

**UNIVERSITY OF COLORADO - BOULDER
LEEDS SCHOOL OF BUSINESS**

**MKTG 4825 – PRICING STRATEGIES AND CHANNEL MANAGEMENT
Spring, 2010**

Professor Sun, Yacheng

Section Meets:	3:30pm – 4:45pm (section 001), Koelbel S127 5:00pm – 6:15pm (section 002), Koelbel S127
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Office hours:	Tue/Thu 10:00am-12:00 pm <i>and</i> by appointment

Prerequisites

Requirements for class prerequisites will be strictly enforced. Please do not take this course unless you have taken all three prerequisites below – failure to meet this requirement can result in an administrative drop at **any** point during the semester.

- BCOR 2400
- MKTG 3250: *Buyer Behavior*.
- MKTG3350: *Marketing Research*

MKTG 4825 is offered to students with a formal major in Marketing at Leeds School of Business, University of Colorado at Boulder. MKTG 4825 does not provide credit toward a degree in non-Business major.

Required Text: Nagle, Thomas T. & Hogan, John E. (2006), *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, Fourth Edition, Prentice-Hall, Upper Saddle River, NJ.

Course Description and Objectives

In this class we examine pricing and channel management strategies, the two key components of any company's marketing mix. While these two strategies arguably differ a lot in scope and flexibility to use, pricing and channel management decisions are inseparable and interrelated. This course studies both by providing (1) a review of the strategic and tactical aspects of pricing strategies and (2) an overview of the channel structures, the channel coordination problem and its remedies. This course will be directly useful to students who potentially face pricing decisions and channel management tasks down their career path; it will also benefit students who have a general business career in mind by establishing a solid understanding of the complexities in pricing strategy and channel issues. Furthermore, this course will also help students to become smarter consumers.

The objectives of MKTG 4825 are four-fold. The first objective is to equip you with an understanding of the key concepts and terminologies commonly used in discussing pricing and channel decisions; and foster your ability to correctly and efficiently use them in communicating with your classmates, your instructor (me) as well as your future employers. The second objective is to familiarize you with various types of commonly used price formats and show when these formats are applicable and how to use them to improve profitability. The third objective is to help you develop analytical skills that are necessary in rigorously formulating a research question (e.g., pricing decision) and outline the path to solving it. The fourth objective is to equip you with the set of empirical skills that serve as workhorses for pricers in their everyday work. These empirical skills that are covered in this course include using *Excel* to (1) conduct data manipulations; (2) estimate demand curves in various function forms and (3) using *Excel Solver* to compute optimal prices.

This course puts a strong emphasis on rigor. It is my belief that the analytical skills and more importantly, a rigorous attitude in approaching and solving practical problems are the most valuable results out of this class. Academic evaluation will be conducted in a way that is consistent with such belief.

Course Contents

We will mainly cover the following topics:

1. Explore behavioral aspects of pricing. Specifically,
 - How to measure consumers' willingness-to-pay (WTP)?
 - How are consumers' perceptions of price influenced by contextual and temporal effects?
 - Are there systematic psychological biases of consumers toward particular price offers? If so how can the companies leverage such biases in their pricing practices?
2. An analytical framework of making optimal price decisions based on understanding and estimating the demand curve. Specifically,
 - What is consumer surplus (CS) and what is a demand curve (DC)? Why is the understanding of CS and DC essential to designing an optimal pricing strategy?
 - What is price elasticity and how does it vary at different points of a demand curve? What is the relationship between price elasticity and the optimal monopoly price?
3. Techniques for conducting empirical estimation of the demand function. Specifically,
 - How to use Excel to estimate various types of demand curves (linear, quadratic and log-linear) with secondary data?
 - How to interpret the coefficient estimates from different demand curves?
 - How to compute demand elasticities for different demand functions?
 - How to use Excel Solver and the estimated demand curve to compute the optimal price(s)?
4. Prices formats that are frequently used to extract consumer surplus. Specifically,
 - What are tying and bundling strategies, and how do they claim consumer surplus?
 - How to design optimal tying and bundling strategy, taking into consideration differences in consumers' willingness-to-pay?

- What is revenue management strategy and how is it useful?
5. Comprehend the channel structure and its interaction with pricing strategy. Grasp the nature of channel coordination problem and its remedies. Specifically,
- What are the functions and structures of marketing channels? What are the identities and characteristics of the channel members?
 - How to compute profit margin of different levels of channel members?
 - What is retailer pass-through and how is it related to the double-marginalization problem?
 - What are the remedies for double marginalization?

Suggested Readings

Various journal articles: Throughout the semester, I will assign non-technical articles from business journals (e.g., *Harvard Business Review*, *Sloan Management Review* and *Journal of Marketing*) that will help to supplement our classroom learning. Some of the exam questions will be derived from these journal articles. [Appendix C](#) gives a list of reference articles that might appeal to further interests of the students. You are encouraged to find and refer to additional references that relate to your term project.

Religious Observances and Disabilities

I will try my best to accommodate religious observance and qualified disabilities. However, both advance notice (written or in email) and supporting documents are required in order for any observance to be accommodated. If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. (303) 492-8671, Willard 322, www.Colorado.EDU/disabilityservices.

Academic Misconduct

All students in this course are expected to abide by the provisions of University of Colorado at Boulder Code¹ of Student Rights, Responsibilities, and Conduct, which states:

“All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council (honor@colorado.edu; 303-725-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion).

Classroom Behavior

¹ The code is available online at <http://www.colorado.edu/policies/honor.html> and <http://www.colorado.edu/academics/honorcode/>

University of Colorado policy states that: “Students and faculty each have responsibility for maintaining an appropriate learning environment. Students who fail to adhere to such behavioral standards may be subject to discipline. Faculty have the professional responsibility to treat all students with understanding, dignity and respect, to guide classroom discussion and to set reasonable limits on the manner in which they and their students express opinions. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, culture, religion, politics, sexual orientation, gender variance, and nationalities.²”

In order to make the learning experiences as rewarding and enjoyable as possible, please make sure that you abide by the following classroom norms:

Class Norms

- Be on time for class! Late entrance into the classroom results in a serious distraction of the entire class, and, as stated below, the late student might forfeit the attendance score for the class.
- Cell phones / Pagers - Please keep them TURNED OFF during the entire class session of 1 hours and 15 minutes. It is an unwanted intrusion into the classroom. This disturbs your classmates and me.
- Laptop use is not allowed in this class without explicit consent of the instructor. Use disturbs others around you, and me.
- Non-Academic Activities during Class - Please do not indulge in activities such as reading non-class related material (e.g., newspaper), eating, etc. during class. That disturbs students around you and me.

It is a joint responsibility for everyone in the classroom, students and instructor alike, to create and maintain the best environment for learning. As you know, improper laptop usage and other improper activities like reading non-class material(e.g., newspaper) during a class session or eating any food cause severe disturbance/distraction for your fellow students and for me. It is simply unfair to others who are engaged in activities relevant to that class session. Your cooperation is of utmost importance to me and I thank you advance for that.

Leeds School Grading Policy

The faculty and administration of the Leeds School are instituting a new grading policy for fall 2009 to strengthen the rigor of our programs and the value of your degrees. The guidelines are:

Course Level Maximum Average Course Grade

1000 and 2000	2.5
3000	2.8
4000	3.0
5000	3.2
6000 and MBA Core	3.4
MBA Electives	3.6

² More details can be found at <http://www.colorado.edu/policies/classbehavior.html> and http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code

Requests for exceptions to the policy can be made to the Leeds School administration in exceptional circumstances.

Grading

Component	Points	Tentative Date
Exam 1	200 points	February 11 th
Exam 2	200 points	March 16 th
Exam 3	200 points	May 4 th
Team Project	300 points	See Appendix A
Attendance scores	100 points	Various dates
Participation scores	50 points	Entire semester
Total		1050 points

Your MKTG 4825 course grade will be determined based upon your relative overall performance on the three exams, your ten highest quiz scores, the written analysis assignments.

Grading Components

Exams Three examinations are scheduled throughout the entire semester and each exam is worth 200 points. The first two exams will be held during regular class sessions and each takes 75 minutes; and the third and final exam will be held during the final examination period designated by the University of Colorado, and takes around 120 minutes. The exams mainly consist of multiple choice questions and cover materials from both the course textbook and class sessions. See [Appendix A](#) for the scheduled time and coverage of each exam. All exams are closed-book, except that you are allowed to bring an A4 size on which you can write down mathematical formulas. Bring two #2 pencils and a non-programmable calculator to the exam. You must fill in the bubble sheet in a form that is legible for the grading machine. **Important: I will not make up for any loss of points due to illegible filling of the bubble sheet.**

It is your responsibility to show up for the exam in the scheduled exam times. The final exam University of Colorado mandates all final exam times during finals weeks (last week of the semester). The instructor is not responsible for these times. As a result all students must take the final exam during the day and time stated in Schedule of Classes for this course. **There is no make-up exam.** If an emergent situation prevent, I will use the rest of your exam scores to prorate the score of the missed exam. In order for me to accommodate the missed exam this way, the emergency has to fall strictly within the purview of the University rules, such as a serious illness of the students or death of a family member.

Group Project The group project is worth 300 points. Students will form 4-5 people teams to work on a term project throughout the semester. Each team must and utilizes the techniques covered in the classroom to make a recommendation of the price. While the teams have the flexibility to choose any type of product or service that can be reasonably priced, the pricing recommendations has to be based on rigorous analytical and empirical analyses.

Deliverables of the project include (1) an initial report that identifies the pricing research topic (2) an interim report that outlines the pricing methods and techniques to be used, and any assumptions that has to be made; (3) a final research report and (4) a presentation. The evaluation of the group project will be based on the quality of the final research report as well as the delivery of the in-class presentation. However, each team must hand in the first two assignments to the instructor for feedbacks as well as go-ahead approval. See Appendix B for the guidelines of the group project. The detailed descriptions and instructions of these assignments will be distributed in due time as the class progresses. See [Appendix A](#) for the due dates of these assignments.

Attendance Scores Consistent attendance is key to an effective and enjoyable learning environment in this class. The attendance scores will be based on 6-8 in-class quizzes given in “random” class times. The maximum attendance score that can be earned is 100. An absence is “unexcused” unless (1) it is due to a legitimate reason, such as illness and holiday observance that is preventing you from attending the class and (2) advance notice and any relevant proof (e.g., medical document) are provided to me. I allow for one unexcused absence; and I will start deducting 20 points for each of the unexcused absence thereafter. **Important: there will be no “make-up” in-class quiz of any kind.**

Classroom Participation Students can earn up to 50 classroom participation points. In-class discussion and interactions between the instructor and the students makes an indispensable part for effective learning. Fortunately, the small class size allows us to constantly engage ourselves in such discussions. In order to encourage every student actively engage in the classroom discussion, I make these extra points available to each student for speaking out and sharing their thoughts with the classmates. Your participation scores does not necessarily depends on how “accurate” the answer is – in fact, there will be many questions that are open-ended and do not have a “correct answer”. In stead, your inputs will be evaluated based on the following grounds: (1) whether you show sufficient preparation for the class; (2) the amount of deliberation and analytical rigor behind your answers; (3) how much do your inputs contribute to the overall learning atmosphere of the class. To be fair to every student, including the “minimal speakers”, **I will cold-call students for their comments and thoughts in class.** Thus it is your responsibility to be reasonably prepared for class to avoid unnecessary embarrassment and the loss of classroom participation score.

Important: Both attendance score and participation score can only be earned when the student attends his or her *assigned section*.

Section website Course announcements, preliminary teaching slides and project assignment will be posted in the following web address:

<http://leeds-faculty.colorado.edu/ysun/mktg4825>

The instructor will inform in class as soon as new materials are posted or previous materials are updated. On the other hand, it is the responsibility of each student, especially who are not able to attend the class based on an excused reason, to check your MKTG 4825 website on a regular basis. To contact your instructor by email please use the University’s email system (Yacheng.Sun@Colorado.edu).

Appendix A MKTG 4825 Spring 2010 Calendar

Week	Date	Day	Schedule	Reading Assignment
1	Jan 12 th	Tuesday	Syllabus	Syllabus
	Jan 14 th	Thursday	Lecture 1 Overview of Class and Psychologies of Pricing	Lecture slides
2	Jan 19 th	Tuesday	Lecture 2 Psychologies of Pricing II	Lecture slides
	Jan 21 st	Thursday	Lecture 3 Value Creation	Chapter 3
3	Jan 26 th	Tuesday	Lecture 4 Value Measurement	Chapter 13
	Jan 28 th	Thursday	Lecture 5 Costs and Cost-plus Pricing	Chapter 1
4	Feb 2 nd	Tuesday	Lecture 6 Break-Even Analysis	Chapter 9
	Feb 4 th	Thursday	Lecture 7 Price Levels	Chapter 7
5	Feb 9 th	Tuesday	Lecture 8 Pricing as a Promotion Tool	Lecture Slides
	Feb 11 th	Thursday	Review	
6	Feb 16 th	Tuesday	Exam 1 (lecture 1-8)	
	Feb 18 th	Thursday	Lecture 9 Theoretical Analyses of Demand Curve, Consumer Surplus and Price Elasticity	Lecture Slides
7	Feb 23 rd	Tuesday	Lecture 10 Empirical Estimation of a Demand Curve	Lecture Slides
	Feb 25 th	Thursday	Lecture 11 Price Discrimination I	Chapter 4
8	Mar 2 nd	Tuesday	Lecture 12 Price Discrimination II	Chapter 4
	Mar 4 th	Thursday	Lecture 13 Pricing and Competition	Chapter 10
9	Mar 9 th	Tuesday	Lecture 14 Product Lifecycle Pricing	Chapter 12
	Mar 11 th	Thursday	Review Project topic selection due	
10	Mar 16 th	Tuesday	Exam 2 (covers lecture 9-14)	
	Mar 18 th	Thursday	Lecture 15 Two-Part Tariff	Lecture Slides
11	Spring break – Class doesn’t meet			
12	Mar 30 th	Tuesday	Lecture 16 Tying and Bundling	Lecture Slides
	Apr 1 st	Thursday	Lecture 17 Revenue Management I	Lecture Slides
13	Apr 6 th	Tuesday	Lecture 18 Revenue Management II Preliminary research report due	Lecture Slides
	Apr 8 th	Thursday	Lecture 19 Overview of Channel Structure	Lecture Slides
14	Apr 13 th	Tuesday	Lecture 20 Pricing Strategies and Channel Coordination I – Double Marginalization (DM)	Lecture Slides
	Apr 15 th	Thursday	Lecture 21 Pricing Strategies and Channel Coordination II – Remedies for DM	Lecture Slides
15	Apr 20 th	Tuesday	Lecture 22 Channel Coordination – Other Issues	Lecture Slides
	Apr 22 nd	Thursday	Project Day	
16	Apr 27 th	Tuesday	Project Presentation Final research report due	
	Apr 29 nd	Thursday	Project Presentation Final research report due	
17	Exam 3 (Cumulative final Exam)			
End of Semester				
<u>Important:</u> Dates on the course calendar are subject to change at the instructors’ discretion.				

Appendix B

Guidelines to Project Report and Presentation

Overview

Every student needs to complete a group project in order to pass the course. The group project consists of two main parts. The first part of the project is a written report analyzing the pricing issues surrounding a proposed new product that will compete within an existing market sector. The second part of the project requires that your team make a presentation based on the material that you have prepared for the written report. The project is an extremely important component of your course grade, representing approximately 30 percent of the total number of possible points that you can earn in the course. It is strongly suggested that your group work consistently on your project over the semester. Attempting to complete a semester-long project during the final week or two will likely have a disastrous impact on your final grade.

Assignments

Your group is expected to research, analyze, synthesize, and report on the pricing issues surrounding a new product entering an existing market sector. A significant task of the project requires that your group include detailed discussion regarding the current pricing strategies being used within the market sector and the proposed pricing strategy for the new competing product. In most instances, your group will also have to explore in detail the characteristics of the products competing in the market sector. Your group is also expected to provide sound justification for the pricing strategy that is being proposed for the new product. **Deliverables** includes two interim research reports (task # 1 and #2), a final research report (task # 3) and an in-class team presentation (task # 4).

The task description files are listed as follows:

- [Task # 1](#)
- [Task # 2](#)
- [Task # 3](#)
- [Task # 4](#)

Grading

The first and second project will not be graded, however, the students must hand them in a timely manner for the instructors' feedbacks and approvals to move forward. The final, written research report contributes to 75 percent of the total scores assigned to the project and the presentation accounts for the rest 25 percent. Thus, written report and presentation make 22.5% and 7.5% of the overall course grade, respectively.

To evaluate your final research report, I will check three main aspects. First, the amount of deliberation that your team exerted in formulating the research question, for example, whether the pricing strategy suggested by you considers likely contingencies and how these contingencies would affect the execution of your pricing strategy; second, the amount of rigor for the analytical and empirical analyses that are conducted for the pricing research, for example, whether the proposed procedure to measure customer valuation is reasonable, cost-effective and statistically correct; third, the amount of efforts that your team put forth in improving the readability of your report, for example, whether you paid serious attention the details and try to eliminate typos, grammar errors and disconnected sentences, I will pay special attention to the conciseness and

logical clarity of the writings; fourth, I will also look at whether you chose is an important and interesting research topic.

The class presentation will be peer-evaluated. The guidelines for such evaluations will be provided to you in a later time.

Peer Evaluation and Work Norms

It is well understood that the performance of a project teams critically depends on the conscientious contribution from each and every group member. To discourage potential free-riding behavior during the project process, I ask every student to fill a peer-evaluation sheet that rates the perceived contribution of the other group members. This sheet is due at the final exam and will be held strictly confidential by the instructor. While a student is always guaranteed to receive a half of his project score (the fixed part), I will use the average contribution ratings received by a student to determine **the other half** of his or her individual project scores (the variable part).

For example, imagine a hypothetical group which consists of 4 group members, A, B, C and D, and suppose the group as a whole receives an overall 290 points for the project. A, one of the group member, gives himself 100% rating on the group contribution, and he receives 100%, 100% and 90% ratings from B, C and D, then his average contribution rating is 97.5% $(100\%+100\%+100\%+90\%)/4$. In this case, the total score received by A is the sum of the fixed part of the participation score, which is 145 $(290*50\%)$, and the variable part, which is $97.5\%*145 = 141.5$. Thus the total project score received by A will be 286.5.

On the other hand, it is the group's responsibility to develop a (1) work norm that acknowledges and integrates the different strength of individual group members; and (2) a group meeting plan that accommodates the individual schedules of the group members. If any group has difficulty reaching the above two objectives, a written report of the situation, drafted and signed by the majority of the group must be filed to the instructor as soon as possible for my help with coordinating the issue.

Important: I will assume that the functionality of the group and will not make any accommodations unless the written report is filed at the earliest possible time.

Milestone Dates

- **Thursday, March 11 – Topic selection report due**
- **Tuesday, April 6 – Preliminary report due**
- **Tuesday, April 27 – Written project reports due; project presentations**
- **Thursday, April 29 - Written project reports due; project presentations**

Appendix C

List of Business Journal Articles on Pricing Strategy

1. Anderson, Eric and Simester, Duncan (2003), "Mind Your Pricing Cues," *Harvard Business Review*, September, 96-103.
2. Davenport, Thomas (2006) "Competing on Analytics," *Harvard Business Review*, January, 1-9.
3. Eppen, Gary, Hanson, Ward and Martin, Kipp (1999) "Bundling - New Products, New Markets, Low Risk," *Sloan Management Review*, Summer, 32 (4) 7-14.
4. Farris, Paul and Quelch, John (1987), "In Defense of Price Promotion," *Sloan Management Review*, Fall, 29 (1), 63-69.
5. Fleischmann, Hall, & Pyke (2004), "Smart Pricing," *Sloan Management Review*, 45 (2) 9-13.
6. Friend, Scott and Walker, Patricia (2001), "Welcome to the New World of Merchandising," *Harvard Business Review*, November, 133-141.
7. Leszinski, Ralf and Marn, Michael (1997), "Setting Value, Not Price," *Mckinsey Quarterly*, No. 1, 98-115.
8. Levy, Michael, Grewal, Dhruv, Kopalle, Praveen, and Hess, James (2004), "Emerging Trends in Retail Pricing Practice: Implications for Research," *Journal of Retailing*, Fall, 80 (xiii-xxi).
9. Netessine, Serguei and Shumsky, Robert (2002), "Introduction to the Theory and Practice of Yield Management," *INFORMS Transactions on Education*, 3 (1) 34-44.
10. Rao, Akshay, Bergen, Mark and Davis, Scott (2000), "How to Fight Price Wars," *Harvard Business Review*, March-April, 107-116.

List of Business Journal Articles on Channel Coordination

11. Anderson Erin, Geroge S. Day and V. Kasturi Rangan (1997), "Strategic Channel Design," *Sloan Management Review*, Summer, 59-69.
12. Anderson, Rolph, E. Rajiv Mehta and Alan J. Dubinsky (2003), "Will the Real Channel Manager Please Stand Up?" *Business Horizon*, 61-68.
13. Kalyanam, Kirthi, Surinder, Brar (2009) "From Volume to Value: Managing the Value Added Resellers: Channel at Cisco", *California Management Review*, Vol. 52, No.1, 94-119.