

# MARK3480 PRICING STRATEGY

Spring 2018

Section: L1

## Syllabus

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## Course Description

Prices are everywhere. For every product and service, a company needs to determine a price. Of all the marketing mix decisions, the pricing decision is the one that directly brings revenues to the company. Yet, pricing is also the least understood of all marketing mix decisions. This course provides a framework to set the right price and introduces various pricing tactics to obtain a competitive advantage.

The objective of this course is to introduce a framework, concepts, and techniques for assessing and formulating pricing strategies. We will learn the factors that influence pricing decisions, which involve economic, strategic and behavioral considerations. The course covers tools to assess consumer's willingness to pay, and how this information can be used to improve pricing decisions. The course also covers popular and innovative pricing tactics, such as customization/discrimination, bundling, subscriptions, versioning, freemium and revenue management. Throughout the course, we will use examples and case studies to illustrate how pricing concepts are applied in practice.

This course consists of three modules. The first module develops the economic and behavioral foundations of pricing and introduces the Value Pricing Framework. The second module introduces pricing tactics, including price customization, promotions, bundling, versioning, and subscription pricing to increase pricing effectiveness. Finally, the third module focuses on pricing innovations, and considers how to deal with competitors and ethical and legal concerns.

## Course learning outcomes

Generally, on completion of this course, students should be able to:

- Apply the Value Based Pricing Framework to formulate pricing decisions.
- Understand how to estimate consumers' willingness to pay and its role in pricing decisions.
- Explain the impact of psychological factors on consumers' willingness to pay.
- Use different pricing tactics to improve pricing effectiveness, such as price segmentation, promotions, versioning, bundling, and subscriptions.
- Understand the role and effectiveness of innovative pricing strategies, such as revenue management, freemiums, and online auctions.
- Understand the role of ethics and legal issues in pricing decisions.

## Who should take Pricing Strategy?

Pricing decisions are based on a clear understanding of consumer behavior, competition and the cost structure of the firm. Therefore, pricing is an important course for any marketing student. Moreover, pricing decisions are cross functional and involve all divisions of a company. Therefore, this course should also be of interest to students from other business majors. These students typically consider careers at the senior level of corporate management, consultancy, or marketing, as well as students who are interested in entrepreneurship.

## Prerequisites (strict)

Marketing Management (MARK 2120) and Business Statistics (ISOM 2500).

## Method of instruction

This course consists of lectures, case discussions, a tutorial, group research projects, and presentations. During the lectures we will discuss pricing concepts and tactics that companies use. You are expected to think critically and voice your opinions about the various pricing concepts and tactics and how they can be used in practice. As outlined in the course grading section, your class

participation will be graded. To exercise your critical thinking and to improve the quality of your class participation, you will need to come to class prepared. This means you should always read the assigned materials ahead of time.

This course contains one tutorial in the 3<sup>rd</sup> week of this course (see Course Schedule). During the tutorial you will assess consumer's willingness to pay using conjoint studies. Based on these insights, you will learn how to make pricing decisions. During the tutorial, you will also learn how to use Microsoft Excel to support pricing decisions.

Group projects are an important component of this course. Groups will consist of 5 students, and throughout the semester you will work on two projects: 1) a pricing puzzle, and 2) a final project. The projects will give you an opportunity to reflect on what you have learned in class and how you can apply them in practice. As outlined in the course grading, the group projects form an important part of your grade. Hence, similar to business situations, to deliver a good project and to not disappoint your team members, all group members are expected to contribute equally to the projects. Any dispute should be handled amicably and among yourselves. The formation of groups will be discussed in class. Teams are meant to last the entire semester.

## Reading material

### *Book:*

Smith, Tim J., *Pricing Strategy: Setting Price Levels, Managing Price Discounts, & Establishing Price Structures*, Cengage Learning. – available in the campus bookstore

### *Cases:*

Copies of cases are available in the marketing department (LSK 4018).

### *Course slides:*

Lecture slides will be posted on the course website (Canvas).

## Course grading

### *Assignment weights*

Quiz 1 (Best of three quizzes)	125 points
Quiz 2 (Second best of three quizzes)	125 points
Individual Class Participation:	40 points
Group projects:	
Presentation: Pricing Puzzle	50 points
Group Project Presentation:	50 points
Final report:	100 points
Marketing Experiment	10 points
Total:	500 points

### *Quizzes*

The course has 3 quizzes which will include both multiple-choice questions and short-essay questions. Quiz questions can cover materials addressed in the book, cases, the tutorial or during the lectures. However, be advised that topics discussed during the lectures are most important.

We understand that personal circumstances (e.g., illness, accidents, interviews, etc) may sometimes cause students to miss or underperform during a quiz. To help protect your grade against such unfortunate events, I will count only your best 2 (out of 3) grades. Therefore, and also out of fairness towards other students, there will not be a make-up exam.

### *Individual class participation*

Class participation is evaluated on the quality and the frequency of your comments, i.e., on your contribution to the learning experience of the class. Note that quality is not the same as quantity. You will be evaluated according to the following guidelines:

- *Very Good:* The student provides great additional insights, gives correct answers on questions that came up during the lectures, and asks questions.
- *Good:* The student provides additional insights, gives reasonable answers on questions that came up during the lectures, and asks questions.
- *Satisfactorily:* The student asks questions. Remember: all questions are relevant. So please, do not hesitate to ask your questions during the lecture, there are probably more students with the same question.
- *Unsatisfactorily:* The student disrupted the class (e.g., by chatting, not switching off mobile, arriving late), the student is absent or does not pay attention.

### *Group Projects*

This course contains two group projects. The first project involves a Pricing Puzzle. For this project, your group is asked to present a pricing phenomenon that puzzles you, or you believe that it will puzzle your classmates. You may observe such puzzles from your daily price encounters or from the practices in the industry you worked for or plan to work for. In the final project you will investigate in detail the pricing decisions of a firm of your choice. In this project, which is similar to a marketing consultancy project, you may come up and recommend a new pricing strategy for a new or existing product/service. Details and requirements of the group projects will appear on Canvas and will be discussed in class.

### *Peer reviews:*

For the projects and presentations, everyone will receive the same grade. As in professional projects, every team member should invest appropriate time and effort. I realize that this may not always be the case. Hence, I have devised a peer-review system, which will give you the opportunity to evaluate your teammates' contribution to the projects. Based on the peer evaluation, I may adapt the grades of individual students to fairly represent their input.

### *Marketing Experiment*

In accordance with HKUST's research mission, students in all marketing courses are expected to complete a research requirement during the semester. The purpose of this assignment is to give you a brief acquaintance with the type of research conducted in behavioral sciences. You can fulfill this requirement in one of 2 ways. First, by signing up for two marketing experiments. Second, by writing two 2-page critiques of academic articles. See the document *Marketing Experiment* on the course website for detailed instructions. You are advised not to wait until the final weeks of the semester to participate in the marketing experiment.

### **Questions about the course**

Your teammates are obviously your number one source of help. If you need any additional help, you may always contact Lily Wong, your teaching assistant. You can find her email on the first page of the syllabus. I must remind you, however, that Lily assumes responsibility for many other students. Hence, please respect her time. If there are things for which you think only I can help you, please come see me after class rather than send me an email. I will gladly address your question/comment right away if I can. If not, I will set up a time to meet with you in my office.

## Class schedule

Lectures are on Tuesday and Thursday (12:00 – 13:20) in room LSK 1005. The tutorial is scheduled on Monday Feb 12 from 18:00 – 19:50 in room LSK G012. The detailed schedule is outlined below:

DATE	TOPIC	ASSIGNMENTS AND READINGS
Feb. 1	Introduction	
<b>Value Pricing Framework</b>		
Feb. 6	Exchange Value Model	Chapter 1
Feb. 8	Assessing Customer Value I: Conjoint Analysis	Chapter 3
Feb. 12	<b>Tutorial (6 pm - LSK G012)</b>	
Feb. 13	Assessing Customer Value II: Price elasticity	Chapter 2
Feb. 15	Reference Prices & Competition	Chapter 4 <b>Due Feb. 15: Team member form</b>
Feb. 20	Psychological Influences I	Chapter 5
Feb. 22	Psychological Influences II	Case: J.C. Penny's "Fair and Square" Pricing Strategy
Feb. 26	<b>Quiz 1</b>	
Feb. 27	No Class (Quiz 1)	
<b>Pricing Tactics &amp; Dynamics</b>		
Mar. 1	Price Segmentation	Chapter 6
Mar. 6	Price Promotions & Discount Management	Chapter 7 and 8
Mar. 8	<b>Student presentations</b>	<b>Due March 8: Pricing Puzzle</b>
Mar. 13	Multipart Pricing & Complements	Chapters 9 and 10
Mar. 15	Versioning & Bundling	Chapters 11 and 12
Mar. 20	Subscriptions	Chapter 13
Mar. 22	Pricing tactics application	Case: Pink Tax
Mar. 26	<b>Quiz 2</b>	
Mar. 27	No Class (Quiz 2)	
<b>Pricing Innovations &amp; Ethics</b>		
Mar. 29	Revenue Management <i>Guest Speaker:</i> Preston Hung (Head of Revenue Strategy & Systems, Cathay Pacific)	Chapter 14
Mid-Term Break		
Apr. 10	Freemium Pricing	Case: Dropbox
Apr. 12	Online auctions	
Apr. 17	Price Wars	Chapter 15
Apr. 19	Legal issues and ethics	Chapter 17
Apr. 24	<b>Student Presentations</b>	
Apr. 26	<b>Student Presentations</b>	
Labor Day		
May 3	<b>Student Presentations</b>	
May 8	Wrap up	<b>Due May 8: Final report</b>
May 29	<b>Quiz 3 (16:30 – 18:00) – LG1 Table Tennis Room</b>	

**Team Member Form**  
**Section L1**  
(Due: February 15)

**Group members**

Name	Student ID	Email