strategic recommendations. Here are some ideas to start your team brainstorming session:

- Industry wide pricing change and innovation
- Pricing strategies of an industry or segment leader
- Product life-cycle pricing with rapidly shortening product or category life
- Segment specific or segmented pricing approach
- Pricing decisions for a new product or category launch
- Managing pricing process in a multi-channel distribution system
- Use of Price optimization systems and software solutions
- Competitive response to aggressive price level, policy or structure changes

The key is to decide on a topic that will allow your team to demonstrate the understanding and application of theoretical pricing concepts to real world situations and challenges and recommend courses of actions and solutions that are based on solid data analysis and insightful observations.

**Report Outline**

The following provides a rough outline of the report:

- Description of industry/company and current pricing environment
- Definition of pricing challenge/opportunity
- Recommended course of action or strategic insight
- Projected_MODELED results of recommendation

While potentially difficult depending on the topic/industry selected, it is preferable to have your recommendations supported with financial analyses and that you can quantify the impact of your recommendations on the bottom-line of the organization. Please remember that effective pricing decisions should always lead to a more profitable enterprise.
Schedule for material submission

October 19th: Please submit a note outlining:
- The group members
- The industry/company selected
- The pricing scenario/question to be focused on

November 2nd: Please submit a first outline/draft of the industry/company analysis and major pricing strategy issues.

Day of final presentation: Please submit a hardcopy of your team’s final presentation deck with detailed speaking notes and back-up material. Format is fairly flexible, but you should plan for approx. 20-25 minutes presentation and 10-15 minutes Q&A.

With the exception of the final presentation, all assignments should be submitted on NYU classes before class.

Pricing curiosity/phenomenon

Each group will be required to present a pricing phenomenon or curiosity towards the middle of the course. Ideally your group will select a topic that you came across in your studies, business experience or just plain daily life that you cannot fully explain or understand with the concepts and theories discussed in class and that you think might make an interesting topic of discussion for your classmates and the instructor. Plan on a 5 minute presentation in class (material submitted to NYU classes), followed by a short Q&A.

Simulations

As mentioned earlier, we will be using two simulations throughout the course. The first one, Universal rental car is a HBR simulation that you will play over the entire period with various changing external scenarios. You will receive instructions a couple of days prior to the first class so that you can prepare appropriately. The second simulation is a MIT case that focuses on the pricing of salt as a commodity. I will set it up so that you can play the first rounds against your colleagues from your project group. After this “practice-round” you will then compete as a group against the other groups in competitive round that we will play in class.

Hand-in Final

Based on the experiences gained and the learnings from the two simulations (especially the Universal rental simulation) you are tasked with producing a report (10-15 pages), that summarizes what you have learned, what pricing strategies you implemented and –actions you took and what the observed results were. You need to demonstrate the use of applicable concepts and theories throughout the report and should focus on for example:
- Overall strategic considerations
- Market demand and customer response functions
- Impact of cost structures
- Impact of general market conditions
- Capacity management/adjustments
• Competitive price moves

It is not necessarily important that you follow this particular structure, but rather communicate convincingly that you have fully understood and embraced the entire spectrum of pricing related issues and decisions

**Required Text:**

**The Strategy and Tactics of Pricing (STP) —** A guide to growing more profitably

**Harvard Business cases:** [http://cb.hbsp.harvard.edu/cbmp/access/22168302](http://cb.hbsp.harvard.edu/cbmp/access/22168302)

Please register with the site and purchase the assigned material.

Other assigned readings are contained in the detailed course outline or will be posted on NYU Classes.

Suggested supplementary reading (not required, but helpful for those interested in pursuing pricing strategies and management):


**Detailed Course Outline**

Below please find the current status of the topics to be covered in each class, the required reading, case and pre-class assignments. This schedule may change slightly throughout the semester so please be sure to check back for updates on NYU Classes.

<table>
<thead>
<tr>
<th>Date</th>
<th>Discussion Topics</th>
<th>Required Reading</th>
<th>Cases</th>
<th>Pre-class assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/28/2013</td>
<td>Course Introduction</td>
<td>STP Chapters 1-3</td>
<td><a href="http://www.economist.com/node/17586371">The Economist 03/23/2002: The price is wrong MIT Sloan Mgmt. review 06/19/2012: Is it time to rethink your pricing strategy?</a> <a href="http://www.businessweek.com/news/2012-07-26/jc-penny-is-switching-away-from-the-low-price-approach.html">FT 05/07/12 New pricing scheme backfires BusinessWeek 07/26/12: J.C. Penney Switches</a></td>
<td>Think of a situation similar to J.C. Penney’s two recent changes in pricing strategy and debate the success of the change. Why did the change in strategy succeed/fail? Think of a product/brand that is purely defined by its price and try to describe the pricing approach</td>
</tr>
<tr>
<td>Date</td>
<td>Title</td>
<td>References</td>
<td>Notes</td>
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| 10/05/2013 | Setting price levels  
• Setting price boundaries  
• Establishing the initial price  
• Price/Volume trade-off, price elasticity  
• Customer driven pricing | STP Chapter 6  
Atlantic Computer (HBR) | Describe the pricing strategy for a recently launched product that succeeded and one that failed and describe the reasons for the different results |
| 10/12/2013 | Managing price variance  
• Pricing policy development  
• Price segmentation  
• Price promotions  
• Discount management  
• Product life cycle pricing | STP chapter 5, 7  
HBR 01/2011  
Mohammed, Ditch  
the discount  
McKinsey Quarterly  
10/10: Do you have a long term pricing strategy?  
Marlboro Friday (HBR) | Identify a situation where a company or an entire industry went from a single price to a segmented pricing approach and think about applicability of this particular approach for other industries |
| 10/19/2013 | Establishing price structures  
• Price-offer configuration  
• Multipart price structures  
• Price fences  
• Bundling, versioning  
• Subscriptions  
• Customer Lifetime value  
• Yield management | STP chapter 3  
Virgin Mobile (HBR) | Think of a situation where price fences were used very effectively. What was the mechanism used and why did it work? Describe a recent purchase situation where the offer configuration was what motivated you to buy |
| 10/26/2013 | Financial aspects of pricing decisions  
• Costs  
• Financial analysis | STP Chapter 9, 10 | Conduct a quick study on what cost system is used in your organization and how it is linked to your company’s pricing strategy |
| 11/02/2013 | The psychology of pricing  
• Perceptual challenges  
• Prospect theory  
• Price and value communication  
• Measurement of price sensitivity | STP Chapter 4, 12  
HBR : Gourville, Note on Behavioral Pricing  
NYT 07/17/2011: At Stores, Making $5 for $5 a bigger Draw than 1 for $1  
Fast Company 03/27/12: The Psychology behind the sweet spots of pricing | Describe a pricing measure that you think used psychological pricing in a very unexpected and successful way (surprise us, please do not use the 99 cent example 😁) |
| 11/09/2013 | Team presentations of pricing phenomena  
Guest speaker: Bernhard Glaser, VP Marketing, Mercedes-Benz USA – Pricing in the Luxury car market | | |
| 11/16/2013 | Challenges/opportunities in particular industries/market environments  
• Pricing commodities/utilities  
• Pricing network services | Intelligently  
08/05, 2012: Dynamic pricing: the facts are in I, II  
PayPal Merchant Services (HBR) | |

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to two-tier-pricing  
04/09/13  
J.C.Penney: Was Ron Johnson’s Strategy Wrong?  
Forbes
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<tr>
<th>Date</th>
<th>Topic</th>
<th>Source/Description</th>
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<tr>
<td>11/23/2013</td>
<td>Pricing Innovations</td>
<td>HBR article: Bryce, Dyer, Hatch Competing with free BusinessWeek 05/20/2020: Pricing Baseball Tickets like airline seats The Economist 06/30/2012: Caveat emptor.com How deep are your pockets? Netflix (HBR)</td>
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<tr>
<td>12/07/2013</td>
<td>Managerial Concerns and organizational requirements</td>
<td>STP, chapters 8,11,13 McKinsey Quarterly 08/10: Building a better pricing infrastructure McKinsey Quarterly 08/93: Price Wars Reuters 07/09/2012: How plane giants descended into global &quot;price war&quot; Coca-Cola’s New vending machine (HBR)</td>
</tr>
<tr>
<td>12/14/2013</td>
<td>Final Pricing Project Presentations</td>
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<tr>
<td>12/21/2013</td>
<td>Final Pricing Project Presentations</td>
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**Bio Joachim (Joe) Eberhardt**

Joe is an Adjunct Professor at The Stern School of Business (NYU) where he teaches brand strategy and pricing strategies to MBA students.

He is currently the owner and President of Oxnard European Motors LLC (Mercedes-Benz and smart dealership), the CEO of LiveTechnology Holdings, a Senior Advisor to The Boston Consulting Group and adviser/consultant to a number of companies in Europe and the US. He is the former SVP and global CMO of LexisNexis (a division of Reed Elsevier plc). Prior to joining LexisNexis, he enjoyed a 25+ year automotive career, culminating as Executive Vice President of Global Sales, Marketing and Service for Chrysler. Until June of 2003 he was President and CEO of DaimlerChrysler UK Limited, a position he held from November 1999. During his automotive career, he was named to the Power List by Motor Trend in 2006 and ranked 3rd and 4th most influential person in advertising in 2004 and 2005 by Ad Age. While heading Mercedes-
Benz Sales, marketing and Service in the US, he was elected to the “Automotive News All Star Team” in 1998 and 1999.

Joe holds a Dipl.-BW degree from the Academy for Administration and Economics in Stuttgart, Germany and an MBA from NYU Stern School of Business.