

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

Seminar Announcement

Incentives for Retailer Forecasting: Rebates versus Returns

by

Professor Terry Taylor

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Haas School of Business

5 December 2007 (Wednesday)

4:00 – 5:00 pm

Room 4379, ISMT Conference Room (L17/18)

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

**Abstract**

This paper studies a manufacturer that sells to a newsvendor retailer who can improve the quality of her demand information by exerting costly forecasting effort. In such a setting, contracts play two roles: providing incentives to influence the retailer's forecasting decision, and eliciting information obtained by forecasting to inform production decisions. We focus on two forms of contracts that are widely used in such settings and are mirror images of one another: a rebates contract which compensates the retailer for the units she sells to end consumers, and a returns contract which compensates the retailer for the units that are unsold. We characterize the optimal rebates contract, the optimal returns contract, and the manufacturer's preferred contractual form. We show that the retailer, manufacturer and total system may benefit from the retailer having inferior forecasting technology. (Joint work with Wenqiang Xiao.)

**Biography**

Terry Taylor is an associate professor at UC Berkeley's Haas School of Business. His research addresses economic issues in supply chain management including contracting, contract renegotiation, long-term relationships, and the marketing-operations interface. Prior to joining Berkeley, he was an associate professor at Columbia University's Graduate School of Business. He is the recipient of several awards, including Columbia Business School's Dean's Award for Teaching Excellence and the Wickham Skinner Early-Career Research Accomplishments Award. He is an associate editor for *Operations Research*, *Manufacturing & Service Operations Management*, and *Production and Operations Management*. Prior to his academic career, he was a consultant for McKinsey & Company. He received his B.S. and Ph.D. from Stanford University.