COURSE DESCRIPTION AND OBJECTIVES

The content of the course is organized into two principal modules: (1) pricing strategy and fundamentals and (2) pricing tactics and implementation. Each module contains an approximately 50-50 mix of case studies and lecture/discussions. A listing of class sessions and specific topics/cases begins on page 5.

1. **Pricing Strategy and Fundamentals.** The first module of the course covers the fundamental analytical tools, theories, and conceptual frameworks needed for price strategy formulation. Basic principles from marketing and micro-economics will be briefly reviewed and extended. The module provides an in-depth treatment of the role of price in the firm’s value proposition to the customer and the determination of customer response to price. Topics include the assessment of customer value in use, survey methods (e.g., direct questions and conjoint analysis) and secondary-data based methods (e.g., regression analysis) for estimating price sensitivity. The module concludes with the treatment of the role of competition in pricing strategy formulation. Topics include price gaps, competitive price response, and price wars.

2. **Pricing Tactics and Implementation.** The second module covers pricing tactics, opportunities for achieving price customization, and the handling of auctions and competitive bidding. Here, our focus shifts from setting the overall price level to making customer-specific or segment-specific pricing decisions. Students will participate in a pricing simulation game and study topics including how to fight a price war, negotiating pricing contracts, price promotions, reference prices, price customization and bundling. We conclude the module with a brief treatment of auctions and competitive bidding.

The concluding class session will have a case on integrative pricing policy. It will also deal with the major legal issues involved in pricing, ethical issues, and summarize.

My objectives for this course are:

1. To familiarize you with the concepts, theory and latest thinking bearing on the key issues in pricing, taking the perspective of the marketing manager. This will be done primarily through lectures and assigned readings.

2. To provide you with an opportunity, through extensive case analyses and simulation exercises, to apply concepts and theory to the solution of pricing problems in marketing settings.
3. To provide you with an opportunity, through the course project, to make an independent assessment of the pricing strategy and/or tactics used by a company or industry of your own choosing.

4. To provide you with a forum, both written and oral, in which you may further develop your business communication skills and receive feedback from your peers and the instructor.

Course Materials

1. Course Reader: Management 262 Cases and Readings. (Available through the bookstore.)


COURSE ORGANIZATION

The sections below discuss the mechanics of the course.

Study Groups

Several group assignments and exercises are required for the course (more below). Students will need to form study groups early in the quarter. Groups should be composed of four or five members. The ideal group size is four students. No group may have more than five members; two or three-person groups will need special permission from the instructor.

Class Format

Class activity is divided among lectures, case discussions, and group-based simulations.

*Lecture/Discussions.* Approximately half of the class time will follow a lecture/discussion format. These sessions are devoted to the presentation and discussion of theories, concepts, analytical techniques, and empirical findings useful for pricing strategy and tactics.

The lecture/discussion sessions are often accompanied by assigned readings from the course packet. Lectures are not designed to summarize the readings, although many important concepts will be consolidated and extended. *The readings are considered an integral part of the course and students will be held responsible for their content during discussion and in their case analyses.*

*Case Discussions.* The assigned case studies have been selected to fit the objectives of the course and to cover a cross section of interesting industries and businesses.

All students are expected to come to class ready to discuss each case, regardless of whether or not a written assignment has been prepared. Students may be called upon at any time (a.k.a. cold called) to provide specific recommendations and analysis. At a minimum, you should be able to (i) state clearly what management should do and (ii) provide a specific, logically consistent rationale for your recommendations, backed by your analysis. Even if you do not contribute to a specific case discussion by speaking, make sure that you are comfortable with what you would have done in the management situation described in the case and why.
Simulations. Two group-based simulation activities are planned for the course. Groups will be assigned roles for these simulations, which will then take place in break-out format. At the conclusion of the simulation, groups will report to the class a whole on the outcome of their exercise and the results will be discussed.

Written Assignments

Both individual and group written assignments will be distributed during the course of the quarter. A major individual written assignment will be due late in the quarter, worth 20 percent of the course grade. Several smaller individual assignments will count heavily toward the class participation grade and are therefore strongly encouraged. Each of these will be linked to an issue in a particular case study. One group case write-up assignment will also be assigned and will be worth 15 percent. Individual assignments are to be done by each student on his or her own. Group assignments are to be done with the other members of your study team.

Page and/or word limits on the length of the assignments write-ups will be imposed. Text should be double spaced, on one side of the page only, submitted without report covers, and stapled once in the upper left hand corner. Please leave adequate top, bottom, and side margins to allow space for comments.

Hard copy versions of all assignments are due at the beginning of class on the due date. To be fair to all students, late papers will not be accepted unless there is a documented medical or family emergency.

Course Project

The project for this course is a “pricing audit.” Each study group should select a firm, or, where appropriate, a business unit within a firm, and intensively study either its pricing policy or a specific pricing decision (either made in the recent past or under current consideration). Students need not obtain “inside access” to a company, although that is highly encouraged where possible. Use of publicly available information and your own research is acceptable.

As an alternative to the “pricing audit,” groups may elect to pursue an in-depth study of a specific pricing practice (e.g., price promotion, quantity discounts, etc.) across firms or industries. This report will necessarily be more academic in nature than the “pricing audit” project.

Groups will be required to submit a written report (not to exceed 3000 words) at the conclusion of the quarter. A two-page progress report (stating your group members, describing the topic, and providing a brief outline) is due the 7th week of the quarter. More details will be made available in a separate hand-out distributed early in the quarter. The course project will be worth 35% of the course grade.

Policy on Laptops, Electronic Devices, and Seating

Laptop computers or other electronic devices (phones, PDA’s, etc.) may not be used while class is in session unless specifically permitted by the instructor. During class session time, they must be closed and disconnected from the network. Students are required to bring and set up their name cards for every class session. A seating chart will be distributed at the beginning of class in session two and all students will be required to take the same seat for the remainder of the course.

Basis for Grading
Each student's overall course grade will be based upon the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation/Preparation</td>
<td>30%</td>
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<tr>
<td>In-class participation</td>
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<tr>
<td>Short case assignments (SA)</td>
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<tr>
<td>Major Written Assignments</td>
<td>35%</td>
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<tr>
<td>1 Individual Case (20%)</td>
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<tr>
<td>1 Group Case (15%)</td>
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<tr>
<td>Course Project (Group)</td>
<td>35%</td>
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</table>

The overall grade is 50% individual performance (class participation and individual assignments) and 50% group performance (one group case write-up and the course project). There will be no mid-term or final examination.

**Grading In-Class Participation.** Grading class participation is necessarily subjective. Some of my 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, adding analysis and conclusions? Do comments show an understanding of theories, concepts, and analytical tools 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?

Your grade for class participation is not a direct function of the amount of “air time” you take up. In general, I will evaluate you on how well you respond to my questions and on how effectively you take into account the comments and analyses of your classmates. In situations where multiple students have raised their hands to speak, I will try to call on the student with the least cumulative air time to that date. This procedure, carried out over the course of the quarter, should help to ensure that everyone who is well prepared and wants to contribute will have the opportunity to do so. *Students are encouraged to seek feedback from the instructor on their class participation performance at any time during the quarter (e-mail is excellent for this).*

Regular attendance in class is a course requirement. My policy is that absences exceeding 10 percent of class sessions (e.g., more than one weekly session of this course) are unacceptable and can seriously jeopardize a student's participation grade. Absences from class may result in a failing grade for class participation and the course as a whole. **Students should e-mail the instructor if they will be missing a class session and provide an explanation.** Please note: *Students failing to achieve a passing grade for class participation may be failed for the course as a whole, regardless of their performance on written work.*

Management 262 – Price Policies
# Summary of Class Sessions  
**Fall 2008**

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topic</th>
<th>Case</th>
<th>Assignment</th>
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<tbody>
<tr>
<td>1a</td>
<td>2-Oct</td>
<td>Course Introduction</td>
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<tr>
<td>1b</td>
<td>2-Oct</td>
<td>Key Principles and Cost Analysis</td>
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<tr>
<td>2a</td>
<td>9-Oct</td>
<td>Evaluating Pricing Options</td>
<td>Kodak: Funtime Film</td>
<td>SA1</td>
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<tr>
<td>2b</td>
<td>9-Oct</td>
<td>Demand Analysis I: Value in Use</td>
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<tr>
<td>3a</td>
<td>16-Oct</td>
<td>Pricing by Value in Use</td>
<td>The Medicines Company</td>
<td>SA2</td>
</tr>
<tr>
<td>3b</td>
<td>16-Oct</td>
<td>Demand Analysis II: Survey Methods</td>
<td></td>
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<tr>
<td>4a</td>
<td>23-Oct</td>
<td>Pricing a New Service</td>
<td>Adios Junk Mail</td>
<td>SA3</td>
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<tr>
<td>4b</td>
<td>23-Oct</td>
<td>Demand Analysis III: Historical Data</td>
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<tr>
<td>5a</td>
<td>30-Oct</td>
<td>Pricing a Premium Brand</td>
<td>Philip Morris: Marlboro Friday</td>
<td>SA4</td>
</tr>
<tr>
<td>5b</td>
<td>30-Oct</td>
<td>Pricing and Competition</td>
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<tr>
<td>6a</td>
<td>6-Nov</td>
<td>Fighting a Price War</td>
<td>Southwest Airlines</td>
<td>GW</td>
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<tr>
<td>6b</td>
<td>6-Nov</td>
<td>Negotiated Prices/Price Psychology</td>
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<td>7a</td>
<td>13-Nov</td>
<td>Negotiating Pricing Contracts</td>
<td>Becton Dickinson</td>
<td>B/O</td>
</tr>
<tr>
<td>7b</td>
<td>13-Nov</td>
<td>Price Customization I</td>
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<tr>
<td>8a</td>
<td>20-Nov</td>
<td>Auctions and Bidding</td>
<td>Priceline.com</td>
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<tr>
<td>8b</td>
<td>20-Nov</td>
<td>Price Customization II</td>
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<tr>
<td>9a-b</td>
<td>21-Nov</td>
<td>Pricing Simulation</td>
<td>The Bistro Pricing Game</td>
<td>B/O</td>
</tr>
<tr>
<td>10a</td>
<td>4-Dec</td>
<td>Integrative Pricing Policy</td>
<td>Keurig at Home</td>
<td>IW</td>
</tr>
<tr>
<td>10b</td>
<td>4-Dec</td>
<td>Legal&amp;Ethical Issues/Course Summary</td>
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Note: SA# indicates a short case assignment  
GW indicates group case write-up; IW indicates individual case write-up  
B/O indicates a group break-out activity (group reports back to class)  
Final course project due Thur., Dec 11, 5 pm.; topic due by Nov 13.
SESSION 1A (Thursday Morning, October 2)

TOPIC:  Course Introduction

LECTURE: An introductory lecture and discussion will provide and coverage of administrative matters and an introduction to the critical issues in pricing strategy.

TO BE DISTRIBUTED IN CLASS: Handouts covering the format for group case write-ups and the course project will be made available.

READING:
1. Dolan, “How Do You Know When the Price is Right.” A terrific overview and primer.

SESSION 1B (Thursday Morning, October 2)

TOPIC:  Cost Analysis and Key Principles of Demand

LECTURE: We begin our discussion of pricing strategy with cost analysis. We shall start with the cost-plus pricing model and discuss its advantages and disadvantages. We then turn to the determination of variable costs and the concept of avoidable costs. Following this discussion, we review break-even analysis (also known as iso-profit analysis) as applied to pricing decisions and evaluate the extent to which cost information can be used to formulate effective pricing policy.

The applied use of break-even analysis leads naturally to the need to evaluate the changes in volume that can be expected to occur due to a change in price. We then consider simple models of demand. We review the properties of the linear demand curve, the classical monopoly pricing model and introduce the elasticity-markup relation.

READING:
1. Nagle and Hogan, chapters 1, 8, and 9.
SESSION 2A (Thursday Morning, October 9)

TOPIC: Evaluating Pricing Options

CASE DISCUSSION: Eastman Kodak Company: Funtime Film

Kodak’s dominant position in the U.S. film market was continuing to erode during the late 1980’s and early 1990’s, with its market share dropping from 76% to 70%. Some industry observers believed that film had become a commodity, as actual performance differences between brands narrowed. To deal with the latest share erosion, Kodak management proposed to launch a “fighting brand” called Funtime.

Suggested Preparation Questions:

1. Develop an analysis of the economics of a modest (e.g., 15%) price cut on Kodak Gold Plus. Your analysis should reflect a 15% shelf price cut at retail. What is the sales volume increase that would be required to break even?

2. What are the pros and cons associated with such a price cut? How do you think consumers would react?

3. Evaluate the proposed launch of Funtime. What are advantages and disadvantages for Kodak?

4. What steps would you recommend to Kodak management? Would you launch Funtime as proposed, change the price of Gold Plus, or pursue other possible alternatives?

ASSIGNMENT: Short Assignment #1 (SA1) is due at the beginning of this class session.
SESSION 2B (Thursday Morning, October 9)

TOPIC: Demand Analysis I: Value Propositions and Value in Use

LECTURE: Our discussion starts with a brief review of the importance of assessing the value proposition as a vital tool for developing pricing strategy. We review the value map, an approach for comparing value propositions across competitors and implications for share gain or share loss.

We then turn to a detailed discussion of how to determine customer value-in-use (also known as economic value to the customer or EVC) to assess demand. Several examples of its application will be discussed. The pricing “vegematic” is introduced, a framework for integrating this analysis with cost and competitor information to help guide pricing strategy.

Finally, building upon our discussion of EVC, we address the question of how best to price new product introductions. We review the concepts of skimming and penetration pricing and discuss their pros and cons. We also examine the qualitative factors influencing customer price sensitivity.

READING:

1. Nagle and Hogan, Chapters 2 and 3, Chapter 7, pages 131-136, Chapter 12, pages 265-270.
SESSION 3A (Thursday Morning, October 16)

TOPIC: Pricing by Value in Use

CASE DISCUSSION: The Medicines Company

The Medicines Company was founded in 1996 for the purpose of acquiring or “rescuing” drugs abandoned by other drug companies, completing their development, and bringing them to market. Its first acquisition, in early 1997, was “Angiomax” – a blood thinning drug used in angioplasty procedures. In December 2000, it received FDA approval for Angiomax. Now it must bring it to market. Complicating this task is the fact that Angiomax is designed to replace heparin, the most widely used blood-thinning drug in coronary medicine. But heparin sells for about $2 per dose while the cost to make Angiomax is $40 per dose. This raises a host of issues regarding pricing, target market selection, and consumer trial and adoption.

Suggested Preparation Questions:

1. What is the economic value or value-in-use of Angiomax to its target customers? Be specific in your analysis and assumptions.

2. What is the target market for Angiomax?

3. Evaluate hospitals’ likely “willingness to pay.” Contrast this with the value-in-use analysis.

4. What price would you recommend the company charge for Angiomax at launch? Why?

5. How can the company improve its chances of getting target hospitals to try and to adopt the drug?

ASSIGNMENT: Short Assignment #2 (SA2) is due at the beginning of class.
SESSION 3B (Thursday Morning, October 16)

TOPIC: Demand Analysis II: Survey Methods

We continue our analysis of customer demand by next taking up survey measurement approaches for assessing price sensitivity and determining demand curves. We begin by discussing so-called “direct questioning” approaches, in which customers are asked directly about willingness to pay or whether or not they will buy at a stated price. We discuss the pros and cons of these methods.

We then turn to a detailed discussion of how to measure customers’ evaluations of the value proposition using conjoint (or trade-off) analysis, generally regarded as the best survey-based approach for ascertaining price sensitivity. We will cover how to use conjoint analysis to assess the relative importance that customers place on price versus other features of a product or service. We will also cover how to use the market simulation element of conjoint analysis to produce estimates of price elasticity. We will close this discussion by briefly touching on discrete choice analysis, a related survey method that is gaining in popularity.

Please note that a comprehensive treatment of how to conduct a conjoint study is well beyond the scope of the time available for class discussion in this course and that conjoint is covered in substantial depth in other marketing courses. Students interested in pursuing the topic in more depth should contact the instructor for additional readings or for answers to specific questions.

READING:

1. Nagle and Hogan, chapter 13 (especially pages 294-309).
SESSION 4A (Thursday Morning, October 23)

TOPIC: Applying Survey Data/Pricing a Subscription Service

CASE DISCUSSION: Adios Junk Mail

Dan Collins, co-owner of Adios Junk Mail, and Jennifer Vozel, a summer intern, must evaluate the results of a pricing survey and decide what changes to make, if any, to the annual fee charged for the company’s services. The service is currently priced at $15, but management wonders if the price might be raised.

KEY ASSUMPTIONS: Variable costs for each new customer are $10. For purposes of market sizing in 1997, you may use a target market of 10,000 customers.

Suggested Preparation Questions:

1. Evaluate the questionnaire in case Exhibit 3 and the approach used for assessing price sensitivity. What are the advantages and disadvantages of this method?

2. Use the data in the case (available as an Excel spreadsheet file on the network) to estimate the percentage of customers who will purchase the junk mail reduction service at various price points (e.g., from $10 up to $50). What assumptions did you have to make?

3. Based on your analysis above and any other relevant factors, recommend the price that Adios Junk Mail should charge. Justify your recommendation.

4. How else might Collins determine the price sensitivity of target customers?

ASSIGNMENT: Short Assignment #3 (SA3) is due at the beginning of class.

SESSION 4B (Thursday Morning, October 23)

TOPIC: Demand Analysis III: Historical Data

LECTURE: This session will focus on regression methods for assessing price response and for estimating elasticities using historical data on actual sales. We will discuss how to use regression analysis and illustrate the approach with data for consumer products. Our discussion will touch on the growing use of individual-level transaction data and how to estimate price elasticity with this type of historical information. The discussion will conclude with a brief review of key research findings on the empirical regularities of price elasticities in various markets.

READING:

1. Nagle and Hogan, chapter 13 (especially pages 283-294)
SESSION 5A (Thursday Morning, October 30)

TOPIC: Pricing a Premium Brand

CASE DISCUSSION: Philip Morris: Marlboro Friday

On April 2, 1993, Philip Morris announced that it would offer deep discount price promotions on the price of its flagship Marlboro brand of cigarettes of 20%. (A few months later, that price reduction was made into a permanent list price change.) Wall Street’s reaction was swift and brutal: Philip Morris’ stock price dropped 23% on the same day as the announcement. The actions also drew substantial criticism from analysts. Said one, “They used an ax where a scalpel would have been preferable.”

Suggested Preparation Questions:

1. What is the price elasticity for cigarettes? What would be a reasonable estimate of the price elasticity of Marlboro? Of discount brands? What are the implications of these estimates for price policy in cigarettes?

2. Describe the competitive landscape surrounding Marlboro. Who are its major competitors and how do their price points compare with Marlboro’s?

3. How brand loyal are cigarette buyers?

4. How would you segment the market for cigarettes? What are the implications of this segmentation for Marlboro’s pricing policy?

5. Do you think that Wall Street reacted appropriately to the announcement on April 2?

6. What is your overall assessment of Philip Morris’ decision to drop prices 20%? If you disagree, what would you have recommended?

ASSIGNMENT: Short Assignment #4 (SA4) is due at the beginning of class.

READING:

1. Nagle and Hogan, chapter 12, pages 274-277.
SESSION 5B (Thursday Morning, October 30)

TOPIC: Pricing and Competition

LECTURE: In this session we formally take up the problem of incorporating competition into the determination of price policy. We begin with an examination of pricing models incorporating competitive reaction. This will emphasize the importance of two factors: (1) assessing how competitors are likely to react to changes in price and (2) if they do react, what is the impact of competitors’ price changes on own-firm sales (i.e., cross-price elasticities). Techniques for assessing competitive reaction and measuring cross-price elasticities will be discussed. We will then turn to a discussion of approaches for handling price competition and price wars, which are particularly applicable to cases of highly rivalrous competition.

READING:

1. Nagle and Hogan, chapter 10.


SESSION 6A (Thursday Morning, November 6)

TOPIC: Fighting a Price War

CASE DISCUSSION: Southwest Airlines

In this session we will discuss the marketing classic about the up-start Texas airline that took on the established competition (i.e., Braniff, now defunct) and survived to grow into perhaps the most successful major airline today (not to mention that it is currently the only profitable one). A key turning point in the early history of Southwest was the famous Texas air war, which is the specific subject of this case.

On February 1, 1973, Braniff International Airways announced that it was launching a half-price sale on Southwest’s major route between Dallas and Houston. Southwest had to quickly decide how to respond.

ASSIGNMENT: The group case assignment (GW) is due at the beginning of class. Due to the complexity of this case, a more detailed set of preparation questions and “tips” for analyzing this situation will be handed out in class two weeks prior to the discussion.

SESSION 6B (Thursday Morning, November 6)

TOPIC: Price Psychology/Negotiating Prices

We begin our discussion of pricing tactics by taking up the psychological aspects of pricing. In this area, consumer response to price promotions has been perhaps the most widely studied in marketing. We will cover the concept of “reference price”, loss aversion, and the implications for pricing policy.

We will then turn our attention to the subject of fixed versus negotiated prices. We will discuss some of the basics of bargaining (with application to industrial markets, i.e., B2B) and touch on the topic of haggle versus no-haggle pricing policies (with application to consumer markets, i.e., B2C).

READING:

1. Gourville, “Note on Behavioral Pricing.”


3. Frequently Asked Tactical Questions, Negotiation
SESSION 7A (Thursday Morning, November 13)

TOPIC: Negotiating Pricing Contracts

BREAK-OUT NEGOTIATION EXERCISE and

CASE DISCUSSION: Becton Dickinson: Vacutainer Systems

Becton Dickinson’s Vacutainer systems division (BDVS) produces blood collection tubes and needles for sale to hospitals, commercial labs, and other areas such as physician’s offices and surgicenters. In 1985, the health-care industry in general, and hospitals in particular, are under pressure from governmental cost control. Within this context, William Kozy, BDVS’ national sales director, and Hank Smith, BDVS’ vice president for marketing and sales, are negotiating a contract with Affiliated Purchasing Group (APG), a large hospital buying group. APG has made a number of demands regarding pricing, labeling, and distribution terms.

For this case, groups will be assigned (at the previous class) to play the role of either BDVS or APG in a pricing negotiation exercise. Each group will be paired with a counterpart and given approximately 45 minutes to negotiate contract terms. After a short break, we will reconvene to discuss the outcome of the negotiations and the case.

A separate handout on preparing for the Becton Dickinson negotiation exercise will be distributed in class two weeks prior to the session.

SESSION 7B (Thursday Morning, November 13)

TOPIC: Price Customization I

LECTURE: A key element of pricing tactics is the ability, in most cases, for a firm to execute some form of customized pricing (i.e., realizing different net prices for essentially the same product attributes across different customers).

Here we will emphasize the wide variety of approaches to realizing customized prices in the marketplace (leaving aside some of the auction approaches that we will be taking up subsequently). We will explore how to assess the opportunities for customized pricing, both at the segment as well as at the individual customer level. We discuss a variety approaches available for implementing segment-level or individual-level transaction prices and some of the pros and cons associated with each approach. We conclude with a treatment of product bundling as a pricing tactic.

READING:

1. Nagle and Hogan, chapter 4.
SESSION 8A (Thursday Morning, November 20)

TOPIC: Auctions and Bidding

CASE DISCUSSION: Priceline.com

Priceline is a new business concept that shifts the setting of price from sellers to buyers. The company aspires to use its patented process (advertising units of demand at named prices) to do business with suppliers in a number of product categories and industries. This case focuses on Priceline’s original and largest market, airline tickets. But the case also raises questions regarding how Priceline can extend its model successfully beyond airlines and thereby maintain growth.

Suggested Preparation Questions:

1. What is Priceline’s value proposition to buyers? To suppliers?
2. Describe Priceline’s revenue and business model. What is your assessment?
3. Examine the connection between the revenue Priceline receives and the value-added services that it provides to buyers and suppliers. What is your reaction?
4. What competition does Priceline face? What are the limits to the specific approach that Priceline uses?
5. What recommendations would you make to Priceline management? Would you invest in Priceline.com? Why or why not?

BRIEF LECTURE/DISCUSSION: In this session we will discuss issues related to auctions and competitive bidding.

READING:

1. Dolan and Moon, “Pricing and Market Making on the Internet.”
SESSION 8B (Thursday Morning, November 20)

TOPIC: Price Customization II

LECTURE: This session continues our discussion of the topic of pricing tactics. For most of this session, we will focus on the topic of price promotion, in which sellers offer buyers temporary reductions from their list prices. We show how price promotion can be thought of as a customized pricing strategy in some markets and also compare it to the use of coupons and rebates. (In consumer products, price promotion is often used synonymously with trade promotion, though there are important distinctions.)

READING:

1. Nagle and Hogan, chapter 11, pages 252-257.
2. Farris and Quelch, “In Defense of Price Promotion.”

SESSION 9A-B (Friday Morning, November 21) [Note Change in Time]

TOPIC: Making Pricing Decisions with Competition, Advertising, and Limited Information

BREAK-OUT EXERCISE: The Bistro Pricing Game

Groups will participate in a pricing simulation in which they will make repeated pricing decisions for a bistro-style restaurant in a competitive setting. Several rounds of the simulation will be played. Following the simulation, class will reconvene to discuss the game and the results. Students in the top performing groups may receive bonus credits towards their class participation grades.

There is no special preparation needed for this simulation, though groups may wish to have their laptops and spreadsheets handy as the decision rounds progress.
SESSION 10A (Thursday Morning, December 4)

TOPIC: Determining Price Policy: Integrative Analysis

CASE DISCUSSION: Keurig at Home

With the assistance of coffee roasters and office coffee distributors, Keurig has successfully sold its coffee brewing system to offices throughout the United States. Keurig has established itself as a pioneer and market leader in single-cup brewing systems for the office coffee segment.

Keurig is now poised to launch a brewing system, the model B100, in the consumer market. The company must decide how to price both the brewers and the coffee. In determining its pricing strategy, the company must also take into account considerations in the product market as well as the role of its partners and distributors.

ASSIGNMENT: The individual case write-up (IW) is due at the beginning of class.

SESSION 10B (Thursday Morning, December 4)

TOPIC: Legal and Ethical Issues

BRIEF LECTURE/DISCUSSION: Antitrust Laws, Price Fixing and Ethics

In addition to the factors we have been discussing over the course of the quarter, managers making pricing decisions also must be mindful of two important constraints on their decision-making: antitrust laws regarding price fixing and price discrimination and ethical considerations. We will use this time to review the key elements of antitrust law as they relate to pricing and consider the ethical issues that often arise when pricing certain products.

READING:

1. Nagle and Hogan, chapter 14.

TOPIC: Course Summary

BRIEF LECTURE: We will use this time to review key concepts in the course, take questions, and play the Pricing Pyramid Game. Course evaluations will conclude the session.

READING:

2. Re-read Dolan, “How Do You Know if the Price is Right.”