OUTLINE OF CLASS ASSIGNMENTS
(Subject to Change)

The pages that follow contain a summary of the material we expect to cover in the class and the course assignments. They provide brief descriptions of each class session and the assignments for each class meeting.

The readings from the text will be used primarily to provide background for the lectures. The text tends to be very qualitative in its approach and will be useful for providing a context for the more analytical material covered in lecture. Unless you are told otherwise, you will not be tested on material covered in the text that is not covered in lecture. However, reading the assigned sections of the text prior to lecture will enhance your ability to see understand the managerial implications of the material presented in lecture. There are also several readings contained in course reader. These readings are designed to give you more detail on some of the concepts covered in the class. Again, you are encouraged to do the assigned readings prior to the class meeting for which they are assigned because doing so will increase the value you receive from the lecture. This is particularly true for some of the more technical topics such as those dealing with approaches to estimating utility and demand.

This outline also contains the case assignments for the course. By the end of the first class meeting you should be assigned to a study group. The purpose of the group is to provide a forum for discussing the assigned cases. You should read the cases carefully, discuss them with your group members and be prepared to provide your group’s recommendations prior to the class for which they are assigned. A recommended format for written “position paper” assignments is given below.

You are encouraged to read the description of the classes at least a week in advance so that you will have adequate time to prepare for them, especially if they involve group case assignments.

Mini Case Assignments

We will have several “mini cases” we will discuss in class over the quarter. Due to time limitations we will spend only 15 minutes to a half hour discussing them. As such, we will typically discuss only the major issues in these cases and focus on the quantitative detail. A careful reading and notes addressing the discussion questions will suffice. You do not need to “run the numbers” or prepare a write-up for these cases. You are encouraged to discuss the cases with your group members but doing so is not required.

Group Written Case Assignments - Position Papers

The position paper assignments should not exceed three double spaced pages in length (font size not to be less than 10 point) plus any exhibits you feel will help support your recommendations. I strongly recommend the following format for presenting your written case assignments:

Begin with a brief (one paragraph) introduction describing the problem facing the company that you are addressing.

Summarize the key points in your recommendation. You may wish to present the details of your proposal in exhibits following the text of the case.
Justify your recommendations. To effectively do this, you should draw on information from a careful situation analysis to support why your proposal should be effective in addressing the company's problem. You may assume that the reader is familiar with the case and, therefore, should not devote space repeating facts provided in the case unless needed to support your recommendations. When you do refer to facts presented in the case they should support an argument that you are making and you should provide page or exhibit numbers as references.

You should use exhibits when appropriate and include them after the text of your position paper. Exhibits should be used in support of your arguments and they all should be referenced in the body of your write-up.

These assignments will be graded on a ten-point basis, with a score of 5 corresponding to a B-.

You should use these position papers as a basis for discussing the cases in class. I expect that all group members to make significant contributions with regard to the recommendations for each group project. It is not an acceptable group preparation practice to allocate group case assignments to different group members and who then prepare them individually. These assignments will be due at the end of the class period in which the case is discussed. Late case assignments will not be accepted.

When preparing case assignments, you should restrict your attention to the material in the cases unless specifically instructed otherwise! You should not seek out additional information from the internet or other sources.

Problem Sets

There will be several problem sets given out over the course of the semester. These assignments are optional; however, completing (or at least attempting) them by the due date will enhance your understanding of the course material as well as your performance on the midterm exam. In addition your efforts toward completing the problem sets may help your grade if your course performance is on the border between two grades. Attempting the problem sets will not count against your grade even if you are not very successful. As such you are encouraged to attempt them and turn in what you are able to complete. You may discuss approaches to addressing the problem sets with your classmates but copying answers from a classmate will be considered an honor code violation. To get credit for the problem sets you must turn them in on the date they are due (before solutions are provided).

Midterm Exam

A midterm exam is scheduled for November 13. See the assignment description for more details.

Final Project

An individual final project will be due midnight the Sunday following the final class meeting. For the final project you are to make recommendations concerning a real company's pricing policies and justify your recommendations. You may consider the possibility of repricing an existing product (good and/or service) or product line or designing and pricing a new product or product line.

You should include the following in your write-up:

- A summary of the pricing decision you are going to address. This should include a brief company overview, the company's strategic positioning and how the product(s) you are considering fit(s) in with the company's objectives.
- Identify and summarize the current pricing practices (i.e. how prices are currently set) and existing data that can be used to make help an effective pricing policy.
- Recommend the next steps that should be taken given the available data. Recommendations could include interim price changes, data to be collected (both specific market research and
data to be collected on an ongoing basis) and how that data should be analyzed, and processes that will be implemented to review and implement price changes.

- Provide support for your recommendations. Explain why your recommendations will improve on current practices. Technical details of the analysis (e.g., data sources, marketing models used, assumptions, etc.) are probably best presented in an appendix.

In session 3 there will be a required proposal that summarizes the problem, determines the availability of relevant data, and proposes what basic types of analyses will be used to develop a pricing recommendation. Approval will be granted if there is enough potential for a substantive project. If the project will involve confidential information, please include any necessary Non-Disclosure Agreements with the proposal. I will sign these when the project is approved.

Final project write-up should be approximately 8-12 pages plus exhibits. It will be due the Monday following the final class session. Grades will be based on the clarity of the presentation and the rigor of the analysis. Additional credit will be given if new data is collected to support recommendations.

Under limited circumstances I will allow a project to be prepared in collaboration with one other student. Such collaborations will require a sufficiently substantial project to justify the effort of two people and will need my approval. With such a project, the page guidelines will be approximately 12-20 pages plus exhibits. In the event that you are unable to find a suitable project, a data set for a hypothetical business will be provided that can be used to make price recommendations.
Session 1. Tuesday, October 2

PART I. PRICING WITH MARKET POWER

FUNDAMENTAL CONCEPTS AND ACCOUNTING FOR COSTS IN PRICING DECISIONS

Our first session will begin with a review of the basic microeconomic principles that are useful in making pricing decisions. We will consider the limitations of the basic monopoly pricing models and introduce the topics we will discuss in the course.

The second part of the session will address the role of costs in developing pricing policies. There should be a very close relationship between the production technology adopted by a firm and its pricing decisions. The way costs are treated for accounting purposes is often not the most appropriate way to use them in making pricing decisions. We will examine approaches to cost-based pricing and when this method is appropriate.

Readings:
- Course Outline and Course Description
- Davis, *Effective Pricing Tactics and Analysis*, Chapter 1 (Recommended for review purposes only. This is a preliminary draft. If you choose to read this chapter, comments would be appreciated.)
- Davis, *Effective Pricing Tactics and Analysis*, Chapter 2 (Recommended to complement Nagle & Hogan, Chapter 8. Again, this is a preliminary draft. If you choose to read this chapter, comments would be appreciated.)

Review:
If you feel a bit unsure about the fundamentals of microeconomics you may wish to review the following topics in your microeconomics text: supply and demand, the firm's costs, and price determination in monopolistic and competitive markets. You may find the first recommended reading (Chapter 1) useful if you need a review of the economics principles.
Mini Case Assignment:
A CASE IN COST BASED PRICING: OWENS & MINOR, INC. (A)
Synopsis:
Owens & Minor (O&M) is one of the nation’s largest distributors of medical and surgical supplies. In 1995, the year preceding this case, O&M posted an $11 million loss due to a decrease in margin and an increase in expense. Much of the increase in expense is due to a change in the way customers order products and their delivery requirements. Their challenge is to adjust their prices to appropriately account for costs and customer incentives.

Class Discussion Questions
We will spend 15 to 30 minutes discussing this case. No written assignment is due but you should be prepared to discuss how O&M should go forward with their pricing policies. In particular, recommend whether or not O&M should proceed with activity based pricing and, if so, how they should implement it. When you read the case consider the following questions:

1. Why has the cost-plus pricing approach become unprofitable in recent years? How has O&M’s cost function changed?
2. What are the obstacles to the adoption of an activity-based pricing (ABP) policy to Ideal and other customers? What could O&M do to help overcome these objections?
3. Do you believe it is necessary and appropriate for O&M to share their cost data with customers?
4. How would you expect customers to respond to the ABP? Consider vendor choice and purchasing behavior.

THE FUNDAMENTALS OF DEMAND AND TOOLS FOR ESTIMATING VALUE AND WILLINGNESS TO PAY

A limitation to cost-based pricing is that it doesn’t address the customer’s willingness to purchase the product at a given price. It is also important to consider the demand for a product when setting price. An individual’s demand function, which describes the highest price he or she is willing to pay for a given quantity of a good or service and the demand function facing a supplier is the sum of the demands by the individuals in the market it serves. This session will review several different techniques such as economic value to the customer (EVC) analysis and utility estimation based on stated preferences that can be used to estimate how brand preference should vary with price.

Reading:
Nagle and Hogan, The Strategy and Tactics of Pricing, pages 27-44 and Chapter 13
Urban and Hauser, Design and Marketing of New Products, Chapter 10 (it is strongly recommended that you review this reading prior to the class meeting)
Session 3. Tuesday, October 16

PREDICTING CHOICE AND ACCOUNTING FOR PSYCHOLOGICAL INFLUENCES ON DEMAND

Effectively estimating a demand function requires predicting how estimated preferences translate into actual choice and purchase behavior. In this session we will look at several approaches to estimating brand choice and market share. Many approaches to modeling consumer buying behavior assume that consumers act like rational utility maximizers. However, there is a large body of evidence that suggests that consumers often act in ways that appear inconsistent with “economically rational” behavior. In this session we will review how psychological factors influence consumers’ price judgments and their resulting purchase behavior.

Reading:
Urban and Hauser, Design and Marketing of New Products, Chapter 12 (it is strongly recommended that you review this reading prior to the class meeting)
HBS Article: Note on Behavioral Pricing

Individual Assignment Due:
Problem Set 1 - Optional
Session 4. Tuesday, October 23

A CASE IN VALUE ESTIMATION: CUMBERLAND METALS INDUSTRIES

Synopsis:
Cumberland Metals Industries (CMI) had net sales fall approximately ten percent from 1978 to 1979. The company may have found a cure for its ills with a new product: curled metal pile driver pads. Two field tests showed that these pads could potentially provide substantial consumer benefits. Developing an effective pricing policy is critical in capturing the potential gains from this new product.

Group Written Position Paper Assignment Due:
Propose a suggested retail price and wholesale price for the pads. To do this you will need to determine an upper and lower bound on the suggested retail price (price to be paid by the final customers). In doing this you should estimate the monetary (or alternatively, economic) value to the customer (MVC or EVC) of CMI's curled metal pads based on the two field tests. Demonstrate how you came up with your estimate by clearly showing any relevant computations in an exhibit. Also be prepared to summarize your assumptions and identify the potential for market segmentation and best target markets.

You should show how you determined the lower bound on price based on CMI's costs. Do a complete cost analysis you should consider the possibility of retooling. For this exercise you may assume that retailers will find the current markup rate sufficient to encourage them to carry and support the product. In preparing your write-up you are encouraged to use the format recommended at the front of this outline.

Class Discussion Questions
1. Recommend whether or not CMI should engage in retooling. Be prepared to justify your recommendations with any appropriate computations.

2. Be prepared to justify your price recommendation based on an analysis of CMI's situation (the Four C's: customer, competition, company, and contributors (such as, resellers)).

Individual Assignment Due:
Problem Set 2 – Optional

PART II. PRICING IN A COMPETITIVE ENVIRONMENT

COMPETITION IN MARKETS WITH UNDIFFERENTIATED PRODUCTS

The demand function faced by a supplier will generally depend on the actions of its competitors. Furthermore, a supplier's pricing and positioning policies will influence a competitor's actions. This session will apply the basic concepts of game theory to examine the competitive interactions between sellers and competitive decision-making. When products are undifferentiated, price competition can be very intense. The second part of this session will consider how capacity limitations, effective targeting, and building a reputation through repeated interactions can influence market prices and help maintain price discipline in a competitive environment.

Reading:
Nagle and Hogan, The Strategy and Tactics of Pricing, Chapter 10, pages 325-328 and 337-338
Pashigian, Price Theory and Applications, Chapter 10: “Pricing in Oligopoly”
Session 5. Tuesday, October 30

A CASE IN PRICING UNDIFFERENTIATED PRODUCTS: FEDERATED INDUSTRIES

Synopsis:
Federated Industries has historically been the market share leader in the capacitor industry. However, during the period from 1971 to 1984, both prices and profitability have declined rapidly. They are currently faced with a decision with respect to a bid on a contract with the Southern Valley Association.

Group Discussion Assignment Due:
As a group, recommend whether or not Federated should bid on this contract. If you decide they should bid, recommend a price that they should bid. You should be prepared to present and justify your bid in class. There is no written assignment for this case.

Class Discussion Questions
1. Should Federated bid on this contract? If so, how much?
2. What are the market forces that have led to the recent price declines?
3. What steps, if any, can be taken to reduce the price erosion?
4. What are Federated's relative strengths with respect to the market? Is Federated in a good position to remain in the market?

COMPETING WHEN PRODUCTS ARE DIFFERENTIATED

When products are differentiated, factors other than price will influence a consumer's choice of supplier. This session extends our competitive analysis to cases in which small changes in price will not necessarily trigger large changes in supplier choice. We will also consider the role of price leadership in increasing the profitability of an industry.

Reading:
Rao, Bergen, and Davis, “How to Fight a Price War.”
Session 6. Tuesday, November 6

PRICING TO SATISFY VARYING OBJECTIVES

In this session we will discuss approaches to pricing in an uncertain environment and the value of market research. We will also consider the implications and appropriateness of objectives other than profit maximization when formulating a pricing policy.

Individual Assignment Due:
Problem Set 3 - Optional

PART III. INCREASING PROFITS THROUGH SEGMENTED PRICING

SEGMENTED PRICING

Segmented pricing is the practice of charging prices to different consumers based on differences in their willingness to pay or the cost of serving them. We will introduce the notion of price discrimination and consider different ways of applying it legally and profitably.

Reading:
Nagle and Hogan, *The Strategy and Tactics of Pricing*, pages 54-69, 330-335

MIDTERM REVIEW

The last part of class session will be allocated to a review of the material covered up to this point to assist in preparing for the midterm.

Individual Assignment Due:
Final Project Proposal summarizing the problem to be addressed and the approach (including a brief summary of available data)
Session 7. Tuesday, November 13

MIDTERM EXAM

The session will be devoted to the midterm exam. It will cover material up through Session 6. You will be given two hours to complete the exam. The exam will include true/false questions that require an explanation and several problems that will require some mathematical and verbal analysis. The best way to study for the exam is to review to be sure that you comfortable with the thought processes that go into pricing decisions. Typically reviewing the lecture notes and working through problem sets and the sample exam are helpful. DO NOT MEMORIZE FORMULAS, as I often intentionally write problems for which the formulas derived in class are not appropriate.
Session 8. Tuesday, November 20

PRICE PROMOTIONS

There are many potential benefits from promotions. They can help to clear excessive inventories and provide customers with the sense that they are getting a good deal. However, they often cannibalize full-priced sales and possibly lead to price competition. We will place particular emphasis on how price promotions, coupons and rebates can be used to increase profits by charging different prices to different customers. We will review the factors that should be considered when designing a price discount policy.

NON-LINEAR PRICING AND BUNDLING

Nonlinear pricing refers to the policy of setting a price schedule (often called a tariff) in which the price of an additional unit depends on the number of units purchased. The concepts can also be applied to designing packages of different sizes. We will discuss conditions under which a non-linear pricing scheme might be profitable and will present several approaches to implementing a nonlinear pricing policy. There are often opportunities for a seller to increase profits by selling groups of products together in bundles in addition to or instead of selling the products individually. We will consider the conditions in which bundling is most likely to be profitable and an approach to setting prices for those bundles.

Reading:
   Nagle and Hogan, The Strategy and Tactics of Pricing, Chapter 6
   Robert Dolan, “Quantity Discounts: Managerial Issues and Opportunities”
Session 9. Tuesday, November 27
PART IV. PRICING AND THE MARKETING MIX

A CASE IN PRICE PROMOTION MANAGEMENT:
HARTMANN LUGGAGE COMPANY

Synopsis:
Hartmann Luggage Company is one of the leading manufacturers of high quality luggage. The company's executives are considering what strategy Hartmann should pursue to achieve earnings and sales growth goals and what role, if any, price promotion should play in this strategy.

Group Written Position Paper Assignment Due:
Formulate a recommendation concerning Hartmann's promotion policy for 1981. Design the best possible promotion that Hartmann could run given what you learned from the 1978 promotion. You should consider whether Hartmann should undertake the price promotion you designed or take other steps to achieve its desired objectives. If you recommend that Hartmann undertake a price promotion, you should specify how it should be implemented. If you recommend against a promotion you should explain why other policies would be more consistent with the company's objectives. In either case, you should clearly justify your recommendations. In formulating your recommendations, you should consider the discussion questions below which will be discussed in class.

Class Discussion Questions
1. How would you characterize consumer behavior in the luggage market as a whole? How might you segment the market? What are (or should be) Hartmann's target segments?
2. What are the strengths and weaknesses in Hartmann's current position?
3. Was the 1978 promotion profitable? Why? Whose assumptions are the most credible?
4. If Hartmann were to run a price promotion in 1981, how could the promotion be designed to be consistent with the company's market position and objectives?

PART IV. PRICING AND THE MARKETING MIX

THE DESIGN AND PRICING OF PRODUCTS AND PRODUCT LINES

The long run profitability of a new product introduction may depend on the pricing policy adopted when the product is introduced. We will examine how long term considerations should influence the decision to adopt a skimming or penetration pricing policy. We will then focus on issues that face a firm that produces multiple products. When designing a product line, a manager needs to consider the impact of the availability and price of one product on the sales of other products in the product line. Product lines should be designed and prices should be set to ensure that products with small margins will not extensively cannibalize the sales of products having larger margins.

Reading:
Nagle and Hogan, The Strategy and Tactics of Pricing, pages 124-136 and Chapter 12
HBR Article: “Versioning: The Smart Way to Sell Information”
Session 10. Tuesday, December 4

PRICING WITH CHANNELS AND ADVERTISING

Suppliers often use intermediaries to sell their products. Although channel members may be more efficient in performing the distribution task, using them results in some loss of control over the prices consumers will pay for the supplier's products and the promotional effort supporting the product. It is therefore important for a supplier to account for the incentives of intermediaries when developing its pricing policies. In this session we will look at the impact of using intermediaries on retail prices and channel profits and suggest ways of improving channel performance. The key impact of advertising is on the demand for a product. As a result, a product’s price should be consistent with the advertising and promotion policies that support the product. We will also consider the potential impact of advertising on the behavior of retailers.

Reading:
  Nagle and Hogan, The Strategy and Tactics of Pricing, Chapter 11

Individual Assignment Due:
  Problem Set 4 - Optional

Midnight the evening of Sunday, December 9

Final Project Due – E-Mail to sdavis@marketingdecisions.net