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## **Introduction**

Pricing is one of the most powerful levers that a firm can use to monetize value and maximize profits. However, monetization opportunities often remain untapped as many managers do not know how to improve upon historical pricing practices within their companies and industries. This course prepares students to address both strategic and tactical issues in monetization and to identify profit-boosting changes in pricing practices across a range of professional contexts – as management consultants, product managers, entrepreneurs, and business-unit managers.

The course is structured around three modules. These are

1. **Pricing Analysis:** In this first module, you will learn how to assess customer willingness to pay and analyze demand for a product or service. You will also learn how to measure price sensitivity and compute price elasticities for new products and for more established ones.
2. **Price Structures and Metrics:** In this module, which forms the heart of the course, you will learn when to use different pricing and monetization structures and how to design these optimally. These price structures take the form of product-line pricing, segmented pricing, price bundling, non-linear price schedules, subscription pricing, revenue management and other forms of targeting. You will also learn how to use appropriate pricing metrics to monetize value.
3. **Price Management:** In this final module you will study how to actively manage prices within a price structure via pricing policy, price delegation, markdown pricing and price promotions.

The course uses a mix of lectures, case discussions, mini-cases, analytical exercises, and covers pricing across a broad spectrum of industries involving both B2C and B2B, and from both economic and psychological perspectives.

## **Reading Materials**

The course uses both *required* and *optional* reading assignments in the form of articles and cases. I will assume that you have done the required reading for each class, have analyzed assigned case materials, and are prepared to discuss them. The optional readings in the class-by-class plan aim to give you additional depth on topics of interest – I might present key points from these in the class, but you are not required to have reviewed the optional reading. The cases and articles listed in the Class Schedule are included in the

course reading packet. A few additional materials will be distributed in class or placed on Canvas in advance of class.

The textbook for the course is:

- *The Strategy and Tactics of Pricing*, by T. Nagle, J. Hogan, and J. Zale, 5<sup>th</sup> Edition, Prentice Hall, 2010. (NHZ)

The following books are mentioned solely as supplemental reading:

- *Pricing and Revenue Optimization*, Robert Phillips, Stanford Business Books, 2005.
- *Nonlinear Pricing*, Robert B. Wilson, Oxford University Press, 1993
- *Pricing: Making Profitable Decisions*, Kent B. Monroe, 2<sup>nd</sup> Edition, Amazon, N.Y., 1990.

## Student Teams

You will work in **teams of 2** on the group case analysis and final project. Please form your groups as quickly as possible.

## Grading

1. Class participation:		25%
2. Three individual short assignments (SA):	5% each, total =	15%
3. One individual case write-up (IW):	15% each, total =	15%
4. One group case write-ups (GW):	15% each, total =	15%
5. Course Project (team):		30%

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### Total

**100%**

Each of these components is described in detail below.

## Class Participation

You are invited to highlight insightful linkages between class material and your past experience as a professional and as a consumer, and to participate actively in class discussions. Class attendance will be required and will be monitored.

## Short Assignments

There are **three** short assignments. You need to do them individually. They may involve questions relating to a case or other readings. These assignments will be made available later on Canvas.

## Case Write-Ups

The due dates for the cases and assignments are given in the Class Schedule section of this document. You will complete one case as part of your group (GW) and the other individually (IW). Both cases are due at the beginning of the class where that case will be discussed. The following cases will be due:

- *Springfield Nor'easters* (IW)
- *Fortis Industries* (GW)

Each full case write-up must not exceed **three** pages (12-point Times New Roman, single-spaced, one-inch margins). This limit does not include exhibits such as tables or graphs. Assume the reader is familiar with the case; do not summarize or restate more of the case than necessary.

## **Course Project**

Your team will complete a course project. The goal of the project is to apply the concepts from the course to a real pricing problem, either one created by the team or an opportunity faced by a real organization (potentially your own). I include a set of suggested project ideas after this section, but you are free to choose your own topic. If you do, please discuss it with me well in advance.

## **Timeline and Deliverables**

The final deliverables are due at the beginning of the last class. The final deliverables are in the form of **PowerPoint slides and an in-class presentation**. There is no formal project write-up. That is, all your motivation, analysis, and recommendations must be contained within the presentation. The presentation should be 25 minutes long and we will allocate an additional 4 to 5 minutes for questions and comments from the class. I **strongly** encourage you to include additional supporting charts, data, or analysis in an Appendix. The Appendix should contain details that are unnecessary to discuss in the presentation, but which are important for me to consider in evaluating the project.

## **Connections with the Core**

This course builds upon the marketing and economics core and relies on your knowledge of statistics and business analytics. In particular, your knowledge of regression and optimization, and the skills that you acquired in using Excel will be useful in dealing with data and for deriving optimal price structures.

## **Conduct (Core Culture)**

It is important for you to focus your full attention on the class for the entire class period. Most students observe proper decorum, but it takes only one person's behavior to distract the entire class. Class will be conducted using the following rules of decorum:

- Arrive to class on time and attend every class
- Complete pre-work and bring nameplates and clickers
- Expect cold-calling
- Electronics: Unless otherwise directed, use of laptops, cell phones, PDAs, or any other wireless devices is prohibited.

## **Honor Code**

You are expected to conform to the norms of behavior outlined in the Columbia Business School Integrity Code (printed at the beginning of the reading packet). Use of case or lecture notes from previous sections of the course is not allowed. Any allegation of academic dishonesty will be forwarded to the Dean's office for investigation. Any case of proven academic dishonesty will result in failure in the course.

**SCHEDULE**

<b>Sessions</b>	<b>Topic</b>	<b>Cases Discussed</b>	<b>Due</b>
1) Jan 7	Framework for Pricing Strategy	<i>Beauregard Textiles</i>	
2) Jan 21	Value, Costs, and Economic Principles		
3) Jan 28	New Product Pricing	<i>Curled Metals</i>	SA1: <i>Curled Metals</i>
4) Feb 4	Pricing Existing Products		
5) Feb 11	Price Structures and Price Targeting	<i>B2B Targeted Pricing</i>	SA2: Demand Modeling
6) Feb 25	Product Line Pricing	<i>Keurig at Home</i>	
7) Mar 4	Subscription Pricing	<i>AnswerDash</i>	
8) Mar 25	Revenue Management	<i>Springfield Nor'easters</i>	IW: Springfield Nor'easters
9) Apr 1	Nonlinear Pricing and Bundling		
10) Apr 8	Pricing Management, Promotions and Markdowns	<i>Fabtek (B)</i> <i>Pricing Predicament</i> <i>Culinarian Cookware</i>	SA3: Culinarian Cookware
11) Apr 22	Integrative Case Course Review	<i>Fortis Industries</i>	GW: Fortis Industries
12 Apr 29	Project Presentations		

SA: Short Individual Assignment, IW: Individual Level Case Write up, GW: Group Case Write up

## **Session 1      Framework for Pricing**

We will begin with a discussion of Beauregard Textiles, which is a simple case that highlights factors critical for pricing decisions. We will then focus on outlining a framework for monetization.

### **Case: Beauregard Textiles [HBS 9-191-058]**

#### Required Reading

- “Executives Zero in on Price,” WSJ, Sept. 27, 2010.
- “Pricing, Profits, and Customer Value,” Cespedes, Shapiro, & Ross, 2011 (HBS 9-811-016).

#### Optional Reading

- NHZ, Chapter 1

## **Session 2      Value, Costs and Economic Principles**

We will discuss the role of economic value and its relationship with pricing. We will also explore the different costs that are relevant for pricing. We will then focus on the relationship between willingness to pay and demand schedules.

#### Optional Reading

- NHZ, Chapters 2, 6 and 9

## **Session 3      New Product Pricing**

We will also discuss the Curled Metals case. The case highlights how the economic value of a product is useful in setting prices for a new product. We will also explore different pricing strategies that are relevant for monetizing new products.

We will also study how surveys and experiments can be used to assess the price sensitivity in new product situations where data are not available. We will discuss how surveys can be designed and executed to obtain reliable information about prices.

### **Case: Curled Metal Inc. [HBS 9-709-434]**

#### Optional Reading

- NHZ, Chapters 4 and 12.

## **Session 4      Pricing Existing Products**

We will study how to compute own and cross price elasticities using historical data and linear regression and semi-log regression. We will also discuss how to use these elasticities to assess competitive market structure and the clout and vulnerability of competitors.

Required Reading: NHZ, Chapter 12

## **Session 5 Pricing Structures and Metrics**

We will discuss why and how companies can benefit from price structures and how different price metrics can be used to monetize value to enhance profits.

We will use a mini-case about targeted pricing decisions using data for a B2B metals retailer. In particular, we will study how transactional data from past bids can be used to decipher the likelihood of purchase on a given order and how an analysis of such data can be used for targeting prices across customers and over time.

### **Required Reading**

- “Note on Behavioral Pricing” Gourville, HBS 9-599-114.
- “Mind Your Pricing Cues,” HBR, Sept 2003.
- NHZ: Chapter 3

## **Session 6 Product Lines Pricing**

We will discuss how to price product lines and complementary products within the context of the Keurig case. We will also see how to set optimal prices for a product line using conjoint analysis.

### **Case: Keurig at Home**

### **Required Reading**

- “Versioning: The Smart Way to Sell Information,” Shapiro & Varian, HBR, Nov-Dec 1998.

## **Session 7 Subscription Pricing**

We will study how to price subscription services. We will also discuss the issues that are involved in moving products to the cloud, and how to value a subscription business.

We will continue our discussion of subscription services within the context of the Answer Dash case.

### **Case: AnswerDash**

## **Session 8 Revenue Management**

We will discuss the rationale and meaning of revenue management and study its application in a variety of industries. We will also look at different revenue management mechanisms and how they operate.

We will continue our discussion of segmented pricing for revenue management within the context of the Springfield Nor'easters case.

### **Case: Springfield Nor'easters Case**

## **Session 9      Nonlinear Pricing and Bundling**

We will learn in the different contexts in which nonlinear pricing makes sense. We will also discuss different forms of nonlinear pricing and will construct nonlinear pricing schedules based on data. We will also study the different rationales for price and product bundling and learn how to construct bundling price structures.

### Optional Reading

- “Why Cable Companies Bundle Their Channels,” The New Yorker, Jan. 25, 2010.

## **Session 10      Price Management and Price Promotions**

We will study how to structure and manage price negotiations, using the mini cases, Fabtek (B) and “The Case of the Pricing Predicament”.

We will discuss how firms can use price promotions and markdowns to manage prices in the short term. We will study the different forms of sales promotions and how these impact category purchasing, brand choices and store choices.

**Case: Fabtek (B) [HBS 9-592-096]**

**Case: The Case of the Pricing Predicament**

**Case: Culinarian Cookware [HBS 4057]**

### Optional Reading

- “How to Master the Art of Negotiating Price,” WSJ, Mar. 22, 2011.

## **Session 11      Integrative Case and Course Wrap Up**

We will discuss the integrative case, Fortis Industries, which ties together many of the fundamental concepts we have covered in the course. Finally we will review the key concepts and synthesize the learning from the course

**Case: Fortis Industries [HBS 9-511-079]**

### Required Reading

- NHZ Chapter 8

## **Session 12      Project Presentations**

## Guidelines for Course Project

Your team will complete a course project. The goal of the project is to apply the concepts from the course to a real pricing problem, either one created by the team or an opportunity faced by a real organization (potentially your own). I include a set of suggested project ideas after this section, but you are free to choose your own topic. If you do, please discuss it with me well in advance.

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### Topic Ideas for the Final Project

1. **Product lifecycles have shrunk in recent years due to rapidly shifting customer preferences, product proliferation and technological advancements.**

Pricing is a particularly important and complex issue for short-lifecycle products – i.e., products that become obsolete within 6 months to 2 years of introduction. Profile the pricing practices at a company that operates in a short-lifecycle environment – e.g., technology, fashion, entertainment, or information contexts. How does the company adjust prices as the product evolves from one stage to the next, as the demand/supply balance changes, or as customers' value for the product changes? Where within the organization are markdown/promotion vs. introductory price decisions made? What role do channel partners play in managing price across the lifecycle? How are customer expectations managed vis-à-vis price changes? What practical issues does the company face in implementing advanced pricing practices? What opportunities do you see for further improving pricing practices?

2. **Some industries are experiencing major forces of change that are leading to the adoption of new pricing practices.**

Examples of such forces include deregulation, entry of low-cost competition, technological innovation, and transition from one stage to the next of the industry/product lifecycle. Identify an industry that is witnessing such changes in pricing caused by environmental forces. Profile the changes in pricing that are being driven in the industry and the strategies being adopted by different players. Who is being successful at capturing additional value – across competitors, and across the value chain? Is the industry converging to a stable new pricing regime or is it moving into relatively anarchic conditions? What factors are causing the industry to evolve in this fashion? What efforts are industry players making to enhance their organizational effectiveness to price in the new environment?

3. **Identify a company that has a reputation in its industry for being smart at pricing.** Profile its pricing practices – strategy, organization and implementation.

Why has its competition not been able to mimic its success? How much value is smart pricing adding? What insights can other businesses (beyond this industry) draw from this company?

**4. Identify a situation where a company or an industry moved from a “one-size-fits-all” approach to pricing to a segmented pricing approach.**

What triggered the shift? How successful has it been? What practical challenges came up in making the transition and how were these addressed? How much value has been created by the shift to segmented pricing? What integrated strategies across the 4P’s were needed to implement the change? What other improvements can you suggest in how the company/industry should approach pricing?

**5. Describe the pricing strategy for a recently launched product.**

What is the pricing structure and the logic behind it? What did the organization do to implement its pricing successfully in the marketplace? What was the analysis / decision making process that the company went through in arriving at the launch price? What role did competitive pricing behavior play in influencing the success/failure of the product? What improvements could you suggest on how the company approached pricing and the actual pricing strategy?

**6. Pricing optimization systems are gaining steam in the retail sector.**

Demand-Tech, Khi-Metrics, ProfitLogic and Manugistics (all acquired by major players) have developed systems that help retailers optimize pricing for countless product categories. Pick a retail segment and analyze the impact pricing optimization has – and will – have on the industry. How much value is being created? What are the risks, and how could these be mitigated? How could you tell if this is the right time to invest in this capability or not for a player in this segment? What aspects of pricing will pricing optimization automate, and where is managerial involvement still critical? What do you foresee the scope and impact of pricing optimization to be in 5 to 10 years within this segment?

**7. Managing pricing coherently across channels is a particularly tough challenge for brands that are distributed via multiple channels**

Common problems include gray markets, and the conflict between a direct channel, such as the web, with indirect channel partners. Identify a company that has actively worked on addressing pricing challenges across channels. What factors were behind these challenges (e.g., self-interested behavior of channel partners)? How did the company address these issues? How successful has its approach been? Are there other actions it could have taken that you would recommend? What insights can this offer to other businesses in the same or other industries?

Note that the questions in each topic are meant to be suggestive, not exhaustive. Feel free to add additional analyses – the key is to unearth insightful findings and conclusions