
Pricing and Revenue Optimization

Strategic Pricing

Professor: Skander Esseghaier

Course Type: Elective

Credits: 4 ETCS

Term: 2nd Term

Course Description

This course covers the fundamental analytical tools, theories and conceptual frameworks needed to formulate pricing strategies. Economic, marketing, organizational, and psychological factors do affect pricing decisions. Each of these presents an interesting aspect of the pricing problem. The course revolves around understanding how one may go about developing and formulating a pricing strategy while integrating many of these factors.

This course is less about the mechanics of setting a price – it is more about understanding the process of formulating pricing strategies and making profitable and sustainable pricing decisions.

We will draw on several fields (mainly economics and psychology) to introduce new approaches and useful frameworks for solving the most pressing contemporary pricing problems. Specifically, by the end of the course you will have learnt how to:

- Determine the proper role of costs, competitors, and customers in setting the "right" price.
- Assess whether you are underpricing or overpricing your offering.
- Understand the different drivers of customer value: economical, functional and psychological.
- Manage the psychological impact of pricing on demand.
- Maximize the value you can extract from your offering through price engineering.
- Understand the different ingredients to a comprehensive pricing strategy.
- Integrate pricing into an overall marketing action plan.

Objectives

This course introduces you to the concepts, techniques, and latest thinking regarding pricing issues, with an emphasis on ways in which you can help a firm to improve its pricing. We will take a close look at how firms go about setting their prices and how one may improve a firm's current practices to increase their profitability.

Calendar and Contents

Week 1	Introduction to Pricing <ul style="list-style-type: none"> • Importance of pricing • Pricing leverage • Key challenges to better pricing
Week 2	Pricing for Profit <ul style="list-style-type: none"> • Price elasticity: optimal price vs. the “right” price • Incremental Break-even Analysis • Constant Profit Curves
Week 3	Customer Value and Pricing <ul style="list-style-type: none"> • “Economic value” for pricing in B2B context • “Psychological value” for pricing in B2C context • “Functional value” for pricing in B2C context
Week 4	Value Pricing: Developing a Pricing Strategy <ul style="list-style-type: none"> • Curled Metal case: value analysis & group case preparation • Curled Metal case: group presentation & class discussion
Week 5	Price Competition <ul style="list-style-type: none"> • Understanding and Managing price competition • Beauregard Textile Company class exercise
Week 6	The Different Roles of Price <ul style="list-style-type: none"> • Tweeter case discussion • Tweeter case discussion
Week 7	Pricing Analytics (Part 1): Flattening the Demand Curve <ul style="list-style-type: none"> • Bundling • Product line pricing • CSC case discussion
Week 8	Pricing Analytics (Part 2): Price Discrimination <ul style="list-style-type: none"> • Non-linear pricing • Managing the pocket price band
Week 9	Pricing Analytics (Part 3): Revenue Management <ul style="list-style-type: none"> • Price Discrimination vs Revenue Management • Bucket-size optimization and yield management
Week 10	Course Wrap-up <ul style="list-style-type: none"> • Review of the course key learning points • Exam preparation guidelines

The Course in the Study Plan

This elective course belongs to the subject of Strategy and Leadership in the study plan. It takes place in the **second quarter** of the program .

COURSE LEARNING PLAN

Methodology

This course uses a combination of lectures and cases. Assignments will be in the form of articles readings, case preparation for class discussion and case write-ups.

A. Cases: We will discuss three cases in this course. Please make sure you read them and prepare for them. An individual 2-pages case analysis write-up for each case is due before the beginning of the class for which the case is assigned.

1. Curled Metal Inc. [HBS 9-709-434]
2. Cambridge Software Corporation [HBS 9-191-072]
3. Tweeter Etc. [HBS 9-597-028]

B. Class Exercise: We will have one class exercise on Week 5. Please read the one-page exercise before coming to class on that day.

- 1- Beauregard Textile Company [HBS 9-191-058]

C. Key Readings: These are the core readings for this course.

1. Principles of Pricing [Authors: Dolan and Gourville]
2. Price-Quantity Determination [Author: Dhebar]
3. Financial Analysis for Profit-Driven Pricing [Author: Smith and Nagle]
4. Why SG&A Does Not Always Work [Author: Dudick]
5. Introduction to Activity Based Costing [Author: Kaplan]
6. Pricing and the Psychology of Consumption [Authors: Gourville and Soman]
7. Designing the Value In [Author: Fedewa, Narayanan and Vardhan]
8. The Right Game [Author: Brandenburger and Nalebuff]
9. The Economics of Product Variety [Author: Dhebar]
10. Managing Price Gaining Profits [Authors: Marn and Rosiello]

D. Newspaper Articles: These are two interesting short articles that illustrate some of the points that we will be discussing in class.

- Wall Street Journal: Changing the Formula: Seeking Perfect Prices, CEO Tears Up the Rules
- The Independent: Stone me! £299 for standing tickets

Evaluation criteria

Grades: Six components will determine your grade in this class

Individual Components		Group Components
Written case analysis		Group presentation
– Curled Metal Inc.	(10%)	– Curled Metal Inc. (20%)
– Tweeter Etc.	(10%)	
– Cambridge Software Corporation	(10%)	
Quality of class participation	(20%)	
In-class examination	(30%)	

Bio of Professor

Skander Esseghaier is a professor of marketing with a dual expertise in Pricing and Marketing Analytics. His research and teaching focus on (i) pricing: optimizing pricing tariffs for access services, analyzing the pricing impact of information flows in distribution channels; and (ii) recommendations systems: product recommendation, customer selection, product targeting and personalization.

Skander started his academic career in 2000 as an assistant professor of marketing at the Stern School of Business, New York University. He joined the Wharton School at the University of Pennsylvania in 2003, moved to Koc University in Istanbul in 2006 as an associate professor of marketing, and then joined ESADE Business School in Barcelona as a tenured associate professor of marketing. He is currently affiliated with the Mohamed VI Polytechnic University in Morocco. Skander was also a visiting professor at INSEAD in France & Singapore, and the Indian School of Business in Hyderabad, India.

Skander's research has been published in top-tier academic journals - including: the Journal of Marketing Research; Marketing Science; Management Science; the Journal of Applied Probability; and the SIAM Journal on Control and Optimization. His paper on Internet Recommendation Systems was a finalist for the 2005 William F. O'Dell Award (which honors the Journal of Marketing Research article published in 2000 that has made the most significant long-term contribution to marketing theory, methodology, and/or practice).

Skander holds Ph.D. in Marketing from Columbia University, New York, a M.Sc. from the London School of Economics and a M.Sc. and B.Sc. in Statistics and Economics from the Ecole Nationale de la Statistique et de l'Administration Economique (ENSAE), Paris.

A native of Tunisia, Skander has also lived in France, the United States, the United Kingdom, Turkey and now Spain.