



Rotman Commerce UNIVERSITY OF TORONTO

Course Outline

RSM 455 H1S

Pricing

Winter 2016

Course Meets: Mon / 12:10pm-2pm / RT 142 (exception: on Jan 11, we will meet in WW 121)

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Course Scope and Mission

Price setting is probably the most crucial of all 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 healthcare, cell phone plans, consumer packaged goods and financial services, we will study economic and behavioural approaches to pricing, value pricing, price customization/discrimination, price bundling and multi-part tariffs, dynamic pricing, retail pricing strategies, pricing for goods/services with externalities, and pricing in two-sided markets.

Course Goals

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 the effect of non-price factors on price image and perceived value.
- 5) Understand innovative pricing strategies like peak period pricing, bundling, and price customization/discrimination.
- 6) Understand pricing for goods/services that generate externalities.
- 7) Understand how a two-sided market works, and the importance of pricing in two-sided markets.
- 8) Apply the concepts in a variety of business contexts.

Course Prerequisites

RSM250 Principles of Marketing is the prerequisite course. It is recommended that students be familiar with the material in introductory courses in economics and statistics.

Course Exclusions

RSM351

Required Readings

There are two non-overlapped course packets: one hard-copy packet and one online packet. The online packet is available at: <https://cb.hbsp.harvard.edu/cbmp/access/43799743>. Additional readings will also be available in the blackboard.

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.

| | |
|-------------------------------------|----------------|
| Three Individual Assignments | 45% (15% each) |
| Class Participation | 15% |
| Group Assignments | 40% |
| a. Pricing puzzle presentation (7%) | |
| b. Final project | |
| - Final write-up (23%) | |
| - Presentation (10%) | |

Requirements and Criteria

Assignments

There are three individual assignments, two group presentations and a group project final write-up. The assignments consist of analytical problems and case analyses. The assignments are due on Feb 1 (@12pm), Feb 29 (@12pm) and Mar 21 (@12pm). Group presentations are on Feb 22 and April 4 (and possibly Mar 28 as well). The write-up of the final project is due on April 4 @ 12pm. Late assignment and project will not be accepted unless you have a valid reason stated under "Missed Assignments/Classes."

In the first class, you will be asked to form a group of 4 students for the group assignments. Each group will work on the pricing puzzle and final project throughout the semester. The project will give you the opportunity to reflect on what you have learned in class and apply them to some practical problems of interest to you.

Re-marking: Requests to have assignments remarked will be considered if the following conditions are met:

- The assignment is submitted to the instructor no later than two weeks after the marked assignment has been returned to the student;
- the student submits with his/her request a written explanation as to why and where he/she believes he/she is entitled to more marks; and
- the instructor has no reason to believe the student has made any changes subsequent to the assignment being returned.

Class Participation

The purpose of this evaluation component is to give you practice in stating and defending your opinions orally. Credit will be given for all quality contributions that you make in class.

Since your participation is evaluated on its quality, not its quantity, think carefully about the contribution that your comments will make to the class. Airtime is limited, so don't talk just for the sake of talking. On the other hand, talking is not easy for some of you for a variety of reasons. This class is the time and place to develop the assertiveness and communication skills that are a prerequisite to success in business. To make things easier, in weeks where a case is assigned, *I recommend bringing your copy of the case analysis to class* for reference.

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. I encourage you to make yourself known to me by visiting my office briefly for an informal introduction. Your task is to enhance my memory for you as an intellectual and relevant contributor. Attendance is the 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.

Final Exam

There is no final exam for this course.

Conduct of Classes

The course is composed of twelve regular sessions. The sessions will be a mixture of lectures, case discussions, and article-based discussions. The purpose of the lectures is to present and discuss theories, concepts, analytical techniques and empirical findings. Some of the lectures will take a rigorous approach to understand the theory behind pricing.

We will discuss quite a few 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.

COURSE FORMAT AND EXPECTATIONS

To Use Turnitin.com:

Normally students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the university's use of the Turnitin.com service are described on the Turnitin.com website.

For Written Assignments:

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.

For Group Work:

The pricing puzzle and final term project require students to work in teams of 4.

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 Elaine Zapotoczny at elaine@nikoletaandassociates.com. Elaine is 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.

Weekly Schedule (Tentative)

| Session | Topic | Readings |
|-------------------------------------|--|---|
| #1 – Jan 11 | Introduction; basic concepts for setting price to maximize profits | Lecture notes; |
| #2 – Jan 18 | Price Response Estimation | Lecture notes and supplementary materials |
| #3 – Jan 25 | Price Discrimination; Bundling | Cabral's Price Discrimination |
| #4 – Feb 1 | Durable good pricing; Forward-looking pricing | Cabral's Price Discrimination; Ching's "Marketing management when facing forward-looking consumers" Case: Radiohead: Music at Your Own Price Assignment 1 due |
| #5 – Feb 8 | Subscription pricing; CLV; Psychology of pricing | Smith's Chapter 13 Smith's Chapter 5 Case: JC Penney |
| #6 – Feb 22 (No class on Feb 15) | Class presentations of pricing puzzles | Presentation slides due on Feb 21 @ 8pm |
| #7 – Feb 29 | Peak-load pricing and Pricing with externalities | Wong and Hau's "Road Building or Road Pricing?" Assignment 2 due on Nov 9, Based on "Virgin Mobile USA" |
| #8 – Mar 7 | Two-sided market; Pricing in two-sided market | Platform Networks: Core Concepts; Eisenmann's Strategies for Two-Sided Markets, and additional materials |
| #9 – Mar 14 | Pricing in Consumer Package Goods | Guest speaker: Greg Rogers, P&G |
| #10 – Mar 21 | Building Pricing Capabilities | Guest Speaker: Augustin Manchon, Manchon Consulting Assignment 3 due |
| #11 – March 28 | Case Discussion Final Project presentations | Case: Consumer Payment System (US & Japan) Presentation slides due on Mar 27 @ 8pm |
| #12 – April 4 | Final Project presentations & Conclusion | Presentation slides due on April 3 @ 8pm Final Write-up due on April 4 @ 12pm |

POLICY AND PROCEDURE

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.

Late Assignments

All assignments are due at the beginning of class on the date specified in the course outline. Late submissions will NOT be accepted.

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: accessibility.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 <http://www.portalinfo.utoronto.ca/content/information-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.