

Department of Information and Systems Management
School of Business and Management
The Hong Kong University of Science and Technology

Seminar Announcement

Optimal Pricing of Services with Switching Costs

by

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4:00 – 5:00 pm
Room 3311 (L17/18)**

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

**Abstract**

We study the pricing decisions of account-based services where customers incur significant switching costs when they change service providers. Such switching costs enable a firm to extract more revenue from existing customers by charging them higher prices, while new customers are more price-sensitive because they haven't been locked in thus incur similar setup costs with any provider. This raises an interesting question of how to balance the tradeoff between profiting from exiting customers and acquiring new customers to increase the customer base. We show that a simple target market share policy is the optimal pricing strategy. We also examine how such a target market share policy changes with an outside price, shopping frequencies of customers and competition among suppliers. In addition, we extend the model to the case in which a firm is able to charge different prices for current and new customers. (This is joint work with Garrett van Ryzin.).

**Biography**

Qian Liu is an assistant professor in the department of Industrial Engineering and Logistics Management at Hong Kong University of Science and Technology. Her research interests include revenue management and pricing, customer behavior in operations management, marketing-operations interface, and logistics and supply chain management. She received the Ph.D. degree in the division of Decision, Risk and Operations from Columbia University, and the B.E. and M.E. in Control Theory and Control Engineering from Tsinghua University.