

Department of Information and Systems Management/
Center for Marketing and Supply Chain Management
School of Business and Management
The Hong Kong University of Science and Technology

Seminar Announcement

*Pricing Services Subject to Congestion:
Charge Per-Use Fees or Sell Subscriptions?*

by

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(Currently on sabbatical at the University of Auckland)*

Date: 16 May 2008 (Friday)

Time: 11:00 – 12:30 pm

**Venue: Chen Kuan Cheng Lecture Theatre
LTH (Lift 27/28)**

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

### **Abstract**

Should a firm charge on a per-use basis or sell subscriptions when its service experiences congestion? Queueing-based models of pricing primarily focus on charging a fee per use of the service, or per-use pricing, because per-use pricing enables the firm to regulate congestion - raising the per-use price naturally reduces how frequently customers use a service. The firm has less control over usage with subscription pricing (by definition, with subscription pricing customers are not charged proportional to their actual usage), and this is a disadvantage when customers dislike congestion. However, we show that subscription pricing is more effective at earning revenue. Consequently, the firm may be better off with subscription pricing, even when congestion is intuitively most problematic for the firm: e.g., as congestion becomes more disliked by consumers or the industry moves to a standard of faster service or as capacity becomes more expensive. We show that the absolute advantage of subscription pricing relative to per-use pricing can be substantial whereas the potential advantage of per-use pricing is generally modest. Furthermore, the relative attractiveness of subscription pricing is enhanced if the firm is able to earn third-party revenue from each transaction (e.g., on-line advertising revenue from search queries). We conclude that subscription pricing can be effective even if congestion is an important consideration in the overall quality of a service.

### **Biography**

Professor Cachon studies operations management with an emphasis on supply chain management, assortment planning, and retail operations. He explores how new technologies transform competitive dynamics and enable novel operational strategies for the delivery of goods and services. He is the Editor of *Manufacturing & Service Operations Management*, a former President of the *Manufacturing and Service Operations Management Society* of INFORMS and author of *Matching Supply with Demand: An Introduction to Operations Management*. His articles have appeared in *Harvard Business Review*, *Management Science*, *Manufacturing & Service Operations Management* and *Operations Research*, among others. He is the Fred R. Sullivan Professor of Operations and Information Management at the Wharton School of Business.