

**PRICING STRATEGY  
MGT 2519  
GUIDELINES FOR GROUP PROJECTS**

**Objective**

The objective for the group project is to study a particular product or business, identify the critical drivers of the pricing decision, study current pricing practices, and then make specific recommendations for the business to improve on either the actual dollar value of the price, the overall pricing strategy, or price presentation.

**Groups, Task, and Skills**

The project should be done in groups of 4-6 students. The ideal group size is 5, although groups of 4 or 6 will be permitted. Please submit your preferred group membership to me by Monday, January 19<sup>th</sup> by e-mail ([Dilip.Soman@rotman.utoronto.ca](mailto:Dilip.Soman@rotman.utoronto.ca))

Here is a quick checklist of tasks that your group will have to perform:

- 1) Study the target business through published secondary information, or by interviewing an appropriate manager, and identify competition.
- 2) Develop an understanding of the pricing strategies in the “industry” (secondary or primary research)
- 3) Document stylized facts about pricing strategies (price observation)
- 4) Estimate the demand curve (primary research – experts or consumer survey, secondary)
- 5) Pricing analysis and recommendations

This represents a set of skills that you have acquired several times over in the MBA program to date – the ability to search, read, interpret, analyze, synthesize, observe, interview, record and summarize.

**Students who are auditing the course:** While I do not require you to complete the project, I would ask that you associate yourself with one of the project teams as a “consultant” or merely as an “observer.” Your extent of involvement can range from trivial (e.g., made a suggestion) to moderate (e.g., interviewed a manager and helped in the pricing survey). But it should neither be extensive (to the extent that you deserve credit), nor negative (to the extent that you and the group are annoyed with each other).

**Subject of the Project**

Identify any target business or product (this terms is used generically for products + services). This could be

- a) A product line by an established corporation (e.g., Citigold from Citibank, Kleenex tissues, DHL courier services)
- b) A product line by a local small business that you may have easy access to (e.g., cafeteria, vending machine, Rotman MBA office, Chinese fast food cart, barber shop, your kid's lemonade stand, babysitting services)
- c) A new product idea that you have considered launching (a "how to survive the first year MBA" consulting service, a Rotman e-Bay for clearing textbooks and notes).

While (a) offers the greatest sources of secondary published data and reduces the need for you to actually spend time talking to managers and consumers, in my experience it also results in the least interesting output, as well as the least interesting experiences for the students. Groups that do (b) or (c) – in particular (b) - tell me that they learnt a lot and enjoyed doing the project. Next time you buy your lunch, get a carwash or get a haircut, talk to the manager, offer them free consulting, and see if they are interested!

### **Your Assignment**

***Give a brief background of the chosen business:*** This should include a description of the product, marketing strategies, target markets (the usual 3C + 4P stuff, the 3C's are more important than the 4P's). What are the cost structures of your target business and product? What is the COGS and how is it determined?

***Understand the industry pricing norms:*** How do people in the "industry" (loosely defined as the local sphere of competition in which the business operates) normally think about pricing? Do they use cost-plus, WTP, value pricing, or other norms in setting prices? How relevant and critical are each of these for your target business given its size and competitive position? Any specific peculiarities about pricing in this industry (see "List of Pricing Phenomena" in Exhibit 1)?

***Consumer Response:*** How do consumers buy in this category? What drives their purchase decision and WTP? Therefore, how important is price, i.e. how sensitive are consumers to price? To non-price factors? Are there any differences in sensitivity across segments? Can you estimate the demand curve either using a simple consumer survey with a small number of consumers, or by talking to an expert?

***Price Observation:*** Survey prices in the industry to generate a set of stylized facts about trends. These price surveys can be done either over time (time series), at one point in time (cross sectional), or a combination of the two approaches. See the "List of Pricing Phenomena" in Exhibit 1 for ideas on the kinds of phenomena to document. Why do you see these phenomena in the industry?

***Pricing Analysis:*** a) Setting the Price. Use a number of pricing approaches to generate price points. Is the pricing method currently being used by the business appropriate? If not, what would you recommend? What competitive and consumer reaction might you expect if the business changed prices per your recommendation? b) Managing Customer

Value. Will the price change over time for a given customer? If yes, how? Will there be any form of price discrimination? How can customized pricing be implemented? How will customer value change over time? Any pricing recommendations for managing unprofitable customers? c) Presenting the Price. How should the price be presented? What behavioral factors will play a role? Any suggestions on bundling, segregated pricing, pennies-a-day, multi-part tariffs etc.? Does fairness play a role? d) Final Recommendations: What should the business do?

### **Final Output**

- 1) ***A report:*** No more than 10 pages + exhibits. Please restrict yourself to short sentences / bullet points, stick to the point and avoid rambling. Put the main points in the text and relegate supporting analyses to the exhibits. Suggested page allocation: Background of business + Industry Norms: 2 pages, Consumer Response: 2 pages, Price Observations: 1 page, Pricing Analysis and Recommendations: 5 pages.
- 2) ***A short presentation:*** Given that we will have about 8 groups, let's restrict ourselves to 10 minutes + a few minutes for Q/A.

### **Schedule**

January 19<sup>th</sup>: e-mail me the list of group members and orphans  
January 21<sup>st</sup>: Final group assignments will be posted to the portal  
February 23<sup>rd</sup>: Short paragraph with proposed topic (business, product description)  
April 5: Final presentations and reports due

Anytime in the interim: Set up a time to meet with me (strongly recommended, but not required) to update me on progress, in case there are any questions, clarifications, or if you need help with any analysis.

## EXHIBIT 1: A PARTIAL LIST OF PRICING PHENOMENA AND TERMINOLOGY

APP (Automatic Price Protection) and PP	Price sensitivity / Value sensitivity
BOGO Promotions (Buy One-Get One Free)	Pricing probabilistic goods
Bundling	Quantity discounts
Competitive bid pricing	Razor and razorblade strategies
Cost-plus pricing / Markup	Rebates
Coupons	Reference prices
Cross promotion	Segregated Pricing
Customized pricing	Skimming Pricing
Door-in-the-face	Student Discounts
EDLP or EDFP (Everyday Fair Pricing)	Suggested retail prices
Flat-fee vs. pay-per-use	Tie-in sales
Foot-in-the-door	Trade promotion
Free trial, trial offers	Trade-in pricing
Hi-Lo promotion pricing	Transfer pricing
International Pricing Issues	Unbundling
Internet Pricing	Uncertainty in pricing
Legal Issues in Pricing	Willingness-to-pay (WTP)
Loss leader pricing	Yield Management
Loyalty programs	
Mail-in rebates	
Match the competition	
MDF (Market Development Fund)	
Metering	
Multi-part tariffs	
Multiple unit pricing	
Odd price endings	
Off-invoice deals	
Peak-load pricing	
Penetration pricing	
Pennies-a-day pricing	
Penetration Pricing	
Percentage frame	
Predatory pricing	
Premium	
Price-Quality relationships	
Price discrimination	
Price dispersion	
Pricing dynamics / Dynamic Pricing	
Pricing for not-for-profits	