Do You Want to Bet? New Service Operations Business Models Leveraging Consumers’ Present-Biased Preferences

By

Prof. Hsing Kenneth Cheng
University of Florida

Date: 24 May 2018 (Thu)
Time: 3:00 pm – 4:30 pm
Venue: M802

Abstract

New service operations business models betting on consumers’ “present-biased preferences”, the human tendency of making time-inconsistent intertemporal choices and exhibiting naïvete about their self-control, have been proliferating recently. Of critical interest to both the academia and the industry is whether these new service operations business models generate a higher profit than the traditional retailer model, and whether the merchant’s optimal choice of business model conforms to that of the social planner with the aim of maximizing social welfare. We build a stylized model to address these intriguing questions. Our results show that consumers’ valuation of the underlying product or service, how naïve consumers are in believing meeting the requirement in the future (i.e., their present-biased preferences), and how differently consumers treat losses versus gains (i.e., the loss aversion effect) are three key factors affecting the profitability of these new service operations models. More specifically, we find that when consumers’ valuation of the service is relatively low, the new service operation models outperform the traditional retailer model in terms of merchant’s profits. However, the traditional retailer model performs better when consumers’ valuation is high. We also characterize conditions under which the merchant’s optimal choice of the business model deviates from the social optimum.

Prof. Hsing Kenneth Cheng is the John B. Higdon Eminent Scholar of Department of Information Systems and Operations Management, Warrington College of Business at the University of Florida. Prior to joining UF, he served on the faculty at The College of William and Mary from 1992 to 1998. He received his Ph.D. in computers and information systems from William E. Simon Graduate School of Business Administration, University of Rochester in 1992. Prof. Cheng teaches information technology strategy, object-oriented analysis and design, managerial statistics, and the electronic commerce and supply chain management capstone course. He was awarded the Warrington College of Business Teacher of the Year for 2000-2001, Outstanding Faculty Award for service and teaching excellence to the Professional MBA Class of 2012 of Warrington College of Business, and the 2016-2019 University of Florida Research Foundation Professorship.

All interested are welcome.