

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

Seminar Announcement

Advance Selling when Consumers Regret

by

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INSEAD

Date: Monday, 22 February 2010

Time: 11:00 am – 12:30 pm

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

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

**Abstract:**

We study the effect of anticipated regret on consumer decisions, firm profits and policies, in an advance selling context where buyers have uncertain valuations. Advance purchases trigger action regret if valuations turn out to be lower than the price paid, otherwise delaying purchase causes inaction regret. Emotionally rational consumers act strategically in response to the firm's policies and in anticipation of regret. We characterize a regret threshold above which firms should only spot sell to homogeneous markets, otherwise advance selling is optimal. In heterogeneous markets, the seller offers the product in both periods, using regret as a segmentation mechanism. The effect of regret on profits depends on the type of regret, market structure and the firm's pricing power. Action regret lowers the optimal profits of a price-setting firm in homogeneous markets, while inaction regret has the opposite effect. Overall, regret adversely affects optimal profits whenever actions are regretted more than inactions. Otherwise, firms benefit from regret by creating a buying frenzy, where consumers advance purchase at negative surplus. Action regret can be profitable if high valuation consumers are more regretful, or if the firm is price constrained. Our results provide insights for designing effective campaigns to induce or mitigate regret including refunds and resales.

**Biography:**

Javad has a bachelor's degree in Industrial Engineering with a concentration on manufacturing systems from Sharif University of Technology, Iran. He did an MBA in the same university and worked as a project manager in IT and finance industries. He joined INSEAD Ph.D. program in Technology and Operations Management in 2005. His main research interests are in pricing and revenue management with behavioural considerations where he incorporates more realistic consumer behaviour in pricing and revenue management models. He tests the implications of such models by designing and running experiments, providing sensible managerial insights. A minor stream of his research looks into coordination issues in healthcare supply chains.