

**C. T. Bauer College of Business  
University of Houston**

**MARK 7371: Pricing Strategy (Spring 2018)**

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Professor      Dr. Ye Hu, 375F Melcher Hall, 713-743-2181, [yehu.pricing@gmail.com](mailto:yehu.pricing@gmail.com)  
Office Hours: Before and after class or by appointment

Coursepack     Students **must** acquire the coursepack (cases) after the 1<sup>st</sup> class at:  
<http://cb.hbsp.harvard.edu/cbmp/access/74641886>

Software        Microsoft Excel 2013 (**Mac users must use Excel 2016 or later, part of Office 365**)

Pricing decisions are affected by economic, marketing, organizational, and psychological factors, and must be made within a prescribed legal framework. Each of these presents an interesting aspect of the pricing problem. The course focuses on how to make effective pricing decisions.

### **ASSESSMENT AND GRADES**

Your final grade in the course will depend on the total points (out of **140 points**) you earn. There is no grade curve. The total points you earn is based on the following assessment method:

- A. Class Participation & Attendance      15 points
- B. Individual Assignments                    20 points
- C. Group Assignment                         25 points
- D. Exam I                                         40 points
- E. Exam II                                        40 points

All assignments must be submitted electronically through Blackboard **before** the beginning of the classes on the due days. No late submissions will be accepted by Blackboard. The exams are close-book, close-notes. The point-to-grade conversion for the course will be as follows:

<b>Points</b>	<b>Grade</b>
125 ≤ Score	A
115 ≤ Score < 125	A-
110 ≤ Score < 115	B+
105 ≤ Score < 110	B
100 ≤ Score < 105	B-
90 ≤ Score < 100	C
80 ≤ Score < 90	D
Score < 80	F

### **EVALUATION OF CLASS PARTICIPATION**

Class discussion is an integrated part of this course in every session. Students are expected to be prepared to comment at all times. To reinforce this expectation, I will “cold call” throughout the discussion, whether or not the class member’s hand is raised.

Not attending a class session will automatically result in points deducted from participation grade. Attendance by itself, however, does not automatically warrant participation points. Grading class participation is necessarily subjective. The following criteria give you a guideline for evaluating effective class participation:

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 without analysis and conclusions? Do comments show an understanding of theories, concepts 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?

Keep in mind that your grade for class participation is not simply a function of the amount of "air time" you take up. In general, you will be evaluated on how well you respond to questions and on how effectively you take into account the comments and analyses of your classmates. In order to obtain a grade for class participation you must attend the class sessions. Leave your mobile phones in your bags or pockets. **Use of mobile phones in class will automatically lead to deductions of class participation points.**

### **GROUP ASSIGNMENT**

During the course of the semester, you will be involved in a group project. The size of the groups will depend on class enrollment and will be announced in class. The project will give you the opportunity to reflect on what you have learned in the class and apply them to some practical problems or problems of interest to you. Peer evaluation of group members will be collected at the end of the semester. Usually, all members in the same group will get the same grades unless there is a serious free-riding problem. All written materials must be typed, double-spaced, have one-inch margins, and use a reasonable font (10-12 point).

Since the group project will involve a considerable amount of time and effort, you can use publicly available information and/or your own research. Each group needs to submit an 8-12 pages written report and make a project presentation (30 minutes) at the end of the semester.

### **PROJECT GUIDELINES**

You are free to pursue any pricing related project that you deem most beneficial to you. In the past, students have worked on four types of projects. A brief description for each is provided as follows:

1. Your group can pick a product or service in an industry of interest to you and examine the related pricing issues. A good project of this type typically includes the following three components:
  - Analyzing the pricing environment for the product or service you have chosen.
  - Critiquing the current pricing practice in the industry for the product or service.
  - Proposing changes to improve its pricing decisions and backing them up with your analysis, estimations, and any other supporting evidence.
2. Use the opportunity to develop a pricing plan for a product or service you intend to market. To make a good pricing decision, you may also consider including all three components above. This could be based on your current or previous working experience, or your entrepreneurial ideas.
3. There are many puzzling or seemingly irrational pricing tactics in many different industries. However, upon reflection, such pricing mechanism may have some deeper economic and/or

psychological rationales that help a firm to improve their bottom line. You may identify one such pricing tactic from any industry anywhere in the world, and discuss the rationale behind the tactic. If you choose to pursue this type of project and your objectives are to learn as much as possible from and to do as good a job as possible for the project, you might want to do the following, in addition to anything else you are thinking of doing that can enhance the quality of your project:

- Identify a pricing tactic that is truly puzzling or apparently irrational.
  - Document in what industries, and for what kinds of products one observes such a pricing tactic (a brief history is desirable if available).
  - Analyze the rationale for the pricing tactic from all possible angles you deem relevant in terms of the profitability for the practicing firms.
  - Use any means you deem appropriate to validate your analysis. Any relevant empirical support for your conclusions is always a big plus!
  - Discuss the potential of using the tactic beyond those practicing industries or firms.
  - You can simply pick a pricing practice of interest to you (it does not have to be apparently irrational), say all-you-can-eat pricing, quantity discounts, dollar store, etc., and discuss the rationale and practical implications of the pricing mechanism.
4. You can simply pick a pricing practice of interest to you (it does not have to be apparently irrational), say all-you-can-eat pricing, quantity discounts, dollar store, etc., and discuss the rationale and practical implications of the pricing mechanism. While this choice appears straightforward, it isn't really easy to conduct a truly insightful analysis on an "everyday" topic.

### ACADEMIC HONESTY

Please refer to UH student handbook for policies. We have a zero tolerance policy for cheating in this course. The most common form of cheating is plagiarism. All written assignments will be checked by Turnitin – it is not a good idea to copy things from somewhere else. Searching online for “answers” to case discussion questions is a form of cheating.

### LEARNING GOALS

Goal	Achieved through
Working Knowledge of Ethics and Legal Compliance	Legal and ethics aspects of pricing
Disciplinary Competence	Cutting edge pricing models in various aspects of business practice
Communication Skills	Presentations
Critical Thinking	Class discussions and assignments

### ACCOMMODATIONS FOR STUDENTS WITH DISABILITIES

The C.T. Bauer College Business would like to help students who have disabilities achieve their highest potential. To this end, in order to receive academic accommodations, students must register with the Center for Students with Disabilities (CSD) (telephone 713-743-5400), and present approved accommodation documentation to their instructors in a timely manner.

## CASE PREPARATION QUESTIONS

### Cases

- Netflix: pricing Decision 2011 (B5766)
- Cumberland Industries (580104)
- Federated Industries (585104)
- Cambridge Software (191072)

### Netflix

- 1) Why did investors bid up Netflix's shares so dramatically in early 2011? (A different way to ask the question: at the time of the case, how would you value Netflix's stock?)
- 2) How did Netflix's cost structure change as the company moved from movies to disk-through-the-mail to streaming?

### Cumberland Industries

- 1) How much do you think one of these metal pads is worth to a customer (EVC)?
- 2) What is your price and marketing strategy for the curled metal pads?

### Federated Industries

- 1) What have been the primary causes of the price erosion in the capacitor market?
- 2) Evaluate Federated's pricing policy as described in the consultant report.
- 3) Should Federated withdraw from the market? If so, how?
- 4) If Federated stays, what action should it take on the SVA bid due August 6? What should its long-run objectives for the market?

### Cambridge Software

- 1) If CSC offers only 1 version of Modeler, which version should it offer? At what price?
- 2) Should the firm offer more than 1 version of Modeler? If so, which versions should it offer? At what prices?

**TENTATIVE SCHEDULE OF CLASSES (Subject to change)**

<b>Week</b>	<b>Date</b>	<b>Topic</b>	<b>Deadlines</b>
1	Jan 18	Course introduction Incremental breakeven analysis	
2	Jan 25	<b>Case:</b> Netflix Customers: Economic value Excel primer & price response analysis	<b>Due: Netflix case write-up</b>
3	Feb 1	<b>Case:</b> Cumberland Industries Willingness to pay	<b>Due: Cumberland case write-up</b>
4	Feb 8	Competition-driven pricing <b>Case:</b> Federated	<b>Due: Federated case write-up</b>
5	Feb 15	Segmentation pricing	
6	Feb 22	Psychological aspect of pricing Guest Speaker	<b>Due: Segmentation exercise</b>
7	Mar 1	Time customized pricing Review for exam I	
8	Mar 8	In-class exam I	
<b>Spring Break – No Class</b>			
10	Mar 22	Nonlinear pricing: quantity discount Nonlinear pricing: 2-part tariffs	
11	Mar 29	Pricing in a channel Bundling	<b>Due: Nonlinear pricing exercise</b>
12	Apr 5	Product line pricing <b>Group Case:</b> Cambridge Software	
13	Apr 12	Review for exam II Project counseling – group meeting	
14	Apr 19	In-class exam II	
15	Apr 26	Project Presentations	<b>Due: Pricing Project Report</b>

**MARK 7371 Pricing  
Confidential Group Member Evaluation Form**

Your evaluation is confidential and known only by the instructor. Please distribute 100 points among your group members (yourself is not included). Generally, if there is no free-riding in group work, each member shall receive equal points. In case where serious free riding happens, you may deduct points from that member(s) and add to the others. The sum **must** be 100.

Keep in mind, this evaluation should reflect the person's contributions to your group; it is not a beauty contest. Please be objective and fair. If you think a member of your group is doing poorly, don't surprise them. Keep them informed and ask them to improve their performance.

When your form is completed, please fold it and submit it to me in person.

Your name (PRINT): \_\_\_\_\_

Your Group : \_\_\_\_\_

Signature: \_\_\_\_\_

**DO NOT INCLUDE YOURSELF IN THE LIST BELOW.**

Name of Group Member (Last Name Alphabetic)	Points
1.	
2.	
3.	
Sum of your points	100

Please add comments (especially for justification of very low group member evaluations):