

Location: Geffen 440, T/R 2:00 PM to 3:30PM
Geffen 440, T/R, 3:50 PM to 5:20 PM

Professor: Asim Ansari

Contact info: Email: maa48@gsb.columbia.edu

Introduction

Pricing is one of the most powerful levers that a firm can use to maximize profits. However, this opportunity to impact profits often remains 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 pricing issues 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 covers the following three components:

1. **Pricing Analysis:** You will learn how to assess customer willingness to pay and to analyze demand for a new product or service. You will also learn how to measure price sensitivity and compute own and cross price elasticities for existing products.
2. **Price Structures and Metrics:** In this component, which forms the heart of the course, you will learn when to use different price structures and how to design them optimally. These price structures take the form of product-line pricing, revenue management, segmented pricing, price bundling, non-linear price schedules, subscription pricing and other forms of targeting. You will also learn how to use appropriate pricing metrics to monetize value.
3. **Price Management:** We will conclude by studying how to manage prices via pricing policies and price delegation.

The course uses a mix of lectures, case discussions, mini-cases, and analytical exercises. It 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 recommended textbook for the course is:

- *The Strategy and Tactics of Pricing*, by T. Nagle and Georg Muller, 6th Edition, Prentice Hall, 2018. (NM)

The following books are mentioned solely as supplemental reading:

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

Student Teams

You will work in **teams of 5** on the group case analysis. Please form your groups as quickly as possible. If you need help in forming a team, let me know in a timely manner so I can facilitate communication with others.

Grading

1. Class participation:	20%
2. Two individual short assignments (SA):	30%
3. One individual case write-up (IW):	25%
4. One group case write-ups (GW):	25%

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 **two** short assignments. You need to do them individually. 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 **four** pages (12-point Times New Roman, single-spaced, one-inch margins). This limit does not include exhibits such as tables or graphs. Assume that the reader is familiar with the case; do not summarize or restate more of the case than necessary.

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.

CLASS SCHEDULE

Sessions	Topic	Cases Discussed	Due
1) Jan 25	Pricing Strategy Framework	<i>Beauregard Textiles</i>	
2) Jan 27	Value and Relevant Costs	<i>Fabtek B</i>	
3) Feb 1	New Product Pricing	<i>Curled Metals</i>	SA1: <i>Curled Metals</i>
4) Feb 3	New Product Pricing		
5) Feb 8	Pricing Existing Products		
6) Feb 10	Price Structures and Targeted Pricing	<i>B2B Targeting</i>	
7) Feb 15	Product Line Pricing	<i>Keurig at Home</i>	SA2: Demand Modeling
8) Feb 17	Revenue Management		
9) Feb 22	Revenue Management	<i>Springfield Nor'easters</i>	IW: Springfield Nor'easters
10) Feb 23	Price Structures: Nonlinear Pricing		
11) Mar 1	Price Structures: Subscriptions Pricing and Freemiums		
12) Mar 3	Pricing Management and Policy	<i>Fortis Industries</i>	GW: Fortis Industries

SA: Short Individual Assignment, IW: Individual Level Case Writeup, GW: Group Case Writeup

Session 1 Framework for Pricing Strategy

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 the role of pricing in value creation and discuss the increasing importance of pricing in today's markets. We will conclude with a framework for pricing decisions

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

Optional Reading: "Executives Zero in on Price," WSJ, Sept. 27, 2010.

Optional Reading: NM Chapter 1

Session 2 Customer Value and Relevant Costs

We will review the concepts of Economic value to the consumer and will discuss which costs are relevant for pricing decisions.

Case: Fabtek (B)

Optional Reading: "Pricing, Profits, and Customer Value," Cespedes, Shapiro, & Ross, 2011 (HBS 9-811-016).

Optional Reading: NM, Chapters 2 and 9.

Session 3 New Product Pricing

We will discuss the Curled Metals case. The case will highlight issues involved in selecting a pricing strategy for a new product.

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

Optional Reading: NM, Chapter 2

Session 4 New Product Pricing: Assessing Demand

We will discuss ways in which willingness to pay can be assessed for new products and how pricing optimization can be based on such assessment.

Optional Reading: NM, Chapter 8

Session 5 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.

Optional Reading: NM, Chapter 8

Session 6 Pricing Structures and Targeted Pricing

We will look at how price structures can be useful for improving profits. We will then use a mini-case about pricing decisions for a B2B metals retailer. We will study how transactional data from past bids and purchases can be used to device dynamic and targeted prices for each transaction.

Session 7 Product Lines and Complements

We will discuss how prices can be structured using product lines involving substitute products. We will also see price structure design for complementary products sold by the same firm.

Optional Reading: "Versioning: The Smart Way to Sell Information," Shapiro & Varian, HBR, Nov-Dec 1998.
Optional Reading: NM Chapter 4

Case: Keurig at Home

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.

Session 9 Revenue Management

We will continue our discussion of revenue management via a discussion of the Springfield Nor'easters case. We will also discuss how the use of markdowns in retailing.

Case: Springfield Nor'easters

Session 10 Price Structures: Nonlinear Pricing

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.

Optional Reading: "Why Cable Companies Bundle Their Channels," The New Yorker, Jan. 25, 2010.

Session 11 Subscription Pricing and Freemiums

We will study how to price subscription services. We will also discuss the issues that are involved in moving software products to the cloud.

Session 12 Integrative Case

We will discuss the integrative case, Fortis Industries, which ties together many of the fundamental concepts we have covered in the course

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

Optional Reading: NM, Chapter 11