



Rotman Commerce UNIVERSITY OF TORONTO

Course Outline

RSM455H1, Pricing, Winter 2015

Course Meets: Mon/12:10am-2:00pm/WO 35

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1) Overview and Goals

Price setting is one of the most important marketing mix decisions. It involves an understanding of both supply side factors (e.g. costs) and demand side factors (e.g. consumer willingness to pay). While traditional approaches to pricing theory have revolved around an economic and financial framework, a broader and more pragmatic view entails a comprehensive understanding of the demand side, both at the level of individual customer values and the more aggregate level of price sensitivities of the market. In this course, we will approach the pricing decision as an intersection of economic, strategic, and behavioural considerations. Using product categories as diverse as financial services, industrial products and consumer packaged goods, we will study economic and behavioural approaches to pricing, value pricing, activities-based pricing, and price customization, amongst other topics.

After taking this course, you will be able to:

- 1) Understand the importance of the demand curve and customer willingness-to-pay in pricing strategy, and learn methods of estimating the demand curve.
- 2) Learn how to calculate profit-maximizing prices.
- 3) Calculate expected value to customers (EVC) and develop the concept of value based pricing.
- 4) Understand relevant costs in determining prices, and develop a cost-based framework for pricing decisions
- 5) Be sensitive to consumer behavior factors that play a large role in pricing effectiveness
- 6) Understand innovative pricing strategies like bundling and price customization.
- 7) Apply the concepts in a variety of business contexts.

2) Course Prerequisite

RSM250H1

Course Exclusions

RSM 351H1

3) Readings

There is an electronic course pack that contains *required readings* that is available at:

<https://cb.hbsp.harvard.edu/cbmp/access/32166306>. The course does not have a required textbook. However, the schedule in section 10 of the course outline lists optional readings from the following textbook.

- *The Strategy and Tactics of Pricing*, by T. Nagle, J. Hogan, and J. Zale, 5th Edition, Prentice Hall, 2011. (NHZ)

This book above would serve as a good second source of course material, and you might enjoy it as a reference later in your career, but it is not necessary for the course. The following books are mentioned solely as supplemental reading:

- *Power Pricing*, by R.J. Dolan and H. Simon, The Free Press, 1996.
- *Nonlinear Pricing*, By R.B. Wilson, Oxford University Press, 1993.

Additional readings—**both required and optional**—may be posted to the portal over the course of the semester.

4) Course Format

The course is composed of twelve regular sessions. The sessions will be a mixture of lectures, case discussions, article-based discussions, and guest lectures. The purpose of the lectures is to present and discuss theories, concepts, analytical techniques and empirical findings.

We will discuss a number of comprehensive business cases. The goal of the case discussion is to apply the concepts to the context provided by the case and to make decisions based on both qualitative and quantitative analysis.

5) Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

		<i>Due Date</i>
Group Assignment(s)	20%	TBD
Group Case Write Up	20%	Mar. 23
Final Exam	40%	During exam week
Class Participation	20%	Ongoing

5.1. Group Assignments

The course will include at least one group assignment. Assignments will be done in groups of six. The assignments will be discussed during lectures and posted to the portal. The course will include a few in-class simulations (i.e., pricing games), which may include deliverables.

5.2. Group Case Write-up

You will be asked to prepare a written submission for the “Reynolds Metal” case. The deliverable is **eight pages** maximum (all inclusive), double-spaced in 12 point Times New Roman font, with a 1-inch margin all around. Only a written document is required – a presentation is not needed. A hard copy is to be submitted in class on March 23 and an MS Word file (not a PDF) is to be submitted via email to the TA *prior to* the beginning of class on March 23.

The case write-up should comprise responses to specific discussion questions. (Do NOT include an introduction or executive summary.) The discussion questions will be posted to the portal by March 2.

Groups for the case write-up: The case write-up should be done in groups of six. Please inform the TA via email about which students you would like to work with by March 2. Thereafter, students who have not formed a group will be assigned to one by the TA.

Writing: Please note that clear, concise, and correct writing will be considered in the evaluation of *all* assignments. That is, you may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre (www.asc.utoronto.ca) or one of the College Writing Centres (www.writing.utoronto.ca/writing-centres). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

5.3. Final Exam

Everything said in class or in the required readings (both those in the case packet *and* those that will be posted to the portal) is fair game for the final exam. This includes material from the guest lectures. The exam will be closed book. Grades will be assigned based on the ability to apply class concepts. Therefore you need to know the content of the classes and the readings, and you need to synthesize that material effectively.

5.4. Class Participation

Given its very nature, the learning and quality of a marketing class are directly related to your willingness and ability to contribute to the cases and other discussions. Please feel free to raise an opinion or offer an analysis no matter how different it is from the emerging theme in the classroom, or how unusual it may be. However, focus on quality and not on quantity while contributing to the discussion. Thus, your comments should illuminate rather than inundate the rest of us in the classroom. Also, civility and respect for others' opinions are important attributes to possess in the give and take of classroom debate. *Your task is to enhance my memory of you as an intellectual and relevant contributor.*

I need to know who you are to give you credit for your contributions, so be sure to keep your ***name card*** in front of you at all times. On the first day of class, I will ask you to indicate where you will be sitting on a class seating map. Please make sure you sit in the same seat each week. If you need to change seats, please let me know so that I can change the seating map accordingly. Attendance is key. You can't participate if you are not there! Missing class without notifying me will have a strong negative impact on your participation grade.

6) My Expectations

6.1 *Class Preparation:* I expect you to have thoroughly prepared assigned cases for class. I also expect you to have at least skimmed any readings assigned for class discussion. You need to do these readings (i.e., readings that are *not* cases) thoroughly as well; however, some may prefer to do this after class.

6.2 *Punctuality and Deadlines:* I expect you to be on time for classes. I understand that due to unforeseen circumstances, you may be occasionally late. If possible, please let me know in advance if you are going to be late. Being habitually late is a good way of losing goodwill (i.e., not performing well on class participation). ***Also, deadlines will always be strictly enforced and no exceptions of any kind will be made without prior approval.***

6.3 *Class Participation:* Please see specific guidelines on expectations in section 4.3.

7) Contacting Me

If you are not able to attend my office hours, please make an appointment to see me at another time. My phone number is listed on the first page of this syllabus. However, you will find that it is easier to contact me by sending an e-mail.

8) Course Administration Issues

- 8.1 Slides for each class will be posted to the portal shortly before the class begins, so that you can use them for note-taking. I will post PDF versions of the slides. I will not post PowerPoint versions.
- 8.2 Any materials that you need for a given class will be posted to the portal prior to the beginning of the class. You will receive an email from the TA as soon as they have been posted.
- 8.3 You are responsible for taking notes during case discussions. I will not be posting summaries of case discussions to the portal.
- 8.4 You are responsible for taking notes during guest lectures. **This is extremely important because I am not able to post the slides from guest lectures or summaries of these lectures.**
- 8.5 Announcements and updates, if any, will be posted to the portal periodically.
- 8.6 Again, please bring your name cards to class.
- 8.7 Please ***do not hesitate to send me an e-mail*** at any point in time if I can be of help! At the very worst, I will be busy and unable to respond immediately, but you should not hesitate to ask.

9) Case Discussion Questions

Owens and Minor Inc. (A):

1. What are the services rendered by distributors to hospitals, and how have they changed over time? What is the value added by O&M?
2. Evaluate the impact of cost-plus pricing on distributors, suppliers and customers. What effect will ABP have on customer behavior?
3. Explain Exhibit 5, and illustrate how the pricing matrix works. Also, why are some of the costs from Exhibit 4 not included here?
4. What are the obstacles to successful implementation of ABP at Ideal? How would you address these obstacles?
5. Which type of customers will adopt ABP first? Why?
6. Why is O&M adopting a cost based pricing strategy, not a value based one?

Atlantic Computer:

1. What price should Jowers charge DayTraderJournal.com for the Atlantic Bundle (i.e., Tronn servers + PESA software tool)?
2. Think broadly about the top-line revenue implications from each of the four alternative pricing strategies. Approximately how much money over the next three years will be “left on the table” if the firm were to give away the software tool away for free (i.e., status quo pricing) versus utilizing one of the other pricing approaches?
3. How is Matzer likely to react to your recommendation? How about the sales force? How can the latter be persuaded to use the value approach?
4. How are customers in your target market likely to react to your recommended pricing strategy? What response can be provided to overcome any objections?

Coca Cola's New Vending Machine:

1. List arguments in favor of selling Coke through an interactive vending machine. Also list arguments against it.
2. When, how, and for whom does this technology create value? Destroy value? Think about segments within the soft drink market in your answer.
3. Are there any non-economic pricing issues that can damage a firm?

Beauregard Textiles:

NOTE: The case writers intend for us to regard the following components of cost as relevant (i.e., variable) costs (see exhibit 2): direct labour, material, material spoilage, and the "direct" part of department expense. I am noting this because (i) I feel that it is explained poorly in the case, and (ii) on the basis of the table in exhibit 2 and the description in the text, it actually appears that some of the other costs are variable as well. Please ignore this and regard only the four aforementioned components of cost as variable.

1. What price should Beauregard Textile company announce for Triaxx-30? \$3.00 or \$4.00 per yard?
2. What is the total contribution under the present arrangement? What happens if the price were dropped to \$3.00?
3. Calhoun and Pritchard is presumably showing a loss at \$3.00. Why don't they raise their prices?
4. What happens to Calhoun and Pritchard if Beauregard drops prices?
5. Is there anything that BTC can do to induce C&P to raise its price to \$4.00 (without violating antitrust laws that prohibit collusion on prices)?

10) Schedule

Session	Topic	Required readings (case packet)*	Optional readings*
#1 – Jan. 5	<ul style="list-style-type: none"> • Course Overview • The Pricing Thermometer 		NHZ Chapter 1
#2 – Jan. 12	<ul style="list-style-type: none"> • Demand Curves and Elasticity 		NHZ Chapter 12
#3 – Jan. 19	<ul style="list-style-type: none"> • Cost-Based Pricing 	Owens and Minor Inc. (A)	NHZ Chapter 9
#4 – Jan. 26	<ul style="list-style-type: none"> • Value-Based Pricing 	Atlantic Computer	NHZ Chapter 2
#5 – Feb. 2	<ul style="list-style-type: none"> • Behavioural Pricing 	Note on Behavioural Pricing Coca Cola's New Vending Machine	
#6 – Feb. 9	<ul style="list-style-type: none"> • Behaviour-Based Pricing (continued) • Pricing in a Competitive Environment 	Beauregard Textiles How to Fight a Price War	
#7 – Feb. 23	<ul style="list-style-type: none"> • Retail Pricing Strategies, <i>Tamara Kronis, Owner of Studio1098</i> • Pricing in a Competitive Environment (continued) 		
#8 – Mar. 2	<ul style="list-style-type: none"> • Intro to Reynolds Metal • Intro to Bistro Pricing Game (simulation) • Price Customization 	Reynolds Metals Company	NHZ Chapter 3
#9 – Mar. 9	<ul style="list-style-type: none"> • Price Customization (continued) • Bistro Pricing Game (simulation) 		
#10 – Mar. 16	<ul style="list-style-type: none"> • Pricing in CPG Markets <i>Greg Rogers, Associate Director Market Research, Procter & Gamble</i> 		
#11 – Mar. 23	<ul style="list-style-type: none"> • Price Customization (continued) • Bistro Pricing Game Recap 	Group case write-up due	
#12 – Mar. 30	<ul style="list-style-type: none"> • Universal Rental Car Simulation 		
FINAL EXAM	<ul style="list-style-type: none"> • Time and Location TBA by FAS 		

Guest speakers in italics

**Additional readings (both required and optional) will be posted to the portal over the course of the semester.*

POLICY AND PROCEDURE

Team Behaviours & Protocols

Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students and you are therefore reminded of the following expectations with respect to behaviour and contributions to your team project.

1. Read the document entitled, “Working in Teams: Guidelines for Rotman Commerce Students” which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

3. Resolving conflicts:

Conflicts are part of the team’s process of learning how to work together effectively and when handled well can generate creativity and bring-multiple perspectives to the solution.

Student teams are collectively expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). In cases where teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach** as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

** For an appointment with a Rotman Commerce Team Coach, please contact Nikoleta Vlamis at nikoleta@nikoletaandassociates.com or Elaine Zapotoczny at elaine@nikoletaandassociates.com. Nikoleta and Elaine are highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach’s role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

Submission of Assignments

Students are required to use the Rotman Commerce Assignment Cover Sheet Template (see the Rotman Commerce Portal) for all submitted work which will be reviewed by the Professor. In the case of group assignments, all group members must sign the Assignment Cover Sheet. As explained further below, deadlines will always be strictly enforced and no exceptions of any kind will be made without prior approval. If prior approval is obtained, a late submission of any assignment will be considered; however, a resolution will be determined at the instructor’s discretion and may include an academic penalty.

Missed Tests and Assignments (including midterm examinations)

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.

If a student does not submit an assignment on time and is granted permission by Rotman Commerce to submit it at a later date, then he/she must do so. That is, under such circumstances, the weight that this assignment receives in the course grading scheme will *not* be transferred to another deliverable.

Late Assignments

All assignments are due at the beginning of class on the date specified in the course outline. Late submissions will normally be penalized by 20% if the assignment is not received on the specified date, at the specified time. A further penalty of 10% will be applied to each subsequent day.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: disability.services@utoronto.ca or <http://www.accessibility.utoronto.ca/>.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Blackboard and the Course Page

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at www.portalinfo.utoronto.ca/students and review the Frequently Asked Questions.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in

anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

In this course, students are NOT permitted to record lectures. If a student records a lecture, this will be considered a violation of the academic honour code and the instructor's intellectual property right, and it will be pursued accordingly using appropriate channels in the University.

Posting course materials online

Students are not permitted to post any class materials online. This includes slides, assignments, assignment solutions, practice questions, and practice exams. Today, there are several online enterprises that encourage students to post course materials online, while making clear that students can only do so if this is permitted by the instructor. This is *not* permitted for this course. The instructor maintains copyright of all materials produced for this course. If a student posts class materials to such a site, this will be considered a violation of the academic honour code and will be pursued accordingly using appropriate channels in the University.