

University of Guelph
Department of Marketing and Consumer Studies
Pricing Management, MCS*4400 (Fall 2010)

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Course Description

The University catalogue describes Pricing Management as

The objective of this course is to provide a useful conceptual framework as well as analytical techniques that can be applied in managing pricing functions. Topics to be covered include pricing strategies, tactical issues related to pricing, pricing methods, treatment of costs for pricing, consideration of competition, legal limitations and role of price in customer buying decisions for both consumer and industrial goods and services.

My interpretation

Pricing is the only marketing decision that brings revenue to most organizations. Yet most organizations do not have pricing department. This raises important question about who assign prices to products and services. Costs, customers and competitors are generic factors that have influenced price settings. These factors, however, may be augmented with strategy and tactic that organization use with respect to pricing goals. Because pricing decisions involve numbers, individuals and pricing decision committees have tendency to arrive at “precisely wrong” as opposed to “approximately correct” solutions.

Lectures, short in-class and computer based exercises, discussion of assigned readings and analysis of pricing related cases will be the basis for gaining understanding and interpreting pricing decisions.

Evaluation

1. In-class quizzes (50%). Every class one or two short questions will be given and you will be asked to provide answers.
2. You may either choose to do a research project about pricing practice in a local organization or review a literature about pricing topic that interest you and conduct a research project. (50%)

This course follows the University grading scheme outlined in the University Calendar. Specific numeric or letter grade will be assigned as follows:

A+	90 - 100%	Excellent: An outstanding performance in which the student demonstrates a superior grasp of the subject matter, and an ability to go beyond the given material in a critical and constructive manner. The student demonstrates a high degree of creative and/or logical thinking, a superior ability to organize, to analyze, and to integrate ideas, and a thorough familiarity with the appropriate literature and techniques.
A	85 - 89	
A-	80 - 84	
B+	77 - 79	Good: A more than adequate performance in which the student demonstrates a thorough grasp of the subject matter, and an ability to organize and examine the material in a critical and constructive manner. The student demonstrates a good understanding of the relevant issues and a familiarity with the appropriate literature and techniques.
B	73 - 76	
B-	70 - 72	
C+	67 - 69	Acceptable: An adequate performance in which the student demonstrates a generally adequate grasp of the subject matter and a moderate ability to examine the material in a critical and constructive manner. The student displays an adequate understanding of the relevant issues, and a general familiarity with the appropriate literature and techniques.
C	63 - 66	
C-	60 - 62	

Course Material

- Nagle, Thomas T., John Hogan and Joseph Zale (2010) “The Strategy and Tactics of Pricing”, Fifth Edition, Prentice Hall [NHZ]. Fourth and third edition of this book is sold on-line and these are reasonable substitute for the fifth edition. This book, if made available at the University bookstore, it would be priced at about \$100 (my guess about bookstore pricing policy). You can order it from www.amazon.ca for \$57.02 with delivery promise of one week, or from www.chapters.ca for \$60.02 with the same delivery promise. The book publisher has posted this book on website, <http://www.mypearsonstore.ca/bookstore/product.asp?isbn=0136106811>, was at price \$90.95 and member price of \$81.866 on August 31, 2010. You can order it from www.amazon.com for US\$57.65 with shipping and handling (US\$8.80) and import fee deposit for total of US\$69.51.
- All of readings that are available in electronic format will be provided on the course web site.
- A selected case solution will be posted on the course web site.

Course Objectives

1. Develop and apply analytical tools necessary for sound pricing decisions.
2. Develop skills to analyze complex business situations.
3. Provide mathematical tools used in marketing.
4. Provide opportunities to
 - (a) Articulate and defend positions,
 - (b) Improve presentation and writing skills and
 - (c) Learn to function effectively in teams.

Course Structure

This course is built around four interrelated themes.

1. Management principles applied to pricing,
2. Economic and psychological aspects of pricing decisions,
3. Pricing decisions that are consistent with marketing mix and
4. Pricing strategy.

Preparing for Class

To me learning can and should be fun and hard work. Moreover, participatory learning require that we all bear responsibility to be prepared for each class. Preparation means reading and interpreting the assigned reading material. After you have read the material, note your learning and then ask challenging questions such as why does this work, can it be applied to another situation, is there better way to frame the problem and solve it.

Weekly Topics and Key ideas

Week of	Topic	Case
Jan. 10	<p>Pricing in organization NHZ chapters 1 & 8 (2), pages 1-13,149-172 Key ideas: Meaning of price, importance of pricing decision, pricing strategy, costs, competitors and consumers.</p> <ul style="list-style-type: none"> • Cressman George E. (1997) “Snatching defeat from the jaws of victory: Why do good managers make bad pricing decisions?” <i>Marketing Management</i>, Vol. 6 (summer), 9-19. • Dolan Robert J. (1995) “How do you know when the price is right”, <i>Harvard Business Review</i>, vol. 73 (Sept.-Oct.), 174-83. • Smith Gerald E. (1995) “Managerial pricing orientation: The process of making pricing decisions”, <i>Pricing Strategy and Practice</i>, vol. 3 (3), 28-39. 	<p>Great Canadian detergent company, University of Guelph.</p> <ul style="list-style-type: none"> • What pricing method should be considered for new dish detergent? What method do you recommend? Why? • What retail price do you recommend for the new dish detergent? What market share do you estimate for the new product at this price? Justify your estimate. • What will the gross margin and net profit be for the new product in the first and second years, at your recommended price?
Jan. 17 and Jan. 24	<p>Financial Analysis: NHZ chapter 9(3), pages 175-212 Key ideas: Relevant costs, breakeven analysis, price volume analysis, pricing with scarce resource, and Economic Value Analysis.</p> <ul style="list-style-type: none"> • Smith Gerald E. and Thomas T. Nagle (1994) “Financial analysis for profit driven pricing”, <i>Sloan Management Review</i>, vol. 35 (spring), 71-84. 	<p>YOSO, Costing challenge, University of Guelph.</p> <ul style="list-style-type: none"> • What costing method should be considered for Yoso products? • What method do you recommend? Why? • Identify practical challenges in instituting your costing procedure.

Week of	Topic	Case
Jan. 31	<p>Customer Understanding NHZ chapter 7(4), pages 124-146.</p> <p>Key ideas: Buyers' perception of price, Role of price in decision making, price-quality perception, economic value assessment, Odd - Even pricing, Willingness to pay.</p> <ul style="list-style-type: none"> • Dickson, Peter R. and Alan G. Sawyer (1990) "The Price Knowledge and search of supermarket shoppers", <i>Journal of Marketing</i>, vol. 54 (July), 42-53. • Gourville John and Dilip Soman (2002) "Pricing and the Psychology of consumption", <i>Harvard Business Review</i>, September, 91-96. • Smith Gerald E. and Thomas T. Nagle (2002) "How much are customers willing to pay", <i>Marketing Research</i>, 14 (winter), 20-25. 	<p>Buying new television set (2008) by Passy Charles for Yahoo! Finance.</p> <ul style="list-style-type: none"> • What are value drivers in high technology markets and particularly television sets? How is price related to value? • What decision process can we infer from information presented?
Feb. 7	<p>Competition NHZ chapter 10(5), pages 213-238.</p> <p>Key ideas: Understanding pricing game, price wars, influencing outcome of price wars, competitive intelligence.</p> <ul style="list-style-type: none"> • Cressman George E. and Thomas T. Nagle (2002) "How to manage an aggressive competitor", <i>Business Horizon</i>, April-May, 23-30. • Rao, Akshay R. Mark E. Bergen and Scott Davis (2000) "How to fight a price war" <i>Harvard Business Review</i>, 78 (March-April), 107-16. 	<p>Mavesa's Nelly brand: Pricing to gain market control, University of Western Ontario, 2000.</p> <ul style="list-style-type: none"> • What opportunities exist within the family segment for Mavesa's mayonnaise brands? • Should you decide to re-position Nelly using price? Why? • What are Mavesa's strengths, given the current competitive environment? • What other choices can Mavesa employ to take advantage of the existing opportunities?

Week of	Topic	Case
Feb. 14	<p>Pricing Tools and Processes NHZ chapter 4(11), pages 54-79.</p> <p>Key ideas: Risk analysis (market share or profitability), net price analysis, price segmentation, product line pricing</p> <ul style="list-style-type: none"> • Ailawadi Kusum, Paul Farris and Ervin Shames (1999) “Trade promotion: Essential to selling through resellers”, <i>Sloan Management Review</i>, 41, (fall), 83-92. • Bell David R. and Xavier Dreze (2002) “Changing the channel: A better way to do trade promotions”, <i>MIT Sloan Management Review</i>, 44, 42-49. • Dutta Shantanu, Mark Zbaracki and Mark Bergen (2001) “Pricing Process as a Capability”, Working paper, Marketing Science Institute, report no. 01-117. • Marn, Michael V. and Robert L. Rosiella (1992) “Managing price, gaining profit”, <i>Harvard Business Review</i>, Sept.-Oct., 84-93. • Marn, Michael V., Eric V. Roegner and Craig C. Zawada (2003) “The Power of Pricing”, <i>The McKinsey Quarterly</i>, number 1, 27-26. 	<p>A short case to be given.</p>
Feb. 28	<p>Putting Pricing Strategy together NHZ chapter 6(6), pages 104-123.</p> <p>Key ideas: value management, role of objectives on pricing, market environment.</p> <ul style="list-style-type: none"> • Shiple David and David Jobber (2001) “Integrative Pricing via the Pricing Wheel”, <i>Industrial Marketing Management</i>, 30, 301-14. • Smith Michael F., Indrajit Sinha, Richard Lancioni and Howard Forman (1999) “Role of market turbulence in shaping pricing strategy”, <i>Industrial Marketing Management</i>, 28, 637-49. 	<p>Atlas Chemical company, University of Guelph.</p> <ul style="list-style-type: none"> • What factors should Atlas consider in analyzing their pricing decision? • Evaluate each pricing option Mr. Aitken has defined? Which option should he select? • Develop a complete marketing plan including estimates of sales and profits for the line of products. • Should Atlas market the micro-nutrients in Eastern Canada?
Mar. 7	<p>Life cycle and experience curve based pricing NHZ chapter 12(7), pages 265-279.</p> <p>Key ideas: Product life cycle, experience or learning curve effect, new product pricing.</p> <ul style="list-style-type: none"> • Holden Reed K. and Thomas T. Nagle (1998) “Kamikaze pricing”, <i>Marketing Management</i>, 7 (summer), 30-39. 	<p>CashScan, University of Guelph.</p> <ul style="list-style-type: none"> • Suggest appropriate pricing policy based on the next year’s sales projection. • What pricing policy do you recommend for CashScan and why?

Week of	Topic	Case
Mar. 14	<p>Marketing mix and Pricing NHZ chapter 5(10), pages 253-277. Key ideas: Marketing mix, strategic aspect of mix and its impact on sales and / choice</p> <ul style="list-style-type: none"> • Anderson Eric and Duncan Simester (2003) “Minding your pricing cues”, <i>Harvard Business Review</i>, September, 96-103. • Olver James M. and Paul W. Farris (1989) “Push and pull: A one-two punch for packaged products”, <i>Sloan Management Review</i>, Fall, 53-60. 	<p>Maruca, Regina F. (1995) “How do you grow a premium brand?” <i>Harvard Business Review</i>, March-April, 22-40.</p> <ul style="list-style-type: none"> • What is unique about health club operation and in particular Transition? • What options is Gordon Johnson facing? What are pricing consequences? • Gordon, Frank and Scott each have unique perspective. Whom would you support? Why?
Mar. 21	<p>Pricing Research and price sensitivity NHZ chapter 13(13), pages 281-320. Key ideas: price metering, conjoint analysis, in-store experiments, customer purchase history</p> <ul style="list-style-type: none"> • Hunt Paul (1999) “5 cardinal rules of pricing”, <i>Imprint</i>, December, 18-19. • Hunt Paul (2000) “Putting the right price on new products”, <i>Imprint</i>, January, 14-15. 	<p>Globe and Mail defends against National post, University of Guelph.</p> <ul style="list-style-type: none"> • What research would you propose to understand customer value and price sensitivity in both reader and advertiser market? • Would you decrease advertising rates? • Would you change subscription prices?
Mar. 28	<p>Negotiations and Auctions NHZ chapter 11(8), pages 265-279. Key ideas: B2B markets, Industrial buying behaviour, types of auctions and nature of bargaining.</p>	<p>Yield Management at American Airlines, University of Western Ontario, 2000.</p> <ul style="list-style-type: none"> • Come prepared with a bid strategy. • Be prepared to discuss the concept of yield management and its opportunities in the service business.
Apr. 4	<p>Future Trends in pricing Key ideas: Revenue management, automation, global pricing, gray market, organizational design.</p> <ul style="list-style-type: none"> • Dutta Shantanu, Mark Bergen, Daniel Levy, Mark Ritson and Mark Zbaracki (2002) “Pricing as a strategic capability”, <i>MIT Sloan Management Review</i>, 44 (winter), 61-66. • Narayandas Das, John Quelch and Gordon Swartz (2000) “Prepare your company for global pricing”, <i>Sloan Management Review</i>, 42 (fall), 61-70. • Arvind Sahay (2007) “How to reap higher profits with dynamic pricing”, <i>Sloan Management Review</i>, 48 (4), 53-60. 	