



Rotman Commerce UNIVERSITY OF TORONTO

Course Outline

RSM455H1S L0101

Pricing

Winter 2017

Course meets: Wednesdays 2:10pm-4:00pm / WO25

Instructor: **Ron N. Borkovsky**, Rotman Building, Room 574, 105 St. George Street
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Questions about the course

Please email the course TA, Joonkyung Kim, with all administrative questions. Please see me either after lectures or in office hours about content-related questions.

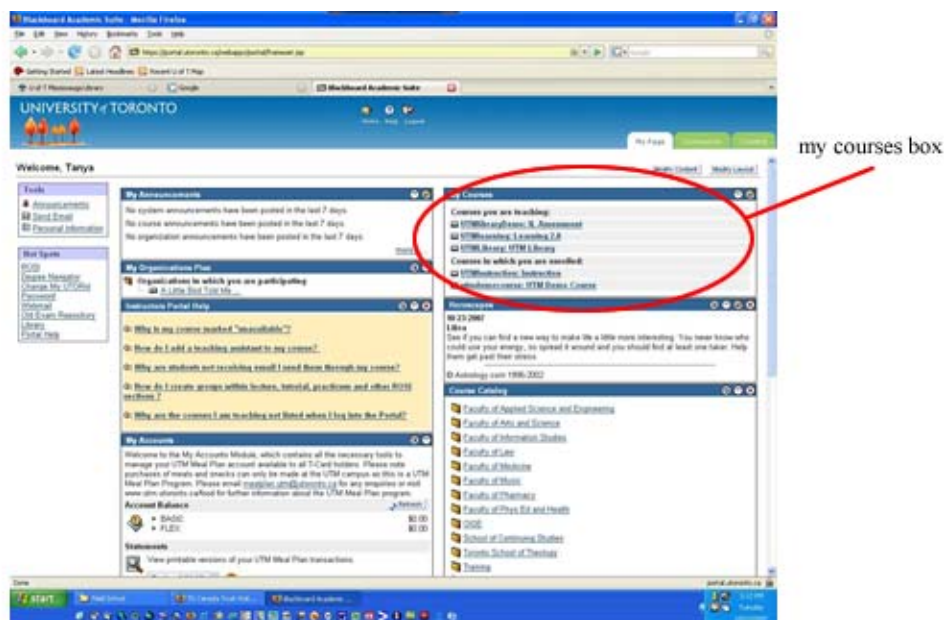
Course Administration Issues

Please bring your name tents to class so that it is easy for all of us to refer to each other by name. This is especially important in order to be able to assign participation grades. Announcements and updates, if any, will be posted to Blackboard. Therefore, make sure that you have access to Blackboard and that your email address is recorded correctly in Blackboard.

Blackboard

Logging into the Course Website

To access the course website, go to: <http://portal.utoronto.ca> and log in using your UTORid and password. If you need information on how to activate your UTORid and set your password for the first time, please go to www.utorid.utoronto.ca



Once you have logged in to the portal using your UTORid and password, look for the **My Courses** box, where you'll find the link 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, come to the library for help.

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.

Course Description

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) Readings

There is an electronic course pack that contains **required readings** that is available at: <http://cb.hbsp.harvard.edu/cbmp/access/57333728>. The course does not have a required textbook. However, the schedule in section 11 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 is ‘on reserve’ in the *Business Information Centre* (BIC) on the fifth floor of the Rotman School, i.e., you can borrow it for use inside the BIC.) 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 Blackboard over the course of the semester.

3) Course Format

The course is composed of twelve regular one hour and 50 minute sessions. The sessions will be a mixture of lectures, case discussions, article-based discussions, and one guest lecture. The purpose of the lectures is to present and discuss theories, concepts, analytical techniques and empirical findings.

We will discuss a number of business cases. These will be based on either cases that you access via

the course's electronic course pack or business cases that I will present to you in class; the latter will require no prior reading. 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.

4) 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 # 1	15%	Feb. 13
Group Assignment # 2 (Bistro Pricing Game)	15%	Apr. 5
Final Exam	50%	TBD
Class Participation	20%	Ongoing

4.1. Group Assignments

The course will include two group assignments. The second group assignment relates to the Bistro Pricing Game simulation. (The Bistro Pricing Game itself will take place during class, and the assignment will be done outside of class.) Assignments will be done in groups of 5-6 students. The assignments will be discussed during lectures and posted to Blackboard.

Group assignment # 1 should be submitted to the TA via email as a Word document by 11:59pm on Feb. 13. Group assignment # 2 should be submitted to the TA via email by 11:59pm on Feb. 13. It will include a Word document and an Excel spreadsheet.

For each group assignment, there will be a peer review to ensure that all students do their fair share of the work. You need to provide a peer evaluation for every member of your group (excluding yourself); rate your peers' contributions using a scale of 1 (lowest) to 5 (highest). Suppose your group has four people (including yourself), and that you receive 4, 5, and 5. Your average peer evaluation score will be $(4+5+5)/3 = 4.67$. Your final score for the term project will be $(4.67/5) \times$ (term project score). **Your peer review for each assignment must be submitted via email to the TA by the assignment's due date.**

Groups for the group assignments: Assignments will be done in groups of 5-6 students. Please inform the TA via email about which students you would like to work with by the end of the day on January 18. Thereafter, students who have not formed a group will be assigned to one by the TA. The same groups will be used for assignments 1 and 2. (If you find that this poses a problem, please contact me.)

4.2. Final Exam

Everything said in class or in the required readings (both those in the case packet *and* those that will be posted to Blackboard) is fair game for the final exam—except for the material in the guest lectures. (That is, the material from guest lectures will *not* be on the final exam.) That being said, the exam will be very heavily based on material that we cover in class. The exam will be open book, i.e., you can access all course materials when writing the final exam.

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.

4.3. 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. Also, please select a seat using the 'Seating Plan' that I will circulate during the first lecture, and please make sure you sit in the seat that you have chosen. If you ever need to change seats, please let me know before class begins so that I can update the seating plan. 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. If you need to miss class for a legitimate reason, please make sure you let me know ***in advance***.

Being absent during either the guest lecture or the Bistro Pricing Game simulation will have a detrimental impact on your participation grade. If you need to miss either for a legitimate reason, please make sure you let me know ***in advance***.

5) My Expectations

5.1 *Class Preparation*: I expect you to have thoroughly prepared assigned cases for class. I also expect you to have at least skimmed any readings from the electronic case pack that are 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. I will be posting some articles from the popular press to Blackboard. I expect you to read and think about *required* readings before class.

5.2 *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.***

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

6) 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.

7) Course Administration Issues

7.1 Slides for each class will be posted to Blackboard 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.

7.2 Any materials that you need to prep for a given class (aside from those already in the electronic case pack) will be posted to Blackboard prior to the beginning of the class. You will receive an email from me as soon as they have been posted.

7.3 You are responsible for taking notes during case discussions. I will not be posting summaries of case discussions to Blackboard.

- 7.4 You are responsible for taking notes during guest lecture. **Note that I am not able to post the slides from guest lectures or summaries of these lectures.** While you are not responsible for the guest lecture for the final exam, attendance and participation during the guest lecture is *very* important for your participation mark.
- 7.5 Announcements and updates, if any, will be posted to Blackboard periodically.
- 7.6 Again, please bring your name tents to class.
- 7.7 Please ***do not hesitate to send me an e-mail*** at any point in time if I can be of help! I will always do my best to respond promptly.

8) Case Discussion Questions

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. What would your sales pitch to DayTraderJournal.com be? (Keep in mind that you are proposing a product with a price that is *greater* than what the competition is charging.)
5. 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. If you were the CEO, would you roll out these vending machines?
3. What could you do to make the price differential that the CEO proposes (high price when hot outside, low price when cold outside) seem fair?

9) Schedule

Session	Topic	Required readings (case packet)*	Optional readings*
#1 – Jan. 11	<ul style="list-style-type: none"> • Course Overview • The Pricing Thermometer 	'Execs Zero in on Price', WSJ (Blackboard)	NHZ Chapter 1
#2 – Jan. 18	<ul style="list-style-type: none"> • Demand Curves and Elasticity 		NHZ Chapter 12
#3 – Jan. 25	<ul style="list-style-type: none"> • Demand Curves and Elasticity (cont.) 		NHZ Chapter 12
#4 – Feb. 1	<ul style="list-style-type: none"> • Cost-Based Pricing 		NHZ Chapter 9
#5 – Feb. 8	<ul style="list-style-type: none"> • Value-Based Pricing 	Atlantic Computer	NHZ Chapter 2
Feb. 13	Group assignment # 1 is due (email to TA by 11:59pm)		
#6 – Feb. 15	<ul style="list-style-type: none"> • Behavioural Pricing 	Coca Cola's New Vending Machine Note on Behavioural Pricing	
Feb. 21	Deadline to drop course from academic record and GPA		
Feb. 22	READING WEEK		
#7 – Mar. 1	<ul style="list-style-type: none"> • Behavioural Pricing (continued) 	Note on Behavioural Pricing	
#8 – Mar. 8	<ul style="list-style-type: none"> • Pricing in a Competitive Environment 	How to Fight a Price War	
#9 – Mar. 15	<ul style="list-style-type: none"> • Bistro Pricing Game (simulation) • Price Customization & Bundling 		NHZ Chapter 3
#10 – Mar. 22	<ul style="list-style-type: none"> • Price Customization & Bundling (cont.) 		
#11 – Mar. 29	<ul style="list-style-type: none"> • Pricing in CPG Markets: <i>guest lecture by Greg Rogers, Associate Director Market Research, P&G</i> 		
Apr. 5	Group assignment # 2 (on Bistro Pricing Game) is due (email to TA by noon)		
#12 – Apr. 5	<ul style="list-style-type: none"> • Bistro Pricing Game Recap & State Dependence 		
FINAL EXAM	Scheduled by Registrar's Office during Apr. 10-28 exam period (time & location TBD)		

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

Administrative Details

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.

There will be no make-up midterm test. If the documentation is satisfactory, I will move the weight of the midterm test to the final exam (i.e., the final exam will carry 70% instead of 40%).

Course Work & Academic Integrity

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.

Students are expected to conduct themselves with the utmost integrity during their time at the University of Toronto and, without limiting the foregoing, will:

- Maintain an optimal learning and work environment for themselves and others (cooperation, keeping commitments, attendance, on-time arrival, preparation in advance, participation and non-disturbance during classes)
 - Submit only original work, giving credit to others where appropriate;
 - Neither give nor receive unauthorized aid in examinations or on assignments;
 - Contribute substantially and proportionally to each group assignment;
 - Ensure enough familiarity with the entire contents of group assignments so as to be able to sign off on them as original work;
 - Accept and acknowledge that assignments found to be plagiarized in any way will be subject to sanctions under the University's *Code of Behaviour on Academic Matters*;
 - Represent themselves honestly to members of the Rotman Commerce community and to outsiders;
 - Represent Rotman Commerce appropriately to the outside world, and act as professionals (integrity, deportment, reasonableness and respect).
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- **During class, please turn off your cell phone.** If you need to be reachable via cell phone during class due to exceptional circumstances, please ensure that your cell phone is set to vibrate and take calls outside of the classroom.

Remarking requests for term tests & assignments (excluding the final examination):

Requests to have mid-term tests and assignments remarked will be considered if the following conditions are met:

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

Students should be aware of the following:

- Several tests/assignments are randomly photocopied before being returned;
- Items submitted for remarking will be remarked in their entirety and **the mark awarded may increase, decrease, or remain the same.**

Remarking requests for the final exam

After the issue of final results and within six months of the final examination period, a student may request from the Office of the Faculty Registrar (Room 1006, Sidney Smith Hall) a reproduction of his/her final examination. If, upon inspection, the student wishes to have the paper reread, s/he must set down reasons in detail and petition through their College Registrar within six months of the final examination period. Students should note that in cases where a failing grade is issued, examinations must be reread before the marks are reported. Instructors may not subsequently reread any final examination except on the authority of a petition, which must outline specific instances of disagreement with the existing grading and an indication of the grounds for such disagreement.

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/>.

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.

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.