

The Hong Kong University of Science and Technology
Department of Information Systems,
Business Statistics and Operations Management

Seminar Announcement

*Managing Service Relationships under
Endogenous Expectations*

by

Professor Ioana Popescu
INSEAD

Date: Monday, 29 March 2010

Time: 11:00 am – 12:00 pm

Venue: Room 4379, ISOM Conference Room (Lift 17/18)

~~~~~ All interested are welcome ~~~~~

**Abstract:**

Consider a firm which has the flexibility to adjust and customize service level in order to manage client satisfaction and retention in a repeat-business context. What is the long term value of such flexibility, and how should firms manage the service relationship over time? We propose a dynamic model of the firm-client relationship, and rely on behavioral theories and empirical evidence to model the endogenous evolution of service expectations and customer satisfaction, as well as their impact on repurchase decisions. In general, we find that firms can extract more value and achieve higher cost-savings on the long run by gradually managing service experiences and expectations. We characterize the firm's optimal dynamic service policy and show that it converges over time to an 'ideal' long run service level, as long as consumers are loss averse (otherwise the optimal policy oscillates). Loss aversion expands the range of constant optimal service policies, suggesting that behavioral asymmetries limit the value of service flexibility. Our results provide insights for service suppliers to leverage customer-level data and service flexibility to improve long-term performance.

[this is joint work with Sam Aflaki, PhD candidate in Decision Sciences at INSEAD]

**Biography:**

Ioana Popescu is the Booz & Company Professor in Revenue Management and Associate Professor of Decision Sciences at INSEAD. Her current research and teaching focus is in the area of pricing and revenue management. In particular, she explores how firms should manage prices and operational decisions in response to realistic, but not necessarily rational consumer behavior. Broader research interests include moment problems, robust optimization and managerial motivation. Her research appeared in leading academic journals (e.g. Management Science, Operations Research, M&SOM, Mathematics of Operations Research), and won several awards, including first prize in the INFORMS junior faculty paper competition. Professor Popescu is Associate Editor for Management Science and Manufacturing & Service Operations Management, and sits on the board of the Pricing and Revenue Management Section of INFORMS. She holds a PhD in Operations Research and Applied Mathematics from MIT, and a BA in Mathematics and Computer Science from Wellesley College. Ioana has lived on four continents, and is currently based in Singapore.